

INTERNAL AUDIT REPORT 2008/9 – progress in first half year
Report of the Acting Executive Director of Finance, IT & Trading

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendations: that members note

- i. the satisfactory progress against the agreed internal audit plans for 2008/09 during the first six months of the year;
- ii. the key issues arising from those audits highlighted in this report;
- iii. the continued high levels of achievement of Devon Audit Services (DAS) in terms of performance measures and quality standards.

BACKGROUND

1. The internal audit plans for the financial year 2008/09 were drawn up at the start of the year, following discussions with key senior managers in directorates. This year's plans were drawn from a combination of the Corporate Risk Register and Directorate Risk Registers. The planned work included some "cross-cutting reviews" as well as directorate-specific audits. A summary of these audit plans was received and agreed by the Audit Committee at its meeting in March 2008.
2. At the end of the year an Annual Internal Audit Report will summarise overall performance against these plans, highlight key findings, and include an audit opinion on the level of internal control disclosed by the year's audit work. This in turn will assist in the production of the Annual Governance Statement, which is required to be incorporated in the Annual Statement of Accounts for the financial year.
3. This current report summarises progress to date against agreed plans. Overall, satisfactory progress has been made; 42% of the planned audit days for the year have been delivered after 6 months.
4. Half-year progress reports for their Directorates have been issued to the Chief Executive and the five Executive Directors; some of the key issues arising from those reports are summarised in the remainder of this report. It should be noted that in the vast majority of instances positive responses have been received from management in relation to the recommendations we have made. It is only through effective management action that weaknesses we identify will be remedied.

CROSS-CUTTING REVIEWS

5. Some of the planned audit work in this year's plan has been drawn from the highest risks identified in the Corporate Risk Register, and reviews on these themes are being carried out across all directorates. The following paragraphs summarise the current position for these reviews.
6. *Managing Absence* – the Council is committed to reducing absence levels across the authority, and policies and practices were established by the Personnel & Performance Directorate through Wellbeing@Work Services. Training courses were offered to all relevant managers and policies and practices posted on the web pages for easy referral.
7. Audit reviews during 2007/8 revealed a lower than anticipated level of awareness and compliance with the Managing Absence policy. As a result a substantial programme of further training has

been put in place for managers and further audit reviews are planned for this year. Some delays in the availability of absence reports from the new Payroll system Prism have meant that these audit checks will now take place in the second half of the year.

8. *Partnerships* – the Council is becoming increasingly involved in partnership working for the delivery of services. These partnerships can range from very significant multi-agency arrangements such as the Devon Strategic Partnership (DSP) or the partnership working under the Local Area Agreement (LAA) to comparatively small joint working (e.g. the proposed Internal Audit Partnership with Plymouth and Torbay). However, in all cases it is important that effective management and governance arrangements. This cross-cutting audit review is initially looking at central and corporate information and policies on partnerships before extending to look in more detail at selected partnerships in the second half of the year.
9. *Business Continuity* – the Council's arrangements for Business Continuity have received a higher profile following the Civil Contingencies Act 2004 and the emphasis within Use of Resources for the Comprehensive Performance Assessment (CPA). The audit review of central arrangements for managing and co-ordinating activity in this area has confirmed that a good level of guidance and support has been provided over the last two years. Further review in directorates in the second half of the year will look in more detail at selected business continuity plans.
10. *Health & Safety* – this is another area which has taken on a higher profile in recent years, particularly with the implementation of the Corporate Manslaughter Act. During the early months of 2008/9 Health and Safety arrangements within the Council were brought together from separate teams in directorates into a central team in the Personnel & Performance Directorate under a County Health & Safety Manager. Audit reviews in the second half of the year will consider the effectiveness of these new arrangements.

CHIEF EXECUTIVE'S DIRECTORATE

11. Much of the work in this directorate during this year is related to the cross-cutting reviews described above. In addition, following significant cost overruns on an NPS designed and project managed new school, we were asked to provide assurance that the NEC3 form of contract used on this project had not exposed the commissioning directorate (CYPS) to financial risk. It was found that the underlying reasons for the larger cost overruns appeared to relate to issues in the design and the state of the design at the start of the works. The project controls built into NEC3 were able to respond to the project issues as they arose, typically as an additional cost "compensation event". The form of contract used was considered to have been appropriate.

