

**UPDATED INTERIM ASSURANCE REPORT 2007/08 NO.5****Report By: Chief Internal Auditor****Wards affected**

County-wide.

**Purpose**

1. To provide the Audit and Corporate Governance Committee with a updated interim Assurance Report for 2007/08 that:
  - a) Provides an update on progress with the significant internal control issues identified in the Assurance Report for 2006/07.
  - b) Identifies the significant internal control issues that have arising to date in 2007/08.

**Financial Implications**

None.

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

2. To comply with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
3. To provide the Audit and Corporate Governance Committee with an update on the significant internal control issues.

**Considerations****Associated Reports**

4. The table below highlights the associated reports previously considered by the Audit and Corporate Governance Committee.

Date	Report
13th April 2007	Audit Plan for 2007/08.
29th June 2007	Statement on Internal Control 2006/07. Annual Assurance Report 2006/07.
21st September 2007	Interim Assurance Report for 2007/08. Revised Statement on Internal Control 2006/07.
19th October 2007	Updated Interim Assurance Report for 2007/08 No.2.
16th November 2007	Revised Audit Plan for 2007/08.
30th November 2007	Updated Interim Assurance Report for 2007/08 No.3.
21st December 2007	Updated Interim Assurance Report for 2007/08 No.4.

### Key Issues Identified in 2006/07

5. 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.
6. 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*:
  - a) The Commission for Social Care Inspection (CSCI) has judged the Learning Disabilities Service as not serving people well.
 

*The Director of Adult and Community Services advises that 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 has taken place. The Council has retained its one star status.*
  - b) Three fundamental systems were given a **marginal** audit opinion in 2006/07 (a number of areas have been identified for improvement). These were:
    - i) Education Transport;
    - ii) Housing Benefit Payments; and
    - iii) Salaries in Children's 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. Fundamental systems audit work is in progress (Appendix 1 refers). The Audit and Corporate Governance Committee will be informed of any*

*significant internal control issues in updated assurance reports from the Chief Internal Auditor.*

- c) 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.
- i) *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 has worked closely with Financial Services to establish the expenditure for the year is within budget. Progress is being reported to Cabinet in the bi-monthly Integrated Performance Reports to Cabinet. Whilst expenditure this year is now expected to be in line with the budget save for the CNU project, work is continuing to ensure ICT budgets are sustainable in 2008/09 and beyond. The ICT finance team has transferred to the Resources Directorate.*
- ii) *The 2007/08 fundamental review has been completed and it is pleasing to report that a satisfactory audit opinion has been given.*

#### **Progress with the Audit Plan for 2007/08**

7. The Audit and Corporate Governance Committee approved the Audit Plan for 2007/08 on 13th April 2007 and agreed revisions to it on 16th November 2007. The current status of work is set out in Appendix 1, with highlights set out below.

#### **Fundamental Systems**

8. Audit work within this area is in progress. It should be noted that the Council's target is for all fundamental systems to have a satisfactory or good audit opinion. To date six fundamental reviews have been finalised, five have been given a **satisfactory** audit opinion and one a **good** opinion.
9. The timetable previously agreed with the Audit Commission has slipped as agency staff supplied by Pertemps left at short notice. The Audit Commission has been very supportive and understanding. The Chief Internal Auditor has kept the Audit Commission and the Director of Resources up to date, with further weekly updates planned.

#### **Non-Fundamental Systems**

10. Three reviews have been completed in this area and it is pleasing to note that one was given a **good** audit opinion with the remaining two given **satisfactory** opinions.

### Governance

11. The work on delegations concentrates on directors' responsibilities. Comments have been received on the draft report; it is now with Audit Services for finalisation.

