

UPDATE NUMBER TWO ON THE INTERIM ASSURANCE REPORT 2007/08

Report By: Audit Services Manager

Wards affected

County-wide.

Purpose

To provide the Audit and Corporate Governance Committee with a updated interim Assurance Report for 2007/08 that:

- provides an update on progress with the significant internal control issues identified in the Assurance Report for 2006/07; and
- identifies the significant internal control issues identified to date in 2007/08.

Financial Implications

None arising directly from this report although a sound system of financial control ensures that the Council's cash resources are wisely spent in the pursuit of agreed Council objectives.

Recommendation

THAT subject to any comments by the Committee, the report is noted.

Reasons

To comply with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

To provide the Audit and Corporate Governance Committee with an update on the significant internal control issues.

Considerations

Key Issues Identified in 2006/07

1. The Audit and Corporate Governance Committee considered the Annual Assurance report for the year ending 31st March, 2007 on 29th June, 2007. The Audit and Corporate Governance Committee also reviewed and adopted a Statement on Internal Control for 2006/07 at that meeting, and considered a revised Statement on Internal Control for 2006/07 at the meeting on 21st September, 2007.

2. The significant internal control issues identified in the revised Statement on Internal Control for 2006/07 are set out below, along with comments on progress in *italics*:

- The Commission for Social Care Inspection (CSCI) has judged the Learning Disabilities Service as not serving people well.

CSCI has approved an action plan agreed by Cabinet in consultation with scrutiny. Robust project management arrangements are in place with progress regularly reviewed by the Director of Adult and Community Services via his management team. Formal progress reports to Cabinet and scrutiny are also planned. The Annual Review Meeting with CSCI took place in early September 2007 and formal feedback is awaited.

- Three fundamental systems were given a **marginal** audit opinion in 2006/07 (a number of areas have been identified for improvement). These were:
 - Education Transport;
 - Housing Benefit Payments; and
 - Salaries in Childrens Services.

As in previous years, work in relation to the 2007/08 audit of fundamental systems will include follow up work on recommendations made in previous years. Audit work in this area has just started, but progress has been hampered due to further review work associated with the financial governance issues in ICT and Customer Services being a priority. The Audit and Corporate Governance Committee will be informed of any significant internal control issues in routine reports from the Audit Services Manager.

- One fundamental system was given an **unsatisfactory** audit opinion in 2006/07 (unacceptable risks identified, changes should be made). This relates to the financial management and procurement system in ICT.

Audit Services has completed the follow-up work in relation to this audit. Some of the actions agreed in response to the audit recommendations have been actioned. However, nine recommendations had not been actioned, two of which were ranked as critical. One of the critical recommendations related to the reconciliation of the ICT financial management and procurement system to the corporate financial management system. This was not up to date at financial year-end. The Acting Head of Service took swift action in requesting support from Financial Services and they successfully reconciled the ICT financial management and procurement system to the corporate financial management system as at 31st March, 2007. The other critical recommendation related to the budget management. The Acting Head of ICT is working closely with Financial Services to establish the ongoing base budget requirement for ICT services and an appropriate charging mechanism. The ICT finance team has recently transferred to the Resources Directorate and good progress is now being made in conjunction with the Corporate & Customer Services Directorate.

Progress with the Audit Plan for 2007/08

3. The Audit and Corporate Governance Committee approved the Audit Plan for 2007/08 on 13th April, 2007. The current status of work is set out in Appendix 1.
4. Work to assess financial management arrangements within secondary schools in line with Department for Children, Schools and Families (DCSF) standards is coming to an end. At the present time, 10 out of 14 reports have been finalised. Three schools met the required standard. Six are on target to meet it. One is unlikely to meet the target in the short term. Follow-up work is planned to ensure these six schools meet their targets for improvement. It is unlikely that one school will meet the standard in the short term. Draft reports are with the remaining four secondary schools for comment and action planning. The lessons learned from carrying out the reviews in secondary schools will be used to improve the approach in primary schools.
5. Work on a sample of 12 statutory performance indicators is in progress. Early indications are that there continues to be a need for better checking of data by managers to meet data quality standards. Corporate Management Board has been briefed and a joint report by the Head of Policy and Performance and the Audit Services Manager will be highlighting the actions necessary for improvement.
6. Following discussions with the relevant Heads of Service the timetabling of the fundamental system reviews has been completed.

Audit Opinions

7. Appendix 1 shows the current status of work carried out by Audit Services, with final audits showing an audit opinion. The unsatisfactory opinion on the Drugs Forum was given on the basis that there was a need for some form of monitoring, feedback and assurance process to demonstrate that the forums were achieving satisfactory and desirable outcomes. Not all the recommendations made will apply to all the forums as some had better systems than others.
8. An unsatisfactory opinion was also given in relation to the review on how the Council manages the Drugs Forum Partnership. It is important to note that the Service Manager who had some concerns in this area requested this review. The key issues identified were the need for improvements in the commissioning system and improved monitoring arrangements. The Service Manager has agreed the action plan and Audit Services will be carrying out further follow up work.
9. The Use of Contractors in ICT has been given an unsound audit opinion (major risks identified, changes should be made), with areas of concern highlighted in the Director of Resources' Special Report considered by the Audit and Corporate Governance Committee on 21st September, 2007.

Recommendations made

10. Under current reporting protocols, the Audit Services Manager has to bring all critical recommendations to the attention of the Audit and Corporate Governance Committee. These are recommendations where non-compliance will be a high risk to the Council and where action is required urgently or within an agreed timescale.

11. Four Critical 1 recommendations have been made in relation to the Use of Contractors in ICT. These are as follows:

- The Director of Corporate and Customer Services should ensure that the Directorate follows the formal tender process as laid down in standing orders for contractors and procurement where the estimated contract is in excess of £50,000. In order to achieve this, a strict appraisal of all business cases must be undertaken.
- The Director of Corporate and Customer Services should ensure that contracts that have an estimated value in excess of the European limit are subject to appropriate protocols. In order to achieve this, a strict appraisal of all business cases must be undertaken.
- The Director of Corporate and Customer Services should ensure there is compliance with the Code of Practice for the Regulation of Contracts.
- The Director of Corporate and Customer Services should implement a protocol to monitor the budget and actuals for major projects in line with Council Regulations and Policies.

12. Audit Services has met with the Director of Corporate and Customer Services, who has accepted the action plan. Progress will be reported to a future Audit and Corporate Governance Committee. Resources have been allocated to implement it.

Areas of concern

13. A special report by the Director of Resources was presented to the Committee on 21st September, 2007. The action plan has been adopted by Cabinet. The current position on the action plan is reported elsewhere on this agenda.

Risk Management

There is the risk that the resources needed to carry out the work needed to give an opinion on the Council's Internal Control system is not available. The Audit Services Manager keeps progress against the Audit Plan under constant review reporting progress on a monthly basis to the Director of Resources.

BACKGROUND PAPERS

Code of Practice for Internal Audit 2006