

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Chief Executive and Town Clerk

to

Audit Committee

on

22 June 2011

Report prepared by: Linda Everard, Head of Internal Audit

Head of Internal Audit Annual Report 2010/11

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To provide an opinion on the adequacy and effectiveness of the Council's systems of internal control for 2010/11.

2. Recommendation

- 2.1 The Committee accepts the Head of Internal Audit's Annual Report for 2010/11.**

3. Annual Audit Opinion for 2010/11

- 3.1 The purpose of the Head of Internal Audit Opinion is to contribute to the assurance available to the Council when undertaking its annual assessment of the effectiveness of the systems of internal control.
- 3.2 The opinion is predominantly based upon and limited to the work performed during the year on the overall adequacy and effectiveness of the Council's risk management, control and governance processes. This is outlined in the risk based audit plan that was agreed with the Corporate Management Team (CMT) and the Audit Committee. The opinion and summary findings from all audit reviews undertaken have been reported throughout the year to the CMT and Audit Committee. Internal Audit has not reviewed all risks and assurances relating to the Council's key business management, governance or service delivery processes.

HEAD OF INTERNAL AUDIT OPINION FOR THE YEAR ENDED 31 MARCH 2011.

- 3.3 My opinion is set out as follows:

- Overall opinion
- Basis for the opinion
- A commentary explaining the rationale for the opinion

3.4 MY OVERALL OPINION IS THAT:

The systems of internal control designed to support the delivery of the Council's objectives remain sound and that controls are generally being applied.

3.5 THE BASIS FOR FORMING THIS OPINION IS AS FOLLOWS:

- an assessment of the design and operation of the underpinning business management, governance and assurance processes
- an assessment of the range of individual opinions arising from risk based audit assignments that have been reported during the year taking into account the relative significance of these areas
- an assessment of whether management implement recommendations to mitigate identified control risks within reasonable timescales
- cumulative audit knowledge and other available information regarding the Council's systems of internal control.

4. Supporting Commentary

BUSINESS MANAGEMENT. GOVERNANCE AND ASSURANCE PROCESSES

4.1 ***The business management arrangements established to support the delivery of the Council's objectives remain sound, but require ongoing focus to ensure they are consistently applied as resources reduce.***

4.2 Work undertaken on the Council's business management, governance and assurance processes that supports this view is summarised in the following paragraphs.

4.3 In 2010/11, the framework for conducting the Council's business was set out in its Local Code of Governance (Code), supported by a corporate risk register. The Code was updated as part of its annual review and the corporate risk register was subject to regular review throughout the year.

4.4 The assurance framework established is a sound and cost effective way to provide robust and ongoing evidence that key business processes are operating as designed and key business risks are being mitigated to an acceptable degree.

4.5 There was a need to standardise and improve the governance arrangements of the Key Strategic Partnerships of Southend Together before the recent change in structure. This will be revisited in 2011/12 based upon the principles agreed in this review.

4.6 Compliance with Contract Procedures Rules (CPR) was inconsistent for purchases below the European Union Procurement Directive values within the Department of Enterprise Tourism and the Environment. Subsequent to this review, similar issues have been found elsewhere so a more corporate approach is being developed to improve performance in this area.

- 4.7 For the three national indicators spot checked during the year, there was scope to improve arrangements to ensure that:
- supporting systems were designed to collect accurate, valid, relevant, reliable, timely and complete information; and
 - indicators were being correctly calculated in accordance with the guidance and current recognised data quality standards.

SERVICE DELIVERY PROCESSES

- 4.8 ***Systems of internal control reviewed were generally designed to meet the achievement of service and corporate objectives and operated consistently. In some areas opportunities to strengthen the control environment were identified and actions agreed to address this.***

- 4.9 Work undertaken on the Council's service delivery processes that supports this view is summarised in the following paragraphs.