CHILDREN AND YOUNG PEOPLE'S SERVICES - SCHOOLS

12. FMSiS – this DCSF initiative (Financial Management Standards in Schools) is a mandatory standard that all schools must be assessed against to a demanding timescale. We have from April 2008 changed our cycle of audits for all schools to 3-yearly to match the FMSiS cycle (the audit frequency was previously 4-yearly for primary and special schools and 2-yearly for secondary schools and colleges. This has meant a net increase in the number of school audits to be delivered each year.
13. We have made resources available to deliver these school audits against agreed plans, and are currently on target to deliver the planned audits this year. However, there is some concern about the number of schools who have been assessed as meeting the standard. All schools are required to have met the standard by March 2010. At this stage it appears unlikely that this will be achieved. It is proving difficult to engage with schools to work towards achieving FMSiS against other pressing priorities. We are working with schools and the CYPS directorate to improve this situation.

14. Areas in which schools could improve performance are:

- production of a governors' statement of internal control;
- completion of competencies matrices for governors and staff with financial management responsibilities;
- benchmarking;
- documentation on delegation of roles and responsibilities;
- costing and financial backing for school development plans
- evidence to support value for money testing

CHILDREN AND YOUNG PEOPLE'S SERVICES

15. *Devon Catering and Cleaning Services (DCCS)* – reviews in this area confirmed that, overall, the controls in place adequately mitigate exposure to the risks identified. However, there were areas for potential improvement that led to audit recommendations, particularly in promoting the service, monitoring standards of service and developing a suitable financial framework. Uncertainty about the long term future of the service, which is dependent in part on the roll out of self performing schools, has impeded progress on the promotion and development of the service.

16. *Youth Offending Team* – following a failure of the backup procedures for the computer system supporting this team, we investigated both this and ICT backup arrangements more widely. This has led to a review of the “business critical” computer applications and procedures for taking security backup copies and prioritising the restoration of data.

PERSONNEL AND PERFORMANCE DIRECTORATE

17. *Prism* - the Council's new Payroll and Personnel computer system continues to be the most significant area for audit review in this directorate. The continued delay in providing audit and control reports for the system has limited the audit checks possible in the first half of the year. Staff within Payroll are at full stretch, including significant overtime working, to process pay runs, but approval has been received for the appointment for additional temporary staff to help address the workload issues.

ENVIRONMENT ECONOMY AND CULTURE DIRECTORATE

18. *Fundamental systems – Transport Management System (TRAMS) and Routine Maintenance System (RMS)* – as a result of the value of transactions processed through these systems, they are both required to be subject to annual audit to satisfy the requirements of the Audit Commission, our external auditors.

19. It was pleasing to note that both systems fully met all the test criteria set out by the Audit Commission. There is ongoing audit involvement with RMS, as a further development will provide South West Highways (the Highways Term Maintenance contractor) controlled access to be able to export billing data into the DCC Finest system.

20. *Performance Indicators* – a risk assessment of all Best Value Performance Indicators (BVPI) to identify those which should be subject to an internal audit prior to publishing the data for Audit Commission review led to a review of systems supporting the Waste Management performance indicators. Having acknowledged that much of the data which drives the waste BVPI's is managed and entered by District Councils, and DCC has limited control over the quality of this data, it was pleasing to note that DCC staff were actively engaged in ensuring that the processes in place supported the provision of accurate data.

FINANCE IT & TRADING DIRECTORATE

21. *Devon Finance Services* - much of the audit work within Devon Finance Services relates to reviews of the major financial systems, such as Creditor Payments, Income and Pensions. This work also supports the external auditors in the annual opinion work on the Statement of Accounts. No significant issues have arisen as a result of this work this year. A review of accruals as part of the closure of accounts process had no major findings directly linked to the appropriateness of accruals, but did highlight some issues which are being followed up within directorates.
22. *ICT Services* – the most significant piece of work to date in this area has concerned the procedures for taking backup copies and restoring that data across key ICT applications. Work is continuing with ICT Services to ensure that protection against system failures is improved.
23. *Devon Procurement Services* – our review of the annual stocktake at Supply Zone confirmed that the overall year end stock valuation was materially correct and that stock control had improved over the previous period.

