



Committee: AUDIT COMMITTEE

Date: WEDNESDAY, 22 SEPTEMBER 2010

Venue: MORECAMBE TOWN HALL

Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

Minutes of the meeting held on 30 June 2010 (previously circulated).

3. **Items of urgent business authorised by the Chairman**

4. **Declarations of Interest**

5. **Statement of Accounts 2009/10** (Pages 1 - 2)

Report of the Head of Financial Services

The External Auditor's Report and Letter of Representation will be circulated prior to the meeting.

6. **Internal Audit Monitoring** (Pages 3 - 8)

Report of Internal Audit Manager

7. **Results of Internal Audit Work** (Pages 9 - 23)

Report of Internal Audit Manager

8. **Ethical Governance Survey and Internal Audit** (Pages 24 - 40)

Report of Internal Audit Manager

ADMINISTRATIVE ARRANGEMENTS

(i) **Membership**

Councillors Malcolm Thomas (Chairman), Janice Hanson (Vice-Chairman), Jon Barry, Abbott Bryning, Roger Dennison, Geoff Knight and Keith Sowden

(ii) Substitute Membership

Councillors Shirley Burns (Substitute), Tina Clifford (Substitute), Karen Leytham (Substitute), Roger Mace (Substitute), Geoff Marsland (Substitute), Ian McCulloch (Substitute), Peter Robinson (Substitute) and Paul Woodruff (Substitute)

(iii) Queries regarding this Agenda

Please contact Tom Silvani, Democratic Services - 01524 582132 - email: tsilvani@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Members' Secretary, telephone 582170, or alternatively email memberservices@lancaster.gov.uk.

MARK CULLINAN,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on 14 September 2010.

AUDIT COMMITTEE**Statement of Accounts 2009/10
22 September 2010****Report of Head of Financial Services****PURPOSE OF REPORT**

This report updates Members on the outcome of the audit of the Statement of Accounts for 2009/10.

This report is public.

RECOMMENDATIONS

- (1) That the Committee notes the report for 2009/10 issued by the Council's External Auditors and the letter of representation signed by the s151 Officer, and makes any other recommendations as appropriate.**

REPORT

- 1.1 At the last Committee meeting held on 30 June the draft Statement of Accounts for 2009/10 were presented for approval, together with information on the audit process. The Council's External Auditors commenced the audit of accounts on Monday 19 July.
- 1.2 The audit is now substantially complete and the Auditor is currently finalising a report for Members' consideration (i.e. "to those charged with governance"). This will be circulated as soon as possible.
- 1.3 The Auditor will also be attending the meeting to present the report but in summary, the main points are expected to be as follows:
- It is anticipated that an unqualified opinion on the 2009/10 Accounts will be issued. A small number of minor adjustments are to be made to the accounts since they were presented to Committee in June, but it is important to note that these are presentational only. They do not have any impact on the Council's overall financial position or on its balances.
 - The report will also set out the Auditor's conclusion on whether the authority has adequate arrangements in place for securing value for money (VFM). Members will be aware that the wider Use of Resources assessment arrangements have now been abolished, although a substantial amount of work was undertaken on

this in relation to 2009/10, prior to the abolition being announced. It is expected, therefore, that the Auditors will use the results of that work to inform their VFM conclusion.

- 1.4 In support of completing the accounts, a copy of a 'letter of representation' will also be circulated as soon as it is available. The letter will be signed by the Section 151 Officer but the Committee is also requested to note it. This is on the basis that those charged with governance should be aware of the representations on which the auditor relies, in expressing his opinion on the Accounts.
- 1.5 Once the governance report and the letter of representation have been considered, it is expected that the Auditor will issue his opinions on the accounts, in order that the final audited Accounts can be published by the deadline of 30 September. Conclusion of the audit will follow in due course.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing) No implications directly arising.</p>	
<p>FINANCIAL IMPLICATIONS There are no financial implications directly arising at this stage.</p>	
<p>SECTION 151 OFFICER'S COMMENTS This report was prepared by the s151 officer as part of her responsibilities.</p>	
<p>LEGAL IMPLICATIONS Legal Services have been consulted and have no comments to add, subject to receiving the Auditor's report.</p>	
<p>MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no comments to add, subject to receiving the Auditor's report.</p>	
<p>BACKGROUND PAPERS Statement of Accounts 2009/10. Accounts and Audit Regulations 2006 (as amended).</p>	<p>Contact Officer: Nadine Muschamp Telephone: 01524 582117 E-mail: nmuschamp@lancaster.gov.uk Ref:</p>

AUDIT COMMITTEE**22nd September 2010****Internal Audit Monitoring****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2010/11 Internal Audit Plan.

This report is public

RECOMMENDATIONS

- (1) That the current monitoring position is noted.
- (2) That the strategy relating to internal audit staffing and the assessment of future audit needs, as set out in paragraphs 2.3 to 2.6 is endorsed.

1.0 Introduction

- 1.1 The 2010/11 Internal Audit Plan was approved by the Audit Committee at its meeting on 30th June 2010. This report is based on the monitoring position up to 25th August 2010.

2.0 Report**Monitoring Position as at 25th August 2010**

- 2.1 A detailed monitoring report as at 25th August 2010 is attached as Appendix A. In summary, the position as that date was as shown in the following table.

Area of work	Resources (audit days)				
	Actuals to 25/08/10	Remaining	Committed	Original Plan	Variance
Assurance Work					
Core Financial Systems	16	0	16	90	74
Core Management Arrangements	36	27	63	150	87
Risk Based Assurance Audits	44	58	102	135	33
Follow-Up Reviews	28	42	70	70	0
Sub-Total, Assurance Work	124	127	251	445	194
Consultancy Work					
Support Work	37	8	45	100	55
Efficiency & VfM	0	0	0	50	50
Ad-Hoc Advice	28	37	65	65	0
Sub-Total, Consultancy Work	65	45	110	215	105
Other Duties (Non-Audit)	6	9	15	15	0
Audit Management	21	35	56	70	14
Investigations	15	5	20	60	40
General Contingency	0	40	40	40	0
Total	231	261	492	845	353

- 2.2 The monitoring position takes account of ongoing and known work commitments. The summary shows that, overall, audit resources are not yet fully committed (there being 353 planned days 202.5 days uncommitted). There are currently no obvious pressures within the plan.

