

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Chief Executive and Town Clerk

to

Audit Committee

on

13 January 2011

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Summary Audit Progress Report 2010/11

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the summary progress report on the delivery of Internal Audit's strategy and performance targets for 2010/11.

2. Recommendation

- 2.1 **The Audit Committee notes the report.**

3. Performance Targets 2010/11 Summary

- 3.1 **Appendix 1** shows performance against targets for the financial year 2010/11.

- 3.2 In overall terms:

- productivity for the year to date for the joint team is 63% which is slightly below target but remains consistent with last quarter. As previously reported, this reflects the impact on the team of:
 - supporting six new starters between June 2009 and July 2010, including a graduate trainee
 - producing a joint audit approach then training and supporting staff as they get used to a new way of working.
- productivity figures for the final quarter will also be impacted upon slightly by the requirement for the team to de-clutter and move offices around Christmas time
- good progress has been made in delivering the remainder of the audit plan (see section 3) as the team has:
 - issued final reports for 61% of the 2010/11 programmed audit reviews including:
 - all the work programmed in from the 2009/10 audit plan
 - 19 schools audits

- co-ordinating and leading the completion of the two Cross Partner Internal Audit Working Group audits
- completed five unplanned reviews
- substantially completed six of the eleven financial systems audits (refer Appendix 2a). Minimal additional testing of key controls is required in the last quarter so that assurance can be provided that the systems have operated satisfactorily throughout the year. Only three reports will be issued in March 2011 covering this block of work, at which time these audits will be counted as closed. External Audit will then rely on this work when completing the audit of the financial statements
- provided ongoing challenge and support as a critical friend on the Agresso Project, the Mental Health and Independent Living Deep Dives. This helps to ensure that timely consideration is given to the controls required to mitigate process or system risks identified. It also enables an independent and real time view to be given on whether the project management arrangements are fit for purpose and going to deliver the required outcomes. Once these projects are delivered these audits will be counted as closed although this work may not generate a normal audit report with an audit opinion
- started work on a further ten reviews from the 2010/11 plan including developing an approach to proactively auditing systems considered to be a high fraud risk
- continued to work with South Essex Homes to further develop its overall assurance framework by sharing the Council's approach, particularly with regard to:
 - its Audit Committee; and
 - mapping how it reports on the operation and effectiveness of its key business management processes
- continued to support:
 - the Council's participation in the Audit Commission's National Fraud Initiative for 2008 and now 2010. Internal Audit primarily administer the scheme, monitor progress and report periodically on progress made in investigating data matches received. This work generally takes 12 to 18 months to complete
 - the corporate Procurement Review Group which considers submissions to waive Contract Procedure Rules
 - officers when advice is sought on a variety of issues.
- Internal Audit has tested and agreed that 45% of the recommendations due to be implemented this quarter were delivered (see section 3). The cumulative year to date figure is 51%. However it should be noted that action is being actively taken by management to progress the implementation of outstanding recommendations in the vast majority of cases.

3.3 All the other performance indicators are either not due or on target.

4. Operating arrangements

Delivery of the audit plan

4.1 **Appendix 2** shows the current status of planned audits for the year.

4.2 In assessing the work programme for the coming months, it has been decided delete a number of primarily risk based audits from the plan. It was felt they would be of limited value at this time until the impact is known of:

- the Council's financial settlement on individual services; and / or
- the government's intentions for some services .

4.3 Therefore the main focus for the remainder of 2010/11 is to provide assurance with regard to:

- the development of the Council's process for managing the business within a new lighter touch government regulatory and inspection regime;
- selected business management processes and service areas within the Department of the Enterprise, Tourism and Environment;
- the proper use of external monies received in accordance with the associated terms and conditions. All significant value grants will be reviewed which is an extension to the coverage originally planned; and
- contract procurement and management, which will include helping to analyse current spend below European Union (EU) contract thresholds.

4.4 Preparation work is also underway to enable targeted auditing of high fraud risk services / systems in 2011.

4.5 A number of these work streams will continue into the 2011/12 Audit Plan.

4.6 The other routine audits in the 2010/11 Audit Plan will also be delivered.

Summary Audit Findings

4.7 **Appendix 3** summarises the findings of audits completed since November 2010.

4.8 Sufficient evidence was obtained in most areas reviewed during this period, for it to be concluded that their control environment was either good or adequate.

4.9 The only "*improvement required*" opinion issued related to non-compliance with Contract Procedure Rules (CPR) for purchases below the EU procurement directive value within the Department of Enterprise Tourism and the Environment (ET&E).

4.10 There was a varying degree of adherence to and awareness of CPR requirements amongst the teams procuring goods and services within ET&E. However, examples of both good and bad practice were noted across the varying CPR thresholds. Of the 26 payments selected, seven (26%) did not comply with the requirements of CPR.

4.11 Issues identified were:

- continuing to use the same supplier without market testing and therefore confirming that supplier is value for money;
- not using a corporate contract when one existed therefore not taking advantage of potentially lower rates;
- not making a referral to the Procurement Review Group with a request to waive CPRs when it should have been;
- letting contracts purchasing without getting the relevant number of quotes or going out to tender; and
- not retaining relevant documentation to prove that CPR were complied with.