- 4.10 When looking corporately at whether income was being maximised from those services where charges are, or can be, levied or taxed, it was concluded that generally the systems for raising debts and collecting income due were sound. Subsequent to the review, action taken includes strengthening arrangements to ensure income received is maximised by:

- clarifying issues to be considered when setting fees and charges as well as the frequency and depth of the review to be completed and
- emphasising the need to more clearly link fees and charges to the delivery of the Council's aims, priorities and outcomes
- improving debt recovery and write off processes.

- 4.11 There were sound arrangements within both Children and Learning and Housing Services teams for dealing with recommendations arising from serious case reviews involving a child. Action being taken to further strengthen these arrangements includes:

- monitoring the progress of these recommendations at the Housing Services Departmental Management Team, making Housing Services' team minutes more explicit about messages from such cases and the specific actions for staff to improve working practices and introducing more robust monitoring of action taken by South Essex Homes Board's in response to serious case reviews
- within Children and Learning, nominating an officer in each relevant service area to be responsible for collating evidence that recommendations have been implemented for managers to sign off before submission to the Departmental Management Team for final approval
- providing the Corporate Management Team with overall assurance that all Council departments are implementing recommendations properly and in a timely manner.

- 4.12 The Building Control team fulfilled its core duties well by processing applications within set deadlines and ensuring the correct fee was charged and received for work done. Its main challenge going forward was to be able to more actively demonstrate it achieves value for money. In order to enable more robust management direction and oversight for the service, it was recommended that it develop more robust business management arrangements i.e. service planning, performance and risk management and performance indicators that cover economy, efficiency and effectiveness.
- 4.13 Appropriate arrangements were in place to ensure relevant posts were identified as requiring a Criminal Record Bureau (CRB) check during a recruitment exercise and that they were undertaken. In order to strengthen the arrangements, it was agreed that a CRB Policy was produced setting out the Council's approach to dealing with positive disclosures of criminal offences, rechecking existing staff and obtaining evidence from contractors and partners that such checks have been completed where appropriate.
- 4.14 The current voluntary sector grants programme was well advertised and allocated grants transparently in reference to the Sustainable Community Strategy. Action is currently being taken to move to a predominantly commissioning model that will enable the Council to target voluntary sector resources to the provision of specified services and monitor the delivery of them more effectively.
- 4.15 There were adequate arrangements in place to develop, monitor and deliver an effective IT Strategy that supports the achievement of wider Council objectives. Action is being taken to improve the monitoring of the strategic plan and resulting projects and evaluate the current ICT Infrastructure to provide a baseline for future activities.
- 4.16 The control environment over the:
- web content management in the development and implementation stages was generally good although further controls were required before departments can manage their own web content. Arrangements are being improved by:
 - updating some strategy, policy and procedural documents in this area
 - establishing and implementing a process for the regular review of web content in line with defined standards
 - establishing user roles within the Content Management System to enforce segregation of duties between functions.
 - the Albany BACS-IP Bankers' Automated Clearing Services Payment System Application was generally sound.
- 4.17 In the latter part of the year, preliminary planning work was completed in conjunction with People and Organisational Development team to provide support and independent challenge to senior management within the Department for Enterprise, Tourism and the Environment throughout the departmental restructure that is taking place, to help ensure successful delivery.

4.18 An overall programme of support and interventions has been produced covering the potential needs of the staff and process redesign. Detailed terms of reference are now being developed outlining the support Internal Audit can provide to four specific work streams within this overall project.

FINANCIAL SYSTEMS, SCHOOLS. GRANT CERTIFICATION AND PROACTIVE FRAUD WORK

4.19 The Main Accounting (General Ledger), Accounts Receivable (Sundry Debtors), Accounts Payable (Creditors including Market Place), Payroll, Treasury Management, Income (Cash & Bank), Council Tax, Non Domestic Rates, Housing Rents and Housing Benefits Systems were reviewed to assess whether they were well designed to mitigate the key risks and the controls within the system were operating as designed