Staffing Considerations

- 2.3 It was reported to the June meeting of the Committee that the Principal Auditor had left the section for a position elsewhere in the council. At that point it was felt that the post should be filled and the internal audit section maintained at full establishment. Following a more thorough assessment of the situation by the Internal Audit Manager in consultation with the Head of Financial Services and the HR Manager, and particularly having regard to increased threat to the council posed by financial pressures, Management Team have approved the following measures:
- a) That approval be given to recruit to the post of Principal Auditor on a permanent basis, subject to the vacancy being ring-fenced to the two Senior Auditor postholders; and
 - b) That any resulting vacancy be held for the time being, subject to clarifying the council's audit requirements in the longer term.
- 2.4 The recruitment process referred to in a) is in hand. A full internal audit needs assessment will be carried out over the next few months. This will seek to identify and reflect the implications for audit of all significant changes in the council's organisation and activities in the light of the awaited government spending review. This will lead on to a further review of audit resources and staffing levels.

2.5 A review of audit resources given the current reduction in staffing by one post indicates that 730 days would be available as compared with the 845 included in the original plan (the plan had already assumed that the Principal Auditor post would be vacant for two months).

2.6 At present, given that known/anticipated commitments stand at 492 days, there is clearly scope to manage the plan and no remedial measures are proposed at this stage. Any developments or proposals arising from the needs assessment referred to in §2.4 will be reported to the committee in due course. The option remains for the Head of Financial Services to authorise additional resources to be bought in within the savings generated from not filling one of the Senior Auditor posts.

3.0 Details of Consultation

3.1 No specific consultation has been undertaken. Management Team has considered and approved the proposals relating to internal audit staffing.

4.0 Options and Options Analysis (including risk assessment)

4.1 The options available to the Committee are either to endorse the actions being taken in relation to internal audit staffing, and the proposed review of internal audit needs, or to propose an alternative course of action.

4.2 The actions being taken in relation to staffing will result in internal audit resources for 2010/11 being 115 days fewer than included in the annual plan approved by Audit Committee in June 2010. There is a risk, given the scope and extent of organisational change occurring in the council, that reducing internal audit coverage could lead to significant issues being missed. On the other hand, the extent of change likely to result from the financial pressures being felt by the council could lead to a lower future requirement for internal audit resources.

4.3 It is felt that the most appropriate and flexible approach at this stage is to keep one post vacant until a fully informed needs assessment can be undertaken, leading to further staffing and audit planning proposals.

5.0 Conclusion

5.1 Monitoring of the Annual Internal Audit Plan for 2010/11 indicates the need for staffing changes and future demands for audit work to be reviewed in managing the annual plan. Further information and proposals will be reported to the Audit Committee as they are developed.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Not applicable

FINANCIAL IMPLICATIONS

Recruiting internally to the Principal Auditor post will result in savings of between £4.3K and £24.6K for the current year, based on an effective date of 01 September. The actual saving will depend on the amount of additional audit resources needed on a short term basis, to cover the resulting senior auditor vacancy.

For future years, savings will depend on what decisions are taken in due course regarding audit needs etc. As an example, if ultimately a decision is taken to replace a senior auditor post with a lower graded assistant, savings of between £13.4K and £17.8K could be generated. The longer term will be influenced to a degree by the effectiveness of this year's proposed arrangements.

The above figures are indicative, based on current grades but allowing for changes in existing pay protection.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Internal Audit Plan 2010/11

Contact Officer: Derek Whiteway

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E-mail: dwhiteway@lancaster.gov.uk

Ref: aud/comm/audit/100922IAMon


Internal Audit Annual Plan 2010/11 - Update at 25 August 2010

Appendix A

Work Allocations			Actuals to 25/08/10	Remaining	Committed	Approved Plan (30/06/10)	Variance	Status at 25/08/10
Job No	Title	Lead						
1. ASSURANCE WORK								
Core Financial Systems								
08/0739	Creditors 2009/10	DA	2	0	2			✓
09/0776	Payroll 2009/10	DA	1	0	1			✓
09/0781	Council Tax 2009/10	DA	2	0	2			✓
09/0782	NNDR 2009/10	DA	2	0	2			✓
09/0786	Treasury Management 2009/10	AR	9	0	9			✓
Sub-total - Core Financial Systems			16	0	16	90	74	
Core Management Arrangements								
08/0738	Information Management & Security	AR	13	1	14			⚠
08/0774	Ethical Governance Framework	AR	7	1	8			⚠
10/0787	NFI 2010/11	DW	5		5			⚠
10/0791	Corporate Learning & Development	AR	8	3	11			⚠
10/0797	Budgetary Control	AR	3	22	25			⚠
Sub-total - Core Management Arrangements			36	27	63	150	87	
Risk Based Assurance Work Programme								
08/0730	Climate Change	LW	2	0	2			✓
08/0755	Contaminated Land	LW	11	1	12			✓
08/0579	Housing Standards	DA	8	0	8			✓
10/0762	Regeneration & Policy Probity	AR	10	5	15			⚠
10/0789	Development Management Capacity	LW	9	6	15			⚠
10/0795	Capital Contract Management	AR	2	23	25			⚠
10/0796	Contracted Services and SLAs	AR	2	23	25			⚠
Sub-total - Risk Based Assurance Work			44	58	102	135	33	
Follow-Up Reviews			28	42	70	70	0	∞
SUB-TOTAL - ASSURANCE WORK			124	127	251	445	194	
2. CONSULTANCY WORK								
Support Work (projects and other)								
10/0793	Counter Crime Policy & Strategy	AR	11	5	16			⚠
10/0509	RIPA Monitoring and Central Register	DW	1	1	2			∞
09/0788	Annual Governance Review & Statement 2009/10	DW	5	0	5			✓
10/0790	Overtime	AR	4	0	4			✓
10/0792	Grey Fleet Review	LW	16	2	18			✓
Sub-total - Support Work			37	8	45	100	55	
Efficiency & VfM								
			0	0	0			⚠
Sub-total - Efficiency & VfM			0	0	0	50	50	
Ad-Hoc Advice			28	37	65	65	0	∞
SUB-TOTAL - CONSULTANCY WORK			65	45	110	215	105	