### Performance management

12. Five reports have been produced in relation to twelve performance indicators. Four of these reports have been finalised with one being given a **satisfactory** audit opinion and three a **marginal** audit opinion. The findings in relation to the three receiving a **marginal** opinion are as follows:

#### Housing (BVPI 183a, 183b, 214 and Housing Strategy Statistical Appendix Return (HSSA))

- a) The main issue was the lack of supporting data for the figures provided. This was a particular problem for the RSL/Housing Association figures supplied for the HSSA return.
- b) The review highlighted the need for the outturn for BVPI 183a and 214 to be changed. It should be noted that the most of the errors were found to be in quarter 4 when a staff change occurred.
- c) Although not all of the data was supported, Audit Services was encouraged by the new checking and monitoring systems that the new Performance Improvement Manager has now put in place to prevent the same errors being repeated for 2007/08.

#### Pedestrian Crossings (BVPI 165)

- d) Audit Services were unable to verify the BVPI figure as the errors found in the sample test meant a further retest of most installations would be necessary prior to a recalculation and verification of the BVPI outturn.
- e) There was a need for procedures for carrying out inspections and the use of measuring equipment to be written. The procedure should contain a work plan to allow for supervisory checks of the inspections to be carried out.

#### Cleanliness Performance (BVPI 199)

- f) Audit Services was able to verify the spreadsheet that formed the basis of the BVPI calculation and published BVPI figures. However there were a number of omissions and errors found within the source data. There needs to be a mechanism for the checking of survey forms and input into the spreadsheet.

### Establishment Audits

13. 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, 13 out of 14 reports have been finalised. Three schools met the required standard. Seven are on target to meet it. Follow-up work is planned and ongoing to ensure these seven schools meet their targets for improvement. It is unlikely that four schools will meet the standard in the short term. A draft report is with the remaining 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.

### **Verification and Probity**

14. 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.
15. 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.
16. An audit was undertaken at the request of the Acting Head of ICT Services who had some concerns regarding the previous management of the imprest account. A **marginal** opinion was given as there was a need for improvements in the administration of the imprest account. Recommendations have been made and positive action has been taken by the Acting Head of ICT Services.

### **Contracts**

17. The ICT Use of Contractors report was given an **unsound** audit opinion. The areas of concern were highlighted in the Director of Resources' Special Report. The Director of Corporate and Customer Services has reported separately to the Audit and Corporate Governance Committee on progress with implementing the audit recommendations arising from this audit review.
18. Further work is being undertaken on the Use of Contractors in ICT, following receipt of a statement from a member of staff suggesting potential issues of compliance regarding another contract. The comments made are being investigated and will be reported following established protocols.
19. The Director of Children's Services has asked Audit Services and Legal Services to review the management of the Managed Learning Platform/Virtual Learning Environment (MLP/VLE) project. Concerns have been raised that need to be investigated in full on behalf of the Director. The Director will establish the appropriate course of action on the basis of the audit findings. Any issues concerning compliance with the Council's internal controls will be reported in line with established protocols.

### **Special Investigations**

20. The findings of the Special Investigation on Officer Expenses and Contractors' Expenses formed part of the Director of Resources' Special Report to the Audit and Corporate Governance Committee on 21st September 2007.

### **Recommendations made**

21. Under current reporting protocols, the Chief Internal Auditor 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. The following critical recommendations have been made:

- a) 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.
  - b) 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.
  - c) The Director of Corporate and Customer Services should ensure there is compliance with the Code of Practice for the Regulation of Contracts.
  - d) 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.
22. The Director of Corporate and Customer Services submitted a report to the Audit and Corporate Governance Committee on 21st December 2007 outlining the current action being taken with regards to the critical 1 recommendations.

#### **Areas of concern**

23. A special report by the Director of Resources was presented to the Committee on 21st September 2007. Progress has been reported to the Audit and Corporate Governance Committee on three occasions. The outstanding issues are being integrated into a single action plan.

#### **Risk Management**

24. 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 are not available. The Audit and Corporate Governance Committee considered and adopted a revised Audit Plan on 16th November 2007 that highlighted the need for additional resources. At the present time efforts are being made to recruit temporary staff. The Chief Internal Auditor 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.