



TO: Audit Committee

FROM: Head of Audit & Assurance

DATE: 21st January 2009

PORTFOLIOS AFFECTED:

All

WARDS AFFECTED:

All

TITLE OF REPORT.

Internal Audit – Progress and Outcomes against the plan in quarter 3 of 2008/09 and general developments re Audit & Assurance

1. PURPOSE To inform Members of what has been achieved in the third quarter and of general developments in Audit & Assurance.

2. RECOMMENDATIONS

The Committee is asked to:

- i) note the outcomes achieved in the last quarter,
- ii) note the general developments in Audit and Assurance, in particular the actions regarding External Audit's Use of Resources score for internal control.

3. KEY ISSUES

Re-location of Audit & Assurance

Following the changes made after the appointment of a new Strategic Director Resources, Audit and Assurance (A & A) has been transferred from Programmes and Governance, which Department now does not exist, to the newly titled Finance Department. This follows the decision that the new Director of Finance, when appointed, will be the Section 151 Officer instead of the Strategic Director Resources and, since Internal Audit has a key role in supporting this statutory officer, it follows also that A & A needs to report to the new Director.

In practical terms, this will make little difference to A & A's work since it has independent access to this Committee and to the Chief Executive at all times. In particular, the promotion of good governance and the development of the assurance function will both continue, especially when the recruitment to the new structure is finally completed.

CPA Score for Internal Control

The Use of Resources report shows an overall score of 2 for internal control in 2007/08. The report picks up the points raised, in the Annual

Audit & Inspection Letter, by the Council's previous external auditors. It recognises the new initiatives, such as the development of MAF, that have been adopted but it notes that A & A "is not operating in accordance with the CIPFA Code of Internal Audit Practice..." It goes on to note that "it is only recently that A & A has been given the go ahead to recruit..." It may be that external audit will make similar comments about A & A's resources in 2008/09. It needs to be noted that external resources have been used to supplement internal resources and the co-sourcing partner should make this process more straightforward in future.

Steps being taken

By the beginning of February, A & A will have recruited six new members of staff. Offers were made to three others but, for various reasons, the candidates have not taken up the offers. There remain, therefore, four key vacancies: two at A & A Manager and one at both Principal A & A Officer and A & A Officer. These are now being re-advertised.

In the last month, a co-sourcing tendering exercise has been carried out. Six major accountancy companies responded to the invitation to tender for a two-year contract. The evaluation exercise, assessing a mixture of price and quality, has produced a successful company and the "loose ends" will be sorted by the date of the Committee meeting. The expertise and extra resources offered by the successful company will substantially bolster A & A both in this audit year (by 125 days, at least) and, depending on the success of the second round of job advertisements, in 2009/10.

Estimated Resources for 2008/09

The original estimate for this year was 1,385 work-days. (This was audit days only. The resources attached to counter fraud and Information Governance were not included. They will be for 2009/10.) The latest estimate is 1,200 work-days. This total includes additional time from outside sources.

Code of Internal Audit Practice

External audit's original assessment of A & A's compliance with the Code was that 5 out of 11 categories were not fully met. As part of the quality improvement actions being undertaken during the year, progress has been made towards fully meeting the standard. Whilst A & A does not fully meet the standard yet (principally in terms of available resources), A & A will, in my opinion, be fully compliant by the end of the year (2008/09).

Progress v strategy

Outcomes achieved in the third quarter of the year

- *Information governance (IG)*
 - A draft IG Strategy has been produced for discussion. The principal, initial discussions with the Director of IT are now under way.
 - Training – Courses on data protection and confidentiality and workshops on data quality were delivered in October and November.
 - Freedom of Information – 90% of requests were answered on time in October and November; this is an improvement on the first half-year. There remain matters that need to be

reviewed and A & A will undertake an audit in the next few weeks.