Internal Audit Annual Plan 2010/11 - Update at 25 August 2010

Appendix A

Work Allocations			Actuals to 25/08/10	Remaining	Committed	Approved Plan (30/06/10)	Variance	Status at 25/08/10
Job No	Title	Lead						
3. OTHER								
08/0392	Deputy s151 Officer Duties	DW	6	9	15			∞
SUB-TOTAL - OTHER			6	9	15	15	0	
4. AUDIT MANAGEMENT								
10/0172	Committee Work	DW	8	10	18			∞
10/0189	Audit Planning & Monitoring	DW	13	25	38			∞
SUB-TOTAL - AUDIT MANAGEMENT			21	35	56	70	14	
5. CONTINGENCIES								
Investigations			15	5	20	60	40	
General Contingency			0	40	40	40	0	
SUB-TOTAL - CONTINGENCIES			15	45	60	100	40	
TOTALS			231	261	492	845	353	

Key:  Completed  In Progress  Not Yet Started  Continuous or Multi-Year Activity
 Carried Forward to 2011/12 Plan  Abandoned

Audit Committee**Results of Internal Audit Work****22nd September 2010****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the results of Internal Audit work for the period.

This report is public

RECOMMENDATIONS

- (1) That the report is noted.
- (2) That in relation to previous audits where the assurance level has not yet reached "reasonable" (as set out in Appendix A):
 - a) Regarding audit ref 07/0701 - Procurement and Contract Management - that Audit Committee consider the update report of the Head of Financial Services and determine whether they would wish any further action to be taken regarding the outstanding issues.

1.0 Introduction







- 1.1 Part of the Audit Committee's terms of reference is:

"To receive and review the findings of both Internal and External Audit examinations and to ensure that management takes appropriate action to implement agreed recommendations and to remedy any internal accounting, organisational or operational control weaknesses identified." (Constitution part 3, section 7, § 10)

2.0 Results of Internal Audit Work to 31 August 2010

- 2.1 This report covers audit work and reports issued since the Results of Audit Work were last reported to Committee on 30th June 2010. Summary reports are issued to Members for consideration and are also posted on the Council's Intranet.
- 2.2 If there are any specific questions about a report, or more detailed information is required, it would be helpful if Members could contact the Internal Audit Manager on telephone number 582028 or email dwhiteway@lancaster.gov.uk prior to the meeting.

- 2.3 The list below gives the assurance opinion issued for areas audited since the last meeting.

Audit Title		Report Date	Assurance Level	
New Audit Reports				
08/0730	Climate Change	09/06/10	Limited	
08/0750	Academy/Civica Interfaces	25/06/10	Limited	
08/0759	Housing Standards	08/07/10	Limited	
Follow up Reviews				
07/0701	Procurement and Contract Management	25/06/10	Limited	
08/0742	Risk Management	29/06/10	Reasonable	
08/0733	Planning for Floods	13/07/10	Reasonable	

3.0 Matters Arising from Audit Reviews

- 3.1 Members' attention is drawn to the audits where a "reasonable" level of assurance has not been achieved as follows:

08/0730 – Climate Change

Acknowledging the council's high level commitment to and progress in implementing measures to address climate change, the audit focused on the following:

- reducing CO2 emissions and resource use from council buildings and activities (mitigation),
- making sure that the council is better prepared to cope with the impacts that climate change may have on its service delivery (adaptation), and
- the council's preparedness to deal with the requirements of the Carbon Reduction Commitment

A Climate Change Strategy has been developed which brings together the council's aims and objectives in relation to dealing with climate change and the council has made a public commitment to reduce its carbon emissions through improved energy management. It has adopted a Climate Change Strategy which includes specified targets for achieving these aims and objectives.

The most significant issue raised in the audit related to the council's capacity to deliver aspects of the strategy. The council is currently at risk of failing to effectively plan to adapt to the impacts of climate change, and it is unlikely that the national target set in this area (NI188) will be achieved during 09/10. Work is ongoing to identify the capacity to develop a Local Climate Impacts Profile, which is fundamental to progressing to the next level of NI188.

Work is ongoing to develop capacity to deliver the objectives of the Climate Change Strategy through identifying, allocating and co-ordinating internal resources, consideration of new working practices, and seeking external resources and support. This has been led and co-ordinated by the designated leads on Climate Change related issues at Cabinet and Management Team level.

The recently formed Climate Change Officer Working Group and Bright Sparx Team have been developed with a view to improving awareness, and achieving a co-ordinated approach to climate change related issues. A substantial proportion of the action plan resulting from the audit is being taken forward by the officer working group.

As regards the government's Carbon Reduction Commitment initiative, the council's consumption of electricity is currently below the threshold for participation. Monitoring arrangements are to be further developed to ensure the council is adequately prepared to participate in the Carbon Reduction Commitment scheme should current thresholds be reduced.

08/0750 Academy/Civica Interfaces

The audit considered known concerns relating to the balancing of data transferred between the council's Academy systems (employed in Revenues Services) and the Authority Financials systems (Financial Services).

Sufficient information was being provided by the various systems to enable accurate accounting entries to be made and the majority of feeders were operating robustly. In some areas, however, balancing of the feeders could only be achieved with a significant degree of manual intervention. The problems related specifically to the transfer of data from the Academy Council Tax and NDR systems, for which a "fix" is necessary to ensure that the feeders are working accurately and efficiently.

08/0759 Housing Standards (Limited)

The audit considered the position following the transfer of the housing strategy role to the Policy and Regeneration Service and the measures being taken to align and coordinate strategic and operational activity.

Effective consultation arrangements are in place between the Council and the local Fire Authority, which are to be strengthened further through a formal partnering agreement. Good arrangements are in place to ensure enforcement action taken is fair and consistent.

The limited opinion given on current arrangements reflects the conclusion that an up to date Housing Strategy is needed to ensure the council is able to meet its statutory duties per the Housing Act 2004. Future work programmes and performance targets will need to be linked to any newly developed Housing Strategy.

4.0 Update on Previous Assurance Opinions

4.1 Appendix A provides the updated position for all audits where the level of assurance has not yet reached "reasonable". A copy of the follow-up report for the audit of Procurement and Contract Management is attached for information as Appendix B in relation to a verbal update which will be provided by the Head of Financial Services.

5.0 Results of Responsive Audit Work (Advice, Support and Investigations)

5.1 Internal Audit has been reviewing the council's policies and strategies relating to financial crime and irregularity. A revised draft policy and strategy are nearly complete and ready for consultation. These should be ready for consideration by Audit Committee in November 2010.