4.20 The control environment for:

- Main Accounting (General Ledger), Treasury Management, Council Tax, Non Domestic Rates and Housing Rents was assessed as **good**
- Accounts Payable (Creditors including Market Place) and Housing Benefits was assessed as **adequate** which means:
 - some scope was identified to further develop the control environment established to enable the systems to consistently deliver the outcomes required of them
 - the majority of the key controls within the systems were found to be operating effectively.
- Accounts Receivable (Sundry Debtors), Payroll and Cash & Bank (Income) were such that assurance could not be given that the systems would consistently be able to deliver the outcomes required of it or that all the key controls were operating effectively throughout the year. Action is being taken to strengthen arrangements in these areas, particularly in relation to:
 - collecting debt via a debt collection agency with formal contractual and robust monitoring arrangements in place, will make it possible to improve the timeliness and level of debt recovered
 - limiting the tasks and functions staff are able to perform within the Sundry Debtors' system, to improve the integrity of the system
 - monitoring staff activity to ensure debt recovery procedures and guidance are consistently and appropriately applied
 - completing reconciliations between the Payroll and HR systems
 - updating and maintaining the Authorised Signatory List detailing officers able to authorise both the set up and amendment of payroll data
 - simplifying the process for reconciling the bank statement to the general ledger system so that inconsistencies are more readily resolved

- completing a post implementation review of the new departmental cash collection arrangements implemented since the closure of Cashiers in January 2011 to assess whether they have been embedded into day to day operations.

4.21 General development themes arising from the systems work this year include:

- improving the consistency with which documentary evidence is retained to show that Council procedures have been followed
- improving assurances provided that regular backups of IT systems are being undertaken and tested to see they can be restored successfully
- ensuring that procedural notes detailing the day to day activities of the elements of the new integrated financial system Agresso will be available for staff when the system goes live in August 2011.

4.22 Of the nine schools visited this year, all were assessed as having sound business processes in place (covering financial, management and governance controls) as well as meeting the requirements of the Financial Management Standard.

4.23 During the year, it was highlighted that it would be helpful to have corporate standards for maintaining evidence:

- of external funding received
- that grant terms and conditions attached to this funding were met.

4.24 A Task and Finish Group was created to develop these arrangements and support their implementation. The guidance has been produced and consulted upon and will be rolled out during 2011.

4.25 A view was also given as to the level of compliance with external funding terms and conditions for three schemes being transferred to the Council from Renaissance Southend. As a result of this work, novation agreements were signed with the external funding bodies to protect the Council from any potential residual non compliance risks.

4.26 Grant certification work undertaken this year includes providing an opinion:

- for the Local Area Agreement Stretch Targets reviewed, that there was reasonable assurance that the systems in place were sufficient to produce accurate performance information
- that there was reasonable assurance, from work undertaken, that during 2009/10, the Authority and its arrangements with partner organisations were compliant with ContactPoint accreditation conditions in respect of their ContactPoint management and use
- that reasonable assurance could be given, from the work undertaken and evidence obtained regarding the Demonstrating How to Deliver Stroke Care For Adults in The Community' Grant, that:

- the amount stated on the Statement of Grant Usage was materially correct
- monies have been spent on eligible activities (i.e. delivering stroke care for adults in the community) in 2009/10 in accordance with the terms and conditions of the grant.

IMPLEMENTING AGREED RECOMMENDATIONS

4.27 Recommendations are made to address internal control weaknesses identified during all audit reviews. Internal Audit then periodically assesses whether the action agreed has been taken to mitigate these risks.

4.28 Although agreed implementation dates are not always achieved, they are generally implemented, and in many cases where these dates are missed:

- good progress has been made in addressing the issues or
- all that remains is for Internal Audit to confirm that the control has operated as designed or will do so consistently.

4.29 During the year, six petty cash floats from three directorates were reviewed. It was possible to conclude that at least adequate controls were in place to ensure that:

- reconciliations were being undertaken; and
- petty cash was only being used for appropriate purposes.

