

AUDIT SERVICES ASSURANCE REPORT 2008/09

Report By: Chief Internal Auditor

Wards affected

1. County-wide.

Purpose

2. To provide the Audit and Corporate Governance Committee with the Chief Internal Auditor's final audit assurance report for 2008/09.

Financial Implications

3. None as a direct result of this report.

Recommendation

THAT (a) Subject to any comments by the Audit & Corporate Governance Committee, the report is noted.

Reasons

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

Considerations

Key Issues Identified in 2007/08

5. The Audit & Corporate Governance Committee reviewed and approved the Annual Governance Statement (AGS) 2007/08 on 20 June 2008. The AGS identified the key governance and internal control issues that needed addressing in 2008/09. These issues are set out in the table that follows with commentary provided by the responsible officer on progress to date.

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress	Planned date for Completion
Complete the review of the Constitution and implement the remaining actions from the Director of Resources' special report and the Crookall review.	Deputy Chief Executive Assistant Chief Executive (Legal & Democratic) Assistant Chief Executive (HR)	This review is being jointly co-ordinated by the Democratic Services Manager and the Head of the Chief Executive's Office. External, expert constitutional governance support is being secured to enable the review to be completed during Spring 2009 in order to propose the adoption of a revised constitution at Annual Council in May 2009.	The final report was made in the integrated corporate performance report covering the period to the end of December 2008. Most actions were completed and the rest were in hand. It has been agreed that they would now be monitored through inclusion in service plans and associated performance

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress	Planned date for Completion
		Progress implementing the remaining actions from the Director of Resources' special report and the Crookall review are reported to Cabinet as part of the bi-monthly Integrated Corporate Performance Report.	management. The Audit Commission reported favourably on progress in its 2008 Direction of Travel assessment of the Council
Produce the Corporate Plan for 2010 – 2013 in accordance with the agreed timetable.	Deputy Chief Executive	Being actioned by the Head of Policy & Performance through the Performance Improvement Framework and in accordance with the Comprehensive Area Assessment action plan, both agreed by Cabinet. See box below.	The timing and nature of the next corporate plan is under review and being considered by the interim Deputy CX with the Leader. The production of the next Plan has not been included in the CAA action plan, neither is it necessary that it should be. We already have a Council-approved corporate plan for 2008-11, which has been updated in the approved Annual Operating Statement for 2009-10. The priorities set out in the current corporate plan have been confirmed by the public to be the right ones in its response to the Autumn 2008 strategic options consultation. Similar public support is evident from the yet to be published results for Herefordshire from the 2008 national Place Survey.
Review and update the Medium Term Financial Strategy regularly in line with the agreed approach to integrating corporate, service and financial planning.	Director of Resources	The Joint Management Team agreed the process by which The Corporate Plan 2008-2011 and the medium Term Financial Management Strategy 2008-2011 was updated in an integrated way on 8 September 2008.	The Medium Term Financial Management Strategy (MTFMS) was reviewed for the 2009 budget. Next plan sees movement to a joint MTFMS with the PCT. To be completed by October 2009.
Review the Code of Governance in line with the approved governance framework.	Assistant Chief Executive (Legal & Democratic)		Council approved a Code of Governance on 31 October 2008.
Continue to promote improvement of the Council's financial management arrangements in line with the Use of Resources assessment criteria,	Director of Resources	Training sessions for both councillors and employees have been taking place and are scheduled into the future. Over 200 employees with financial management responsibilities have now attended the in-house financial	This is on going and has been strengthened by a separate procurement training scheme comprising six modules.