ADULT AND COMMUNITY SERVICES DIRECTORATE (ACS)

24. With the re-structuring of ACS and its ongoing Modernisation Programme, ACS senior management indicated their wish that Internal Audit should focus more on high profile and high risk projects, services, and those areas that have a bearing on ACS's improvement programme, or can add value to systems and procedures underpinning service delivery.
25. Based on our work in the first half-year we can give assurance that in general the financial and administration systems are managed reasonably well. Although some instances were noted where system controls were not always robustly adhered to, to a certain extent this must be expected in a period of significant structural change such as the directorate is going through.
26. Some of the issues highlighted by our work included the need to:
 - embed risk management best practice in all aspects of the project to outsource residential care comes to Shaw;
 - ensure that inventories of equipment in the homes and arrangements to collect and store documents and records are completed
 - make the existing contracts database sufficient to form the basis of a Contract performance monitoring and management, as such a requirement becomes more significant as ACS moves increasingly to be a commissioner of services.

FOLLOW-UP REVIEWS

27. Having carried out audits, issued reports, and agreed recommendations for change and improvement with managers, it is equally important to be assured that the appropriate action actually takes place. A key part of the audit cycle is the conduct of follow-up reviews. This year we have continued to use a more formal methodology for selecting audits that should receive specific follow-up reviews, to ensure a standard and consistent approach across all directorates.
28. Such reviews take place across all Directorates. Many of these reviews are programmed for the second half of the year, but it is pleasing to report from follow-up audits completed to date that these generally highlight a good level of actions completed or in progress. In some cases, new developments render the original recommendations inappropriate, but the number of instances where recommendations have to be repeated because of inaction continues to be encouragingly low. Where we have found such situations we have emphasised to management the importance of following through with appropriate actions after agreement of audit recommendations.

SHARED SERVICES FOR INTERNAL AUDIT WITH PLYMOUTH AND TORBAY

29. The committee received a report in September 2008 and approved the recommendation to proceed with the formation of a Devon Audit Partnership with Plymouth City Council and Torbay Council operating under a joint committee arrangement. Subsequently this decision has been endorsed by the Council's Executive and similar member approvals have taken place in the other two Councils.
30. A significant amount of activity is now taking place in specialist working groups addressing issues related to personnel and staffing, IT facilities, finance, budgets and contractual arrangements. There has also been considerable progress made in joint working groups from the three audit teams towards establishing common working practices and documentation to be adopted as standard across the partnership from the start. This is currently anticipated to be from April 2009.
31. Joint meetings and training of the staff from the three current teams have taken place, including consultation meetings with both staff and trade union representatives. There will be further joint meetings arranged during the early months of 2009, leading up to the implementation of the partnership.
32. The whole project is being managed under best-practice project management principles, with the Directors of Finance / Section 151 officers from the three Councils acting as the Project Board. The next significant decision for the Board will be the appointment of the Head of Partnership. This is hoped to be completed during January 2009.

PERFORMANCE MEASURES AND QUALITY ISSUES

33. We place considerable emphasis on ensuring that quality standards are maintained on all audits, and there is regular monitoring against performance measures. In addition to the day-to-day supervision of audit assignments by audit managers, periodic quality assurance reviews are carried out by the Head of Internal Audit, and audit managers carry out similar peer reviews of the work of each other's teams.
34. There continues to be a high level of compliance with the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the UK, as illustrated in a report received by the Audit Committee at its meeting in September 2008. An ongoing Development Plan within the team formalises the programme of continuous improvement.
35. The team has now been accredited under the Chartermark scheme for 3 years, and is due for its annual assessment during December. For the last two years the team has been assessed as "fully compliant" against all of the demanding requirements of the Chartermark scheme. This is an excellent testament to the commitment and quality of work across the whole team. Achieving this not only provides further independent evidence of quality standards and customer focus, but also allows us to concentrate on service improvement for the whole team.
36. Benchmarking comparisons with all other County Council internal audit sections continue to demonstrate that Devon Audit Services provides a cost-effective service to the County Council. The most recent summaries from this benchmarking have recently been provided to this committee and confirm that we continue to be a low cost high / performing internal audit function.

CONCLUSION

37. Devon Audit Services has made good progress against agreed audit plans in the first half of the year. There have also been continued high levels of performance in respect of those indicators by which the section's professional and quality standards are measured. Although audit reports highlight some issues that have caused concerns during that period, it should also be noted that a significant number of audits have highlighted satisfactory controls and improving systems. A

continuation of similar findings over the remainder of the year would allow Internal Audit to give positive levels of assurance to support the Council's Annual Governance Statement.

Mary Davis

Electoral Divisions: All
Local Government Act 1972

List of Background Papers

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<u>Background Paper</u>	<u>Date</u>	<u>File Ref</u>
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Nil

There are no equality issues associated with this report