5.2 Following on from the audit of Climate Change, internal audit has been contributing to an ongoing review of the council's "grey fleet" arrangements (i.e. travel not using council owned vehicles). This is being led by a sub-group of the Climate Change Officer Working Group, drawing on conclusions and recommendations arising from a "green fleet" review undertaken by the Energy savings Trust.

6.0 Details of Consultation

6.1 Not applicable

7.0 Options and Options Analysis (including risk assessment)

7.1 Not applicable

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

None identified

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None directly arising from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS





Internal Audit Files







Contact Officer: Derek Whiteway





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Ref: aud/audcomm/100922/ROI AW

Internal Audit Report		Latest Update		No of updates reported to Audit Committee	Internal Audit's opinion and recommendation
Job No & Title	Assurance Level and Date	Current Assurance Level	Comments (provided by)		
07/0708 - Income Management (Housing Rents Direct Debit Payments)	 Limited 30/04/08	 Limited	<p>At its meeting on 30 June 2010, the committee resolved: <i>"That the Audit Committee request Internal Audit to track progress with systems implementations relating to the 'Income Management (Housing Rents Direct Debit Payment)' audit and that this be reported to the next meeting of the committee.</i></p> <p>An operating system software upgrade is scheduled for 3rd September 2010. This is required to enable the latest Anite upgrade to be implemented. The Internal Audit Manager will provide a verbal update at the meeting.</p>	7	Recommendation: that the Internal Audit Manager continue to track and report on progress to the committee.
07/0701 - Procurement and Contract Management	 Limited 01/10/08	 Limited 11/06/10	<p>At its meeting on 20 January 2010, the committee resolved: <i>"That if the assurance level for 'Procurement and Contract Management' has not reached 'reasonable' by the time of the internal audit follow up review, the Head of Financial Services be asked to attend the next meeting of the committee to report on the position."</i></p> <p>The assurance opinion resulting from the follow-up review remained at 'limited' and a copy of the follow-up report (issued on 11 June 2010) is attached at Appendix B.</p>	5	<p>The Head of Financial Services will be attending the meeting and will provide the committee with a report on the position.</p> <p>Recommendation: that Audit Committee consider whether they would wish any further action to be taken regarding the outstanding issues from the audit.</p>

Internal Audit Report		Latest Update		No of updates reported to Audit Committee	Internal Audit's opinion and recommendation
Job No & Title	Assurance Level and Date	Current Assurance Level	Comments (provided by)		
08/0753 - Williamson Park - Audit of Financial procedures	 Limited 26/11/08	 Limited	An update on the park's transfer back to council control was reported to Cabinet on 27 July 2010. Progress with the transfer and a turnaround in financial performance was reported. Cabinet approved the establishment of a Parks Cabinet Liaison Group to promote efficient management of all parks in the district. A further audit of financial arrangements as agreed prior to the transfer, remains to be done.	4	A further audit review will be carried out during the third quarter of 2010/11 to assess the effectiveness of the new arrangements. Recommendation: There is no further recommendation to Audit Committee at this stage.
07/0709 - Payroll	 Limited 04/12/08	 Limited	At its meeting on 30 June 2010, the committee resolved: <i>"That the Audit Committee request Internal Audit to track progress with the Payroll/HR system project and that this be reported to a future meeting of the committee."</i> Initial project stages have been undertaken and procurement arrangements are under way with a view to a decision being made by 31 December 2010.	4	Recommendation: that the Internal Audit Manager continues to track and report on progress to the committee.
07/0679 - Markets	 Limited 09/02/09	 Limited	At its meeting on 20 January 2010, the committee resolved <i>"That Audit Committee wishes to increase the amount of non cash payments in the Charter Market, the Festival market and the Assembly Rooms, and that a report be presented to the next Audit Committee as to the progress on this policy and the areas in which it can be applied."</i>	4	The Head of Financial Services will provide a verbal update on developments and a full report will be presented to the next meeting of the committee on 24 November 2010. Recommendation: There is no further recommendation to Audit Committee at this stage.

Internal Audit Report		Latest Update		No of updates reported to Audit Committee	Internal Audit's opinion and recommendation
Job No & Title	Assurance Level and Date	Current Assurance Level	Comments (provided by)		
08/0723 - Arts Development	 Limited 12/06/09	 Limited	The council's focus on arts development has changed significantly since the audit was undertaken and the arts strategy is primarily being taken forward by the LDLSP. It is now necessary to revisit the objectives and conclusions of the audit and consider whether and in what ways the action plan should be taken forward.	3	The Internal Audit Manager will be consulting the Head of Community Engagement to determine what further action to take with the audit and action plan. Any developments will be reported to Audit Committee. Recommendation: There is no further recommendation to Audit Committee at this stage.
08/0764 – RMS	 Minimal 22/01/10	 Minimal	The internal audit follow-up review will be completed in September 2010 and reported to members of the committee in the usual way.	2	Recommendation: There is no further recommendation to Audit Committee at this stage.

Internal Audit - Follow Up Summary Report



Job: 07/0701 - Procurement and Contract Management 2007/08

Date of Final Report: 01 October 2008

Agreed By: Head of Financial Services

Date of Follow-Up: 25 June 2010

Assurance Opinion History:

Date of Assessment	Source	Level of Assurance Provided	Comments
01-Oct-08	Internal Audit - Final Report	 Limited	The opinion relates to the areas covered which were selected for review on the basis that they are areas where more work is required. It does not provide an opinion on corporate achievements relating to procurement. Clearly stated corporate procurement aims and objectives, corporate engagement and an effective means to monitor performance and progress are needed to raise the opinion to 'reasonable'.
11-Jun-10	Internal Audit - Follow-Up Review	 Limited	The opinion has remained at 'limited' for some time, the lack of progress being attributed to other work commitments such as the implementation of e-procurement arrangements. The publication of the revised procurement strategy, the finalising of the update of the Constitution and improved contract management and monitoring arrangements should result in a 'reasonable' level of assurance..

Headline Messages From Follow-Up:

- A revised procurement strategy which sets a clear framework for the Authority's procurement practices is in the process of being approved.
- Contract Procedure Rules are in the process of being reviewed and a review of the Constitution including Financial Regulations and Procedures is to follow.
- Work is ongoing to continually improve information available corporately on procurement but an effective system to record and collate it has yet to be implemented.
- Corporate contract monitoring and reporting procedures consistent with LAMP (Lancaster's Approach to Managing Projects) are still to be developed.
- The review of the Authority's procurement documentation will be completed during the development of the new contract monitoring and reporting arrangements which will take into account the revised Procurement Strategy and Constitution.