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress	Planned date for Completion
audit reviews and the newly updated Constitution.		management training course appropriate to their specific responsibilities in order to obtain their 'licence to practice'.	
Implement the remaining elements of the improvement plan for the Council's performance management arrangements and report progress to Cabinet in September 2008.	Deputy Chief Executive	Being actioned by the Joint Management Team through the Performance Improvement Framework agreed by Cabinet.	These have been implemented. They are being further improved through the development of a simplified suite of performance reports (the reports for JMT and Cabinet should be live, following testing and approval, by June) and the implementation of the ICT-based Performance + performance management system All this will be linked to the management of risk.
Implement the new assurance framework and risk management arrangements for 2008/09 and improve linkages between corporate, directorate and service risk registers.	Assistant Chief Executive (Legal & Democratic)	Joint Management Team considered the draft Integrated Corporate Performance Report being presented to Cabinet and Strategic Monitoring Committee in November 2008. This report incorporates the risk assurance framework and it was recognised that further work was needed to ensure it reflected key council risks accurately. This will be carried out for the next quarterly reporting cycle.	The Audit Services Risk Management Audit has highlighted further areas for improvement. Progress on the Action Plan will be reported in future Interim Assurance Reports.
Continue to promote the Council's anti fraud, anti corruption and whistle-blowing policies, keeping them under regular review	Assistant Chief Executive (Legal & Democratic) Director of Resources	The Council's whistle-blowing policy has been reviewed and an associated 'Do the right thing' leaflet has been distributed to staff. The anti fraud policy is due for review in March 2009. It is intended that a joint policy is developed with the PCT. These policies are also brought to the attention of staff through notices on pay slips and notice boards. In addition, creditor remittance slips inform all recipients of the Council's whistleblowing policy.	This is ongoing
Continue to promote the Council's adopted approach to managing major programmes and projects.	Deputy Chief Executive	Approval by Cabinet of the Herefordshire Connects procurement policy has been supported by the extension of Prince 2 project management good practice, resources and training for projects managed or supported by the Corporate Programmes and	Ongoing

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress	Planned date for Completion
		Herefordshire Connects teams.	
Continue to develop the Council's community engagement arrangements including strategic consultation on corporate objectives, priorities and budget allocations.	Deputy Chief Executive Director of Resources	The Joint Management Team agreed proposals for public consultation on strategic budget options on 8 September 2008. These proposals were agreed with the Executive. Feedback from the consultation exercise is due in early December and will be used to inform decisions on budget setting for 2009/10 and following years. A Member seminar will be held in early 2009.	The consultation results were presented to members at a seminar on 16 February 2009. They showed strong support for the Council's existing top priorities. The feedback informed the 2009 budget.

6. The Audit Commission made two recommendations in their Annual Governance Report for 2007/08 that the Committee considered on 25 September 2008.
7. The first recommendation related to the system used during the 2007/08 financial year for paying nursing homes. The Audit & Corporate Governance Committee was advised on 25 September 2008 that the issues identified by the Audit Commission in respect of this system had already been addressed and resolved.
8. The second recommendation related to the pooled budget arrangements between the Council and PCT for certain health and social care services. The Committee received a report at its meeting of 21st November 2008 expanding on the management response and proposed action plan to address the issues raised by the Audit Commission. The Audit Commission also invited the council and PCT to take part in a national study of joint financing arrangements. This invitation was accepted by the Director of Integrated Commissioning.

Audit & Corporate Governance Resolutions & Recommendations

9. The first interim assurance report for 2008/09 presented to the Committee on 25 September 2008 listed the 65 separate resolutions and recommendations made by the Committee from May 2007 to June 2008. Currently there are 7 open and ongoing items (Appendix 1 refers).
10. Appendix 2 to this report identifies the resolutions and recommendations made by the Committee at its last five meetings (3rd July 2008, 25th September 2008, 21st November 2008, 23 January 2009 and 20th March 2009), the progress made by the relevant officer and the current status – i.e. closed or open and ongoing. Currently there are 7 open and ongoing.

Progress with the Internal Audit Plan 2008/09

11. The annual Internal Audit Plan for 2008/09 was approved by the Audit & Corporate Governance Committee on 4 April 2008. The current status of work is set out in Appendix 3.

12. Following the restructure of the Audit Services team, appointments have now been made to all vacant posts, and all appointed staff are now in post. Agency staff are being used to ensure that past vacancies do not impact adversely on the delivery of the annual Internal Audit Plan for 2008/09.

Fundamental systems

13. The Council's target is that all fundamental systems achieve at least a satisfactory audit opinion. Work in this area shows that 15 reviews have been undertaken. In summary two were given a good audit opinion, eleven a satisfactory opinion and two a marginal opinion. There were no unsatisfactory or unsound audit opinions.

Non Fundamental Systems

14. There were five reviews that were given an audit opinion; three were given a satisfactory audit opinion and two given an unsatisfactory audit opinion.

Governance and Anti-fraud.

15. Reviews of various aspects of the Council's governance arrangements have been completed. The reviews relating to staff Gift and Hospitality Registers and the National Fraud Initiative were given satisfactory audit opinions. The Scheme of Delegation was part of the Chief Executives review, with findings informing the ongoing review of the Constitution.

Other Key Systems

16. The Annual Governance Statement has been reported as a separate agenda item to the Audit and Corporate Governance Committee. Risk Management was given a marginal audit opinion due to a need to embed risk management at Service level. It should be noted that risk management at corporate and directorate levels were operating efficiently.