OTHER CONSIDERATIONS

4.30 Assurance has been obtained from the annual challenge of the robustness of the Manager Assurance Statements. The detailed findings from this work are not repeated here as they are reflected in the Annual Governance Statement.

4.31 In summary though the key messages from this work are the need to:

- strengthen the Council's business continuity arrangements
- ensure consistent application of these critical business management processes now that they are no longer externally assessed and available resources reduce.

4.32 Internal Audit also provided ongoing support and challenge to four key corporate projects during the year.

4.33 With regard to the three deep dives on Independent Living, Mental Health and Domestic Abuse, the initial process evaluation and redesign stage has concluded. Internal Audit will continue to support this work where it is progressing to implementing new working arrangements.

4.34 The financial management system (Agresso) implementation project has encountered difficulties throughout its project life as evidenced by:

- project plans being developed as the work progressed

- a risk register that has not always had a robust action plan to support it.
- 4.35 As a result the implementation date for the new system has been revised to enable the necessary work to be completed to the required standard.
- 4.36 The Project Board is learning from the difficulties encountered to date in managing the remaining parts of the implementation process and ensuring it is better prepared to deal with future challenges.
- 4.37 When considering a long-term sickness absence case and concerns raised about bullying in the workplace, sufficient evidence was found on file to demonstrate that the requirements of the Council's Sickness Absence Policy, Section on Long Term Absence and Dignity at Work Policy had been met.
- 4.38 A limited assurance opinion was given with regards to 2009/10 East of England Development Agency Economic Participation Programme Grant. However project appraisal and assessment processes were found to be robust. Action had been taken to strengthened the decision making process by introducing high level governance arrangements and a revised project approval process.
- 4.39 Further work was also underway to strengthen risk management arrangements, improve the quality and completeness of paper and electronic project files and the retention of evidence of sign-off of key documentation and key decision points.

5. Issues for inclusion in the Annual Governance Statement

- 5.1 From the information available to support my opinion, the main issue for inclusion in the Council's Annual Governance Statement is the need to significantly improve procurement arrangements for spending that is under the European Union (EU) procurement directive value.

6. Internal Audit Performance

- 6.1 Finally, a key part of the Council's governance framework is the maintenance of an adequate and effective internal audit service (as required by The Accounts and Audit (Amendment) (England) Regulations 2006 Regulation 6). The Council is required (by Regulation 4) to complete an annual assessment then present the findings to a committee or Council as part of the annual review of the system of internal control.
- 6.2 For this purpose, "proper practice" is considered to be the Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy (the Code).
- 6.3 In order to discharge this duty, the Head of Internal Audit undertakes an assessment against the requirements of the Code. This will be completed in the summer when the final amendments have been made to the updated audit approach taking into account:
- improvement opportunities identified from external audit's review of the audit manual
 - lessons learnt from the financial systems work

6.4 It has been agreed that external audit will complete a further review in the summer and give a view on whether:

- the audit approach is fit for purpose; and
- the internal audit service complies with the requirements of the Code

7. Corporate Implications

7.1 Contribution to Council's Aims, Priorities and Outcomes

Audit work contributes to the delivery of all Council Aims, Priorities and Outcomes

7.2 Financial Implications

The audit plan was delivered within approved budgets.

7.3 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 Audit Plans 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.

The Code also requires the Head of Internal Audit to deliver an independent and objective annual opinion on the Council's control environment.

7.4 People and Property Implications

None

7.5 Consultation

The audit risk assessment and the plan were 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 were discussed and agreed with the relevant Corporate Directors and Heads of Service before being finalised.

7.6 Equalities Impact Assessment

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

7.7 Risk Assessment

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

7.8 Value for Money

Opportunities to improve value for money in the delivery of services were identified during some reviews and recommendations made as appropriate. Internal Audit also considered whether it provides a value for money service annually through its Terms of Reference, Strategy, Benchmarking and Performance Indicators.

7.9 Community Safety Implications and Environmental Impact

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

8. 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

9. Appendices

- None