Commentary on Follow Up:

Progress has been made since the original audit and a revised procurement strategy is in the process of being approved. The new Strategy sets a clear framework for the Authority's procurement practices taking into account national, regional and local priorities and the Council's overall vision. It is also consistent with other policies and strategies. Roles and responsibilities are clearly defined and procurement principles, standards, policies and

Job: 07/0701 - Procurement and Contract Management 2007/08

procedures are well documented.

Contract Procedure Rules are in the process of being reviewed to reflect the revised Strategy but more work is required to take into account the current corporate restructuring which affects authorisation arrangements. Once complete, the Constitution and particularly Financial Regulations and Procedures need to be reviewed to ensure consistency.

The quality of information available to the corporate Procurement Section is limited by current systems and procedures. Work is ongoing to continually improve (e.g. the Procurement Section can now enforce orders be raised prior to invoices being paid, spending can be categorised to some extent etc.) but an effective system to record information on commitments and spend has yet to be established. Following a workshop with contract managers, information and supporting evidence relating to contracts is being provided more readily but again an effective mechanism to record and collate the information has yet to be developed. The recent filling of the Projects and Performance Officer post in the Community Engagement Service should have a positive impact on progress in that the officer will support the Procurement Manager in the development of new contract monitoring and reporting arrangements consistent with LAMP but proportionate to the size and complexity of contracts.

It is recognised any new systems would need to support collaborative working with the North West Improvement and Efficiency Partnership which is done through the Team Lancashire Procurement Hub. The Partnership is keen to promote the use of standard documentation throughout the region and the Authority is adopting it where appropriate. Some of the Authority's procurement documentation has been reviewed since the audit but a full review will be inherent in the development of the new contract monitoring and reporting arrangements which will take into account the revised Procurement Strategy and Constitution.

Managers' Comments:

The Accountancy Services Manager has commented as follows:

Whilst the assurance opinion is currently limited, progress is being made and actions are currently underway to achieve a reasonable level of assurance in the near future.



Derek Whiteway CPFA, Internal Audit Manager

Distribution: Corporate Director (Finance and Performance)
Head of Financial Services
Accountancy Services Manager
Procurement Manager
Projects and Performance Officer
Members of Audit Committee
Audit Manager (KPMG)


Risk: Strategic aims and objectives for procurement may not be achieved through ineffective leadership caused by a lack of clarity regarding executive member and overview and scrutiny member roles. (R003860)

Inherent Residual Target

Updated Risk Assessment 1 1 1

Internal Audit Opinion  Measures are currently being taken to improve management of the risk

Outstanding Agreed Action(s)

	Ref	Responsibility	Implementation Target Date	Status	Comments
1. A new procurement strategy is to be developed with the Procurement Group. The new Strategy will clearly define Member roles and responsibilities in relation to procurement by setting out: <ul style="list-style-type: none"> - the corporate expectations of the Member Champion; and - the arrangements for reporting procurement information to enable proper consideration of procurement aims and objectives in decision making and effective Member review of procurement performance. 	013021	Procurement Manager	31-Dec-08		A new procurement strategy has been drafted and following a review by management team is to be amended to reflect corporate aims to support economic regeneration in the area. The amended version is to go back to management team prior to being presented to members for approval. The new strategy clearly sets out member roles and responsibilities and reporting arrangements per the agreed action.

Risk: Achievements could be limited through a lack of clarity or promotion of the aims and objectives of the procurement. (R003863)

Inherent Residual Target

Updated Risk Assessment 7 7 1

Internal Audit Opinion ! Measures are currently being taken to improve management of the risk

Outstanding Agreed Action(s)

	Ref	Responsibility	Implementation Target Date	Status	Comments
2. The new Procurement Strategy (c.f. Ref. 013021) will document the Authority's aims and objectives for procurement and how these are to be delivered. It will: <ul style="list-style-type: none"> - clearly link corporate procurement aims and objectives to higher level objectives (i.e. community and regional (Team Lancashire)); - integrate the principles of the National Strategy as appropriate; - address, as far as possible, potential conflicting aims/objectives such as sustainability v. efficiency; - set and prioritise clear milestones and realistic targets for delivery against each aim/objective; - set out monitoring and reporting arrangements to include SMART performance measures where appropriate; and - clearly state the roles and responsibilities of officers and Members. Arrangements will be put in place to ensure the Strategy is regularly reviewed.	013030	Procurement Manager	31-Dec-08	!	The launching of the new Procurement Strategy will implement the agreed action. All elements of the agreed action are covered and whilst milestones and targets are not set out in the new strategy the strategy clearly sets out the arrangements for monitoring performance.

Risk: The Authority's reputation could suffer through poor procurement ethics and/or a failure to minimise fraud and corruption through a lack of clear policies. (R003861)

Inherent Residual Target

Updated Risk Assessment

7 5 3

Internal Audit Opinion

 Risk is inadequately managed

Outstanding Agreed Action(s)

Implementation Target Date

Ref

Responsibility

Status

Comments

3. The Constitution (including Financial Regulations and Procedures and Contract Procedure Rules) will be reviewed to take account of new procurement working practices (e.g. Procurement Cards), address known clarity issues and incorporate new EU Rules etc. Where a further update is required but not possible promptly through competing priorities readers will be alerted to the fact that a change is needed and they should seek further advice if necessary.

31-Mar-09

013041 Procurement Manager



The Procurement Manager has reviewed Contract Procedure Rules but the amendments have yet to be approved and published. Further changes will also be required to reflect the current corporate restructuring which affects authorisation arrangements. There is also a need to look at how the changes impact on the rest of the Constitution.

4. Procurement documentation (policies, forms etc.) is to be revised based on the knowledge of the Procurement Section and feedback from Services (a workshop with contract managers is scheduled for 22 September 2008). A new plan setting out the documents to be updated and the timescales for completion will be incorporated into the new procurement strategy. Documentation will be updated in accordance with the timescales set in the new plan.