ICT Protocols and Controls

17. Work on reviewing the council's ISO27001 arrangements is ongoing and the current findings can be summarised as follows:

- **Risk Treatment-** Actions arising from documented risks were continuing to be progressed since the last audit, however improvement in the processes to manage the open risks and to identify new risks is required;
- **Physical Security-** It was noted that controls were in place and that security is considered on an ongoing basis, however non – conformances were raised that would further improve physical security arrangements.
- **Team Compliance-** Controls are in place and security is formally considered during all upgrades and system replacements. There is a good level of monitoring, with monthly checks being carried out; with formal investigations into incidents. However, improvements were needed in the review and update to existing Business Impact Assessment, Business Continuity Plans and Change Control.

18. The Committee will be kept informed on progress.

- 19. The governance arrangements for the Integrated Social Care System (ISCS) – the Corelogic Framework application - have been reviewed with no significant issues to report. Appropriate user training, system testing and data cleansing has been completed and the system went live on 10 November 2008.
- 20. The review covering Computer systems, data, applications and skills in Children’s Services and ICT Services is complete; audit recommendations have been made to help facilitate discussions between both parties.
- 21. Access controls were found to be satisfactory.

Performance Management

- 22. The audit review of thirteen performance indicators has been completed and it is pleasing to report that there has been an improvement in the approach taken by service managers. Nine were given a good audit opinion and four a satisfactory audit opinion.

Establishment Audits

- 23. Work to assess the financial management arrangements within primary schools in line with the Department for Children, Schools and Families (DCSF) Standard is in progress. At the present time fourteen primary schools have met the standard. The Audit Services team continues to work with schools to ensure that they meet their target of achieving the DCSF standard.

Verification and Probity

- 24. A number of grant claims were signed off on behalf of services areas across the Council. Good Environmental Management (GEM) identified a number of minor non-conformances. In addition work relating to the letting of the Refuse Collection and the Shared Service contracts were satisfactory.

Recommendations follow up

- 25. Audit Services continues to monitor recommendations previously made.
- 26. Recommendation follow up work can be summarised as follows:

Recommendations made	93
Completed	56
Started open and ongoing	27
Outstanding	10

- 27. Further follow up work is planned for the ten recommendations found to be outstanding.

Audit Opinions

- 28. Paragraph 4.18 of the Council’s states ‘*The Chief Internal Auditor shall provide the Leader , Chair of Audit and Corporate Governance Committee and the relevant Cabinet Member(s) with a copy of audit review reports with an unsound,*

unsatisfactory or marginal opinion. The Council's procedures for maintaining confidentiality shall apply.'

29. Regarding paragraph 27 above the current status can be summarised as follows:

Report	Audit Opinion	Status	Report sent to relevant Members
Creditors	Marginal	Final Draft	Once in final report will be sent to relevant members.
Payment to Independent Providers	Unsatisfactory	Final	Sent to relevant Members.
Instrumental Music	Unsatisfactory	Final Draft	Once in final report will be sent to relevant members
Risk Management	Marginal	Final Draft	Once in final report will be sent to relevant members

- 30. In addition, paragraph 4.19 of the Council's Financial Procedure Rules requires the Chief Internal Auditor to provide the Leader, the Chair of the Audit & Corporate Governance Committee and the relevant Cabinet Member(s) with written confirmation of audit review reports with a satisfactory or good audit opinion.
- 31. Appendix 3 shows the current status of work carried out by the Audit Services team, with final audits showing an audit opinion. In line with the Council's Financial Procedure Rules, relevant members have been informed regarding the audit opinions.

Management Acceptance of Internal Audit Recommendations 2007/08

- 32. The Audit & Corporate Governance Committee received a report at its last meeting that analysed the internal audit recommendations made in 2007/08. The Committee noted that all but 7 of the 648 recommendations made by the Audit Services team in the year had been accepted. The Vice Chair of the Committee took the view that 4 of the 7 recommendations not accepted should stand. The Committee asked the Chair and Vice Chair of the Committee to meet with the Director of Resources and the Chief Internal Auditor and report on their findings with respect to those 4 recommendations.
- 33. The first of the 4 recommendations examined by the Chair and Vice Chair of the Committee with the Director of Resources and Chief Internal Auditor related to an audit review of the asset register created for final accounts purposes. A query arose about the arrangements for maintaining inventories of plant and equipment that are regarded as de minimus for asset accounting purposes. It was agreed that a separate audit review of directorate management arrangements for complying with the Council's Financial Procedure Rules for maintaining inventories will be carried out. This approach closes this particular item.
- 34. The remaining 3 recommendations were all level 2 recommendations (medium risk) and related to an audit review of contract letting and monitoring arrangements before the Council's Contract Procedure Rules were revised. The audit review identified that a tender invitation panel did not consist of the minimum recommended number of officers (three) in one of the contract letting exercises examined. The Audit Services team found difficulty in obtaining the documentary evidence the relevant officer said was available in respect of