4.12 Action is being taken to improve compliance with CPR within ET&E. Similar checks will also be undertaken in other directorates over the coming year. The need for the Council to maintain a corporate register for all contracts in excess of £50,000 was also agreed.

4.13 Two unplanned pieces of work have been undertaken during this quarter. No issues arose from the review of whether the HR Department had complied with the relevant policies in dealing with a staff matter. A review has also been undertaken of whether three projects being taken over by the Council from Renaissance Southend, are being delivered in accordance with the relevant grant funding terms and conditions. This work is almost complete and the findings will be reported to the next Audit Committee.

4.14 The Cross Partner Internal Audit Working Group completed an audit of the arrangements in place to action issues arising from serious case reviews with regards to children. Each partner's internal audit team looked to see whether;

- there were reliable processes in place to ensure that actions arising would be implemented properly, within an appropriate time frame
- for a test case, there was evidence the recommendations made had actually been implemented.

4.15 The effectiveness of the cross partner working relationships involved in this process was also considered.

4.16 This was led and co-ordinated by the Council's internal audit team, who also summarised the findings from the individual reviews to produce the various reports required from this work.

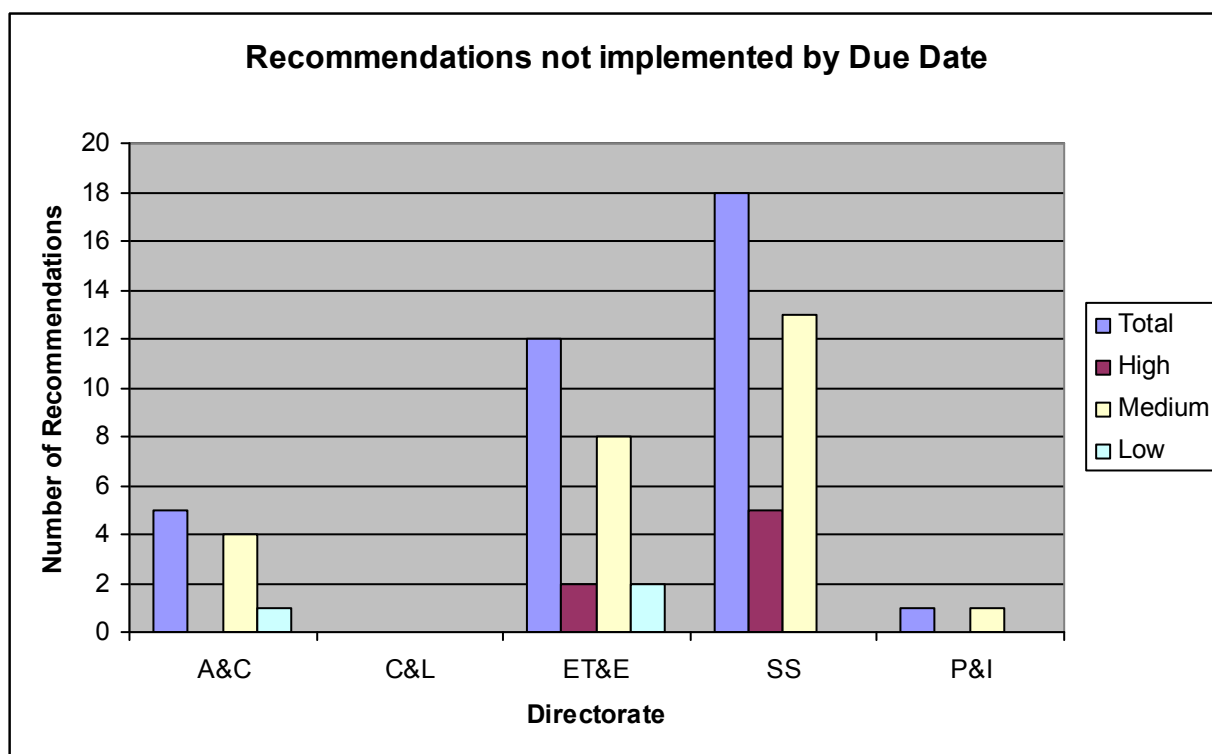
4.17 A high level summary report went to the Local Safeguarding Children Board in December 2010 and is attached at **Appendix 4** for information. Actions have been agreed to strengthen the current arrangements both within individual partners systems and processes and in the operation of the cross partner groups.

Implementing action plans

4.18 The profile of recommendations outstanding as at 5th November 2010 is:

	HIGH	MEDIUM	LOW	TOTAL
All recommendations outstanding	11	55	18	84
Due date between Aug & Nov 2010	10	41	7	58
Not fully implemented by the due date	6	23	3	32
Recommendations closed:				
• no longer applicable	1	1	0	2
• risk to be tolerated	0	2	1	3

4.19 **Appendix 5** summarises the current status and progress made in addressing all 32 recommendations not fully implemented by the agreed date. The following graph shows these recommendations split by directorate and priority of recommendation:



Key: A&C: Adult and Community Services, C&L: Children and Learning, ET&E: Enterprise, Tourism and the Environment, SS: Support Services and P&I: Policy & Improvement

4.20 **Appendix 6** summarises the recommendations that are no longer applicable and have been closed.