28-Feb-09

013043 Procurement Manager and Procurement Assistant



The Authority works in collaboration with the North West Improvement and Efficiency Partnership through the Team Lancashire Procurement Hub. The partnership is keen to promote standard documentation throughout the region and the Authority is using this where appropriate. Procurement user guides and guidance in respect of the use of Authority Financials have been updated. Standard documentation in respect of contract management has yet to be reviewed, the review to follow the publication/promotion of the new procurement strategy and revised Constitution.

Risk: Policies may not be complied with and value for money may not be achieved through inadequacies in procedures, guidance and/or advice. (R003862)

Inherent Residual Target

Updated Risk Assessment

7 5 1

Internal Audit Opinion

 Risk is inadequately managed
See No. 4 (013043) and No.8 (013078)

Risk: The Procurement Section may be unable to justify its existence, could fail to improve and value for money may not be achieved if its effectiveness cannot be demonstrated. (R003864)

Inherent Residual Target

Updated Risk Assessment

7 5 1

Internal Audit Opinion

⚠ Measures are currently being taken to improve management of the risk

See No. 2 (013030)

Risk: The Authority may fail to achieve value for money, decision-making could be flawed and/or inefficiencies may result if management information relating to procurement is inadequate or not fit for purpose. (R003865)

Inherent Residual Target

Updated Risk Assessment

7 5 1

Internal Audit Opinion


⚠ Measures are currently being taken to improve management of the risk

Outstanding Agreed Action(s)



	Ref	Responsibility	Implementation Target Date	Status	Comments
5. The information needs of the Procurement Section are to be reiterated in the workshop with contract managers (c.f. 013069). The best way of meeting those needs is to be established through the workshop and consultation with the Projects and Performance Officer in Corporate Strategy and Accountancy staff. A means of collating the information is to be developed.	013068	Procurement Manager	31-Mar-09	⚠	A workshop was held with contract managers and work is ongoing to review documentation. Whilst contract managers are now providing information and evidence more readily, a corporate mechanism to record/collate information has yet to be established. There is still no system for monitoring contract commitments. Possibilities have been identified (e.g. a contract monitoring module on Civica) but there are difficulties to overcome in that any solution will need to support collaborative working with the region.

Risk: Time and cost overruns and/or poor quality may result through inadequacies in contract management. (R003866)

Inherent Residual Target

Updated Risk Assessment   

Internal Audit Opinion  Risk is inadequately managed

Outstanding Agreed Action(s)	Ref	Responsibility	Implementation Target Date	Status	Comments
<p>6. The Procurement Manager is to facilitate a workshop with contract managers which aims to gain a better understanding of contract management arrangements in Services and any problems experienced, with a view to:</p> <ul style="list-style-type: none"> - sharing good practice and developing a corporate approach through standard documentation where appropriate; - clarifying the role of contract managers (corporate procedures and guidance to be updated where appropriate); and - informing the development of new contract monitoring and reporting arrangements consistent with LAMP (Lancaster's Approach to Managing Projects) but appropriate to contracts (c.f. Ref. 013078). 	013069	Procurement Manager	31-Mar-09		The agreed action is partially implemented in that a workshop was held but there has been limited progress in reviewing documentation and implementing improved contract monitoring arrangements. (see also Refs. 013043 and 013068)
<p>7. Currently the Authority only allows capital schemes to progress once funding has been secured and is in place; this arrangement arose from a Public Interest Report made by the District Auditor some years ago. Since then, however, the Prudential Borrowing framework has been introduced and this presents the Council with alternative options for managing its capital funding position. In light of this, and current issues surrounding the Capital Programme, consideration will be given to introducing a risk based approval scheme, which should enable projects to progress sooner where risks are considered acceptable (e.g. potential capital receipts are likely to be realised in a given timeframe). This was reported into Cabinet at the end of July and a proposal will be incorporated into a Capital Investment Strategy Update to be reported to Cabinet for referral on to Council.</p>	013070	Head of Financial Services	31-Oct-08		The Capital Investment Strategy (incorporated into the Medium Term Financial Strategy) has been updated to provide flexibility in progressing schemes, if necessary, through increasing underlying borrowing. However the agreed action is considered only partially implemented as there is a need to increase understanding of the approval process ensuring the details and purpose of schemes are properly documented and associated risks are identified. Arrangements should be in place by September to feed into the budget process.

Risk:

8. A new approach to contract management is to be developed consistent with the principles of LAMP but appropriate to contracts (i.e. proportionate to the size and complexity of contracts). New arrangements will ensure:
- sufficient resources, including knowledge and expertise, for the management of a contract are identified up front;
 - potential risks are identified at the start and throughout the life of the contract so that adequate arrangements (including resources) can be put in place to manage them;
 - accountability is clear (contractor, contract manager etc.) and the Council exercises its rights per the contract as appropriate when things go wrong;
 - effective and proportionate contract monitoring and reporting arrangements are in place;
 - a post contract review is carried out and reported to the Procurement Section to inform future working practices.
- The new approach will be compulsory, all contract managers to sign up to it.

013078 Procurement Manager and Projects and Performance Officer

30-Sep-09



The post of Projects and Performance Officer has been vacant for some time and has only recently been filled (01/06/10). The new post holder is to work alongside the Procurement Manager in order to implement the agreed action.

Audit Committee**Ethical Governance Survey and Internal Audit****22nd September 2010****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform and seek the views of the Committee on the results of a survey into Ethical Governance undertaken in October to December 2009.

This report is public

RECOMMENDATIONS

- (1) That members consider the results of the ethical governance survey, the conclusions reached and the action plan drawn up as a result of the internal audit report and comment on:
- a) the outcome of the survey, making suggestions as necessary for any further or alternative action they would like to see; and
 - b) the value of the exercise and whether any future repetition of the process would be welcomed.

1.0 Introduction

- 1.1 Proposals to undertake a survey into ethical governance issues were prompted by comments made by the external auditor in evaluating the council's Use of Resources for 2008/09.
- 1.2 The Ethical Governance Survey was developed by Internal Audit in consultation with the Monitoring Officer, Section 151 Officer and Head of Democratic Services and sought to ascertain the adequacy of the council's ethical governance framework through assessing the levels of Member and employee understanding and perceptions of ethical governance and related policies and practices. It was envisaged that the results could provide a baseline against which progress could be measured by conducting similar surveys in future. The survey contained a range of questions in the following sections:
- **Ethical Standards and Conduct**
 - **Constitutional Framework**
 - **Roles and Responsibilities**
 - **Anti-Fraud and Anti-Corruption Arrangements**
 - **Comments, Compliments and Complaints**
 - **Information and Communication**

1.3 All Members and employees were invited to take part in the survey, which took place over a six week period between October and December 2009. Questions were grouped into six sections and at the end of each section responders had the opportunity to include additional comments and/or suggestions on how the council could improve its overall arrangements. Employees were also asked to provide the name of their Service and their level of employment.