another contract letting exercise. In addition, the documentation available for this contract letting exercise did not contain a statement indicating management acceptance or rejection of specialist advice.

35. The Chief Internal Auditor has discussed these points with the relevant officers since the meeting held with the Chair and Vice Chair of the Committee and the Director of Resources. The officers' attention has been drawn to the need to comply with all internal audit recommendations or agree an alternative way of managing the identified risk with the Chief Internal Auditor and that the Audit & Corporate Governance Committee is monitoring the situation closely. The Chief Internal Auditor has also reminded the officers concerned of the need to comply in full with the Council's new Contract Procedure Rules and Financial Procedure Rules, not just those elements relating to tender invitation panels, providing documentation requested by the Chief Internal Auditor to support planned audit review activity and maintaining appropriate records. The relevant officers have taken these matters on board. In addition, the Chief Internal Auditor has liaised with the Communications Team and an appropriate message has been sent to all employees through established employee communication channels (First Press) about the importance of complying with the Council's agreed policies and procedures.

Management Acceptance of Internal Audit Recommendations 2008/09

36. The following table summaries the number of recommendations made by Audit Services to date in 2008/09 and those accepted by management.

Management Acceptance of Internal Audit Recommendations 2008/09						
Audit Area	Level 1		Level 2		Total	
	Made	Accepted	Made	Accepted	Made	Accepted
Fundamentals	18	18	89	89	107	107
Non Fundamental	13	13	13	13	26	26
Governance and anti fraud	4	4	3	3	7	7
Other key systems	9	9	9	9	18	18
ICT protocols and Controls	0	0	49	49	49	49
Establishment Audits	22	22	104	102	126	124
Recommendation Follow up	0	0	4	4	4	4
Performance Management	0	0	8	8	8	8
TOTAL	66	66	279	277	345	343

37. Management has accepted 99% of recommendations which compares favourably with the target of 95%.

38. The two unaccepted recommendations relate to an establishment audit of a primary school. These were level 2 recommendations (medium risk) and the Chief Internal Auditor has agreed an alternative way of managing the risk identified with the client.
39. Under current reporting protocols, the Chief Internal Auditor has to bring to the attention of the Audit & Corporate Governance Committee 'Critical 1' recommendations. 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.
40. At the present time there has been one 'Critical 1' recommendation made, this related to the Payment to Independent Providers Review in relation to assurances regarding receipt of income from client contributions.
A comprehensive reconciliation should be undertaken between the values of client contribution assessments recorded on the ISIS system to the corresponding value of invoices raised in CEDAR.
41. The reconciliation is in progress and the Chief Internal Auditor met with relevant managers and agreed the approach following completion of the initial reconciliation work. Further work has been carried out in relation to the reconciliation requirements, an audit visit is planned to review the work carried out by officers. The Audit and Corporate Governance Committee will be informed of the outcome.

Areas of concern

42. There are no areas of concern.

Overall Audit Opinion

43. I have used the Internal Control Audit Opinion Matrix agreed by the Audit and Corporate Governance Committee to form an objective opinion on the effectiveness of the Council's internal control environment for 2008/09. The application of the internal control Audit Opinion Matrix is informed by the matters I have brought to the Committees attention in Audit Services Assurance Report for 2008/09.
44. I am of the opinion that the Council's overall level of internal control was satisfactory for 2008/09.
45. The following table summarises the overall position for 2008/09.

Internal Control Audit Opinion	Range	Score 2008/09
Good	85-100	
Satisfactory	65 - 84	71
Marginal	51 -64	
Unsatisfactory	31 -50	
Unsound	0 - 30	

Risk Management

46. There is a risk that the level of work required to give an opinion on the Council's systems of Internal Control is not achieved. The Director of Resources and the Chief Internal Auditor keep delivery of the annual Internal Audit Plan under continual review in order to mitigate this risk.

BACKGROUND PAPERS

- Code of Practice for Internal Audit 2006