- Breach of DP – All Directors have been informed of a recent breach and they have been requested to remind their staff about proper controls when handling personal data. Again, A & A will review the process because there is a clear need to ensure that the risks are adequately managed and this clearly requires both effective internal controls and proper induction processes.
- *Counter Fraud.*
 - Housing Benefits - The national suspension of the Housing Benefits Matching Service (A decision by the DWP taken after data losses.) has affected the achievement of targets. Nevertheless, the expected key outcomes for 2008/09 are 300 reductions/cessations in benefit and 105 prosecutions/sanctions.
 - National Fraud Initiative – This is an Audit Commission exercise in which every local authority and other public authorities take part. Its scope is broader than in previous years as it covers areas besides Housing Benefit. Outcomes will be reported in April.
 - Whistle-Blowing – A revised version of this policy is in draft and will shortly be submitted to Members for consideration.
- *Building Schools for the Future.* The second assurance report was submitted to the BSF Project Board in December. The assurance process with BSF is now developing to cover both risk management arrangements in each work stream and the governance arrangements as they need to be applied to the partnership with Bolton.
- *Management Accountabilities Framework.* Progress on quarter 2 and the revisions to the template and challenge processes for quarter 3 have been reported separately.
- *Healthy Living.* Following an audit review of the arrangements regarding the Healthy Living Service, discussions have been held with both Members and the PCT about the way that it might be delivered and about the Council's relationship in this area with a recently established company.
- *Freckleton Street Link Road* Assurance advice about the role, in particular, of the client has been accepted. As a result, Audit & Assurance has now a "non-executive" role on the Project Board, providing advice and challenging decisions as the project develops.
- *Fundamental Systems.* Reviews have been carried out in several areas: Treasury Management, VAT, Council Tax, Non-Domestic Rates and Cash Collection. The levels of assurance have been either full or less than full but no significant weaknesses have been identified.

- *Data Protection.* The review of Data Protection identified the Information Governance generally had a low profile and that actions were needed to address this. The IG Strategy, mentioned earlier, is key in the strategic development of Data Protection. The audit also recommended that induction training be made compulsory (A point given greater merit because of the recent loss of personal data.) and that the Corporate Information Governance Group's membership be refreshed. These actions are now being implemented
- *Health & Safety.* The review of H & S identified good compliance in several areas but it also identified significant gaps. The main area for improvement related to written procedures and ensuring compliance across the Council. The audit also recommended that progress reports to the Executive Member (and then to Members generally, through the Members' Information Pack) needed to become regular items.
- *Insurance.* The review's opinion was full assurance regarding claims handling. It did, however, also recognise that there were risks to service delivery because, effectively, the Insurance function has no back-up if key personnel were to be absent for any length of time.
- *Contract with a care provider.* The audit did not review the management arrangements once a particular contract started to fail. It reviewed the tender evaluation processes and, whilst they were generally sound, the conclusion was that there are lessons to be learned from this contract, particularly regarding the management arrangements and resource capability of tenderers.
- *Electronic Single Assessment Process (ESAP).* A & A has provided an assurance role with regard to this project which is being developed in partnership with the PCT and LCC. A series of information sharing protocols, assured by A & A, have been agreed by the partner organisations.

Appendix A shows the intended outcomes for the year and the time allocated to date and the estimate for the year in each area. Column 3 in the appendix shows, in italics, areas covered (or being covered) and, therefore, those areas still to be covered in the next three months.

4. RATIONALE

The estimated resources for A & A for the year will be less than those originally expected. The big gap is at A & A Manager level and, whilst existing staff and the new recruits, together with the co-sourced partner, will achieve enough to improve the CPA score, the gap must be bridged soon to ensure that A & A achieves, next year, its agreed objectives, especially regarding assurance. In this regard, discussions will be held with the co-sourced partner to assist in this area.

Ultimately, it is a statutory requirement that the Council has a robust system of internal audit and that A & A has adequate resources. The structure is reasonable and, when all posts are filled, it will be effective. In the interim, the effects of the delays in recruitment, mentioned in the

Use of Resources report, are being mitigated as fully as possible.

5. POLICY IMPLICATIONS

This delivery of the Plan leads to the annual Internal Audit Opinion Report and this, in turn, contributes directly to the Annual Governance Statement.

6. FINANCIAL IMPLICATIONS

There are no direct financial implications in this report.

7. LEGAL IMPLICATIONS

Similarly, there are no direct legal implications in this report.

8. RESOURCE IMPLICATIONS

Additional resources will promote and enhance governance, assurance and the control environment.

9. CONSULTATIONS

Directors; Acting Director of Financial Services

CONTACT OFFICER: Jim Barwise

DATE: 7th January 2009

BACKGROUND PAPERS: IA planning papers; IA reports