2.0 Results

2.1 Fifteen Members (25%) and 147 employees (approx 15%) chose to complete and return the survey. Responses were received from employees in all Services, representing all levels of the Authority including manual and clerical staff, senior and middle management and chief officers.

2.2 The detailed results from the survey are included in the report attached at Appendix A.

2.3 Drawing on the results of the survey, Internal Audit have carried out their own evaluation and, in consultation with the Monitoring Officer and Section 151 Officer, produced a report with proposed action plan, a copy of which is attached as Appendix B.

3.0 Proposal

3.1 Arrangements are in hand to make the results of the survey available throughout the council.

3.2 This report is being submitted jointly to the Audit Committee on 22nd September 2010 and to the Standards Committee on 7th October 2010. In both instances, members of the committee are asked to consider the results of the survey, and the conclusions reached and action plan drawn up as a result of the internal audit report. Members are also asked to comment on the outcome of the survey, and to make suggestions for any further or alternative action they would like to see, and to comment on the value of the exercise and whether any future repetition of the process would be welcomed.

4.0 Details of Consultation

4.1 Not applicable

5.0 Options and Options Analysis (including risk assessment)

5.1 The options available to members are to accept the results of the survey and the internal audit report as presented, or to comment and recommend further/alternative action as appropriate.

**CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

None identified

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been involved in the preparation of this report and has no further comments.

LEGAL IMPLICATIONS

None directly arising from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been involved in the preparation of this report

BACKGROUND PAPERS

Ethical Governance Survey

Contact Officer: Derek Whiteway

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E-mail: dwhiteway@lancaster.gov.uk

Ref: aud/audcomm/100922/EthicalSurvey



Results of Ethical Governance Survey

Aims and Approach

The Ethical Governance Survey sought to assess the adequacy of the council's ethical governance framework through assessing the levels of Member and employee understanding and perceptions of ethical governance and related policies and practices, the results to provide a baseline against which progress could be measured should a future survey be conducted.

All Members and employees were invited to take part in the survey which took place over a six week period between October and December 2009. Questions were grouped into six sections and at the end of each section responders had the opportunity to include additional comments and/or suggestions on how the council could improve its overall arrangements. Employees were also asked to provide the name of their Service and their level of employment.

Results

Fifteen Members and 147 employees chose to complete and return the survey. Responses were received from employees in all Services representing all levels of the Authority including manual and clerical staff, senior and middle management and chief officers.

The results for each section of the survey are as follows:

Ethical Standards and Conduct

Question	Responses							
	Members				Employees			
	Yes	To some extent	No	Don't know	Yes	To some extent	No	Don't Know
Do you think it is important for the council to establish and operate by a set of strong ethical values?	100%	0%	0%	0%	84%	16%	0%	1%
Are you familiar with the 10 general principles of Conduct for Councillors?	40%	53%	7%	0%	N/A	N/A	N/A	N/A
Do you think that public perception of ethical standards within the council is good?	20%	27%	53%	0%	N/A	N/A	N/A	N/A
Do you think that standards of ethical conduct in the authority are high?	47%	47%	7%	0%	20%	52%	11%	16%
Do you think that Members lead by example in ensuring good conduct and high standards within the council?	N/A	N/A	N/A	N/A	10%	50%	17%	22%
Do you think that staff generally, see themselves as having a role in ensuring good conduct and high standards on behalf of the council?	53%	40%	7%	0%	N/A	N/A	N/A	N/A
Do you see yourself as having a role in ensuring good conduct and high standards on behalf of the council?	93%	7%	0%	0%	74%	24%	1%	1%

	Responses							
	Members				Employees			
Question	Yes	To some extent	No	Don't know	Yes	To some extent	No	Don't Know
Do you think that other Members see themselves as having a role in ensuring good conduct and high standards on behalf of the council?	60%	40%	0%	0%	N/A	N/A	N/A	N/A
Do you think that other staff generally, see themselves as having a role in ensuring good conduct and high standards on behalf of the council?	N/A	N/A	N/A	N/A	36%	51%	7%	5%
Do you know where to go for advice and support on conduct and ethical issues when you need it?	80%	13%	7%	0%	40%	24%	32%	4%
Have you had training on general standards of ethical governance?	53%	27%	20%	0%	10%	14%	71%	5%
Have you received any training relating to the Members Code of Conduct?	87%	0%	13%	0%	N/A	N/A	N/A	N/A
Have you had relevant training on issues relating to standards of conduct, including the Code of Conduct for staff?	N/A	N/A	N/A	N/A	22%	30%	45%	3%
Are you familiar with the content of the Members Code of Conduct?	60%	40%	0%	0%	N/A	N/A	N/A	N/A
Are you familiar with the content of the Code of Conduct for staff?	N/A	N/A	N/A	N/A	39%	47%	12%	1%
Do you broadly understand the Members Code of Conduct?	80%	20%	0%	0%	N/A	N/A	N/A	N/A
Do you broadly understand the Code of Conduct for staff?	N/A	N/A	N/A	N/A	52%	32%	10%	7%
Do you know where to seek advice on issues relating to the Members Code of Conduct?	87%	13%	0%	0%	N/A	N/A	N/A	N/A
Do you understand the requirements for declaring personal and prejudicial interests relating to council business?	80%	20%	0%	0%	N/A	N/A	N/A	N/A
Do you understand the requirements for declaring personal interests and personal relationships relating to council business?	N/A	N/A	N/A	N/A	70%	20%	8%	2%
Do you understand the requirements for registering gifts and hospitality relating to council business?	87%	13%	0%	0%	68%	18%	12%	3%

Constitutional Framework

Question	Responses							
	Members				Employees			
	Good	Reasonable	Poor	Not aware	Good	Reasonable	Poor	Not aware
What level of understanding do you have of the following documents within the Council's Constitution:-								
○ Terms of Reference for Cabinet	33%	47%	20%	0%	10%	15%	25%	49%
○ Terms of Reference for Overview and Scrutiny Committee	40%	40%	20%	0%	10%	15%	25%	50%
○ Terms of Reference for Regulatory Committees & Panels	33%	60%	7%	0%	8%	16%	29%	47%
○ Scheme of Delegation to Officers	53%	13%	33%	0%	14%	17%	23%	46%
○ Financial Regulations and Procedures	40%	40%	20%	0%	14%	28%	25%	33%
○ Contracts Procedure Rules	20%	53%	27%	0%	13%	22%	26%	39%
○ Protocol on Member/Officer Relations	47%	47%	7%	0%	13%	29%	20%	38%

Question	Responses							
	Members				Employees			
	Yes	To some extent	No	Don't know	Yes	To some extent	No	Don't Know
Do you think that the Council's Constitution is relevant, up to date and clear?	47%	40%	13%	0%	10%	27%	7%	56%
Do you think that the Council's Constitution is easily accessible?	47%	7%	40%	7%	16%	25%	21%	38%
Are you aware of how the Council's Constitution affects your role as an elected Member?	60%	33%	7%	0%	N/A	N/A	N/A	N/A
Are you aware of how the Council's Constitution affects your work?	N/A	N/A	N/A	N/A	20%	36%	32%	13%
Do you know where to go to get support and advice on the Council's Constitution?	80%	13%	7%	0%	25%	19%	44%	12%
Do you think that the council consistently follows proper procedures and practices?	40%	33%	27%	0%	20%	37%	13%	30%

Roles and Responsibilities

Question	Responses							
	Members				Employees			
	Good	Reasonable	Poor	Not aware	Good	Reasonable	Poor	Not aware
What level of understanding do you have of the following roles and responsibilities in relation to ethical governance and anti-fraud and corruption arrangements:-								
o The Leader of the Council	47%	40%	13%	0%	20%	37%	23%	20%
o Individual Cabinet Members	47%	47%	6%	0%	18%	37%	24%	21%
o The Standards Board for England	47%	47%	6%	0%	N/A	N/A	N/A	N/A
o Council's Standards Committee	47%	47%	6%	0%	12%	32%	32%	24%
o Chief Executive	47%	33%	20%	0%	28%	38%	12%	21%
o Section 151 Officer	47%	40%	13%	0%	19%	20%	19%	42%
o Monitoring Officer	47%	40%	13%	0%	20%	23%	19%	38%
o Internal Audit	40%	47%	13%	0%	28%	29%	18%	25%
o External Audit	40%	53%	7%	0%	24%	26%	25%	25%
o Management	40%	33%	27%	0%	28%	38%	17%	17%

Question	Responses							
	Members				Employees			
	Yes	To some extent	No	Don't know	Yes	To some extent	No	Don't Know
Do you think that Members are generally clear as to their roles and responsibilities?	27%	60%	13%	0%	12%	43%	11%	34%
Are you clear about your roles and responsibilities?	73%	27%	0%	0%	64%	31%	3%	1%
Do you think that staff are generally clear as to their roles and responsibilities?	60%	40%	0%	0%	42%	42%	12%	5%

Anti-Fraud and Anti-Corruption Arrangements

Question	Responses							
	Members				Employees			
What level of understanding do you have of the following Council Policies:-	Good	Reasonable	Poor	Not aware	Good	Reasonable	Poor	Not aware
○ Anti-Fraud and Corruption Policy and Strategy	20%	40%	40%	0%	19%	30%	35%	16%
○ Fraud Response Plan	13%	27%	53%	7%	10%	21%	42%	27%
○ Whistle Blowing Policy	27%	20%	53%	0%	17%	48%	28%	7%
○ Housing Benefit/Council Tax Benefit Anti-Fraud and Corruption Policy and Strategy	27%	40%	33%	0%	24%	18%	30%	27%
○ Housing Benefit/Council Tax Benefit Sanction Policy	13%	40%	40%	7%	21%	19%	29%	31%
○ Benefit fraud hotline	33%	40%	27%	0%	27%	26%	27%	20%

Question	Responses							
	Members				Employees			
	Yes	To some extent	No	Don't know	Yes	To some extent	No	Don't Know
Do you believe that the council has made clear its commitment to fight fraud and corruption?	67%	20%	13%	0%	25%	48%	15%	12%
Do you understand your responsibilities and duties regarding fighting fraud and corruption?	67%	33%	0%	0%	41%	39%	18%	2%
Are you aware of the arrangements for expressing concerns about suspected fraud and corruption?	33%	33%	33%	0%	33%	30%	36%	2%
Do you feel confident that the council will protect you should you wish to raise any concerns or suspicions?	47%	20%	27%	7%	23%	30%	35%	12%

Comments, Compliments and Complaints

Question	Responses							
	Members				Employees			
	Yes	To some extent	No	Don't know	Yes	To some extent	No	Don't Know
Are you aware of the Council's Comments, Compliments and Complaints Policy?	67%	20%	13%	0%	56%	32%	11%	2%
Do you know where to find the Council's Comments, Compliments and Complaints Policy?	67%	20%	13%	0%	61%	19%	19%	1%
Do you have a broad understanding of the Council's Comments, Compliments and Complaints Policy?	60%	27%	13%	0%	40%	36%	20%	3%
Do you feel that the process for making complaints against staff of the council is clear?	27%	33%	27%	13%	33%	30%	20%	16%
Do you feel that the process for making complaints against Members of the council is clear?	53%	20%	20%	7%	14%	29%	34%	23%
Do you feel that the council effectively deals with, and responds positively to comments, compliments and complaints?	40%	47%	7%	7%	19%	41%	15%	25%
Do you know where to go for advice and support on issues arising from comments, compliments and complaints received?	60%	13%	27%	0%	38%	21%	34%	7%

Information and Communication

Question	Responses							
	Members				Employees			
	Yes	To some extent	No	Don't know	Yes	To some extent	No	Don't Know
Do you feel that the importance of high ethical standards and conduct is effectively communicated (via for example, briefings, newsletters, the council Website/Intranet)?	40%	27%	33%	0%	21%	45%	30%	4%
Do you feel that the council effectively publicises its anti fraud and corruption activities?	13%	20%	67%	0%	10%	36%	41%	12%
Do you feel that the council effectively publicises the results of fraud and corruption investigations and any prosecutions?	13%	20%	47%	20%	7%	28%	45%	20%
Do you feel that the council effectively communicates its