4.21 **Appendix 7** summarises the recommendations that have been closed as the directorate have concluded that in the current climate, the recommendations are not feasible. Therefore, the risk identified in not implementing the control, will be tolerated.

4.22 Of the recommendations outstanding:

- the five relating to the Care First Application: Care Management Module and Self Directed Support & Direct Payments for Vulnerable Adults, need further testing to ensure that actions taken are operational and embedded as normal working practices;
- eight relate to the CCTV report where although management indicate that action has been taken, this information was not provided in time for the team to validate it as part of this quarters follow up work. Therefore the revised date has been amended to the end of January, so that the relevant evidence can be sought as part of the next quarters testing;
- some relating to financial systems are being dealt with as part of the corporate Delivering Excellence and Agresso (the integrated financial system due to 'go live' on 1 April 2011) projects; and
- for the remainder, either additional evidence is required that actions are fully implemented or implementation has been delayed due to other internal pressures, issues with staff resources and external factors.

5. Impact

5.1 Internal Audit measures client satisfaction in two ways by asking:

- clients to assess auditors' performance after each audit;
- a representative sample of clients to assess the performance of the service overall on an annual basis by completing the CIPFA survey.

5.2 Performance with regard to individual audits remains high as to get above 80% (which is the target) the majority of the ten areas assessed must be scored good or excellent.

5.3 This year, 11 out of 39 (28%) staff asked to participate responded to the CIPFA survey request. Overall, the service provided was assessed as being "good". Two areas highlighted where the service could develop further were in relation to IT audit and recommendations made.

5.4 In future, the team will have a supervisor level lead for IT audits. An exercise is currently underway to assess whether the in house team can be skilled up to undertake more of this type of work. Consideration will be given as to how best to use bought in audit resources in this area. The possibility of obtaining more technical IT audit expertise from another source is also being explored. The aim is to enable the team to provide a more cost effective IT audit service that is integrated into and complementary to general audit work.

5.5 The team continue to explore ways of working collaboratively with service managers in order to identify what actions can be taken to mitigate risks found during the audit. The aim is to maximise managers' input in shaping the controls to be established to ensure that they remain practical and cost effective. The hope is that this will help increase the percentage of recommendations implemented by the due date.

6. Corporate Implications

6.1 Contribution to Council's Aims, Priorities and Outcomes

Audit work contributes to the delivery of all corporate priorities and outcomes.

6.2 Financial Implications

The audit plan will be delivered within approved budgets.

6.3 Legal Implications

A formal audit plan is required to ensure that Internal Audit coverage is adequate and effective; otherwise the Council will be in breach of its statutory responsibilities under the Accounts and Audit Regulations 2003. The Code of Practice for Internal Audit in Local Government in the UK (2006) CIPFA (the Code) recommends that progress against the audit plan is regularly reported to Members. This report contributes to discharging this duty.

The Accounts and Audit Regulations 2003 and the (Amendment) (England) Regulations 2006, require councils to have an adequate and effective system of internal audit. This is now defined as compliance with proper professional practice i.e. the Code and it requires Internal Audit to report on whether recommendations made are being implemented. Therefore failure to do so would be a breach of a statutory duty.

6.4 People and Property Implications

People issues have been raised in the body of the report.

6.5 Consultation

The audit risk assessment and the plan are periodically discussed with the Chief Executive, Corporate Directors, and Heads of Service before being reported to Corporate Management Team and the Audit Committee.

All Terms of Reference and draft reports are agreed by the relevant Corporate Directors and Heads of Service.

6.6 Equalities Impact Assessment

The relevance of equality and diversity is considered during the initial planning stage of the audit before the Terms of Reference are agreed.

6.7 Risk Assessment

Failure to operate a robust assurance framework (which incorporates the Internal Audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

Failure to complete sufficient work to given an audit opinion on the systems of internal control as required by the Accounts and Audit Regulations due to:

- reduction in staff resources either through budget cuts, reduced productivity including sickness without additional funds to purchase cover; or
- a significant number of unplanned investigations arising.

6.8 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service annually through its Terms of Reference, Strategy, Benchmarking and Performance Indicators.

6.9 Community Safety Implications and Environmental Impact

These issues would only be considered if relevant to a specific audit review.

7. Background Papers

- The Accounts and Audit Regulations 2003 & The Accounts and Audit (Amendment) (England) Regulations 2006
- CIPFA: Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

8. Appendices

- Appendix 1: 2010/11 Performance Indicators
- Appendix 2: Delivering the 2010/11 Audit Plan
- Appendix 3: Summary Findings from Audit Reviews
- Appendix 4: Cross Partner Internal Audit Working Group report on Serious Case Reviews
- Appendix 5: Recommendations not implemented by the due date
- Appendix 6: Recommendations no longer applicable
- Appendix 7: Recommendations where risk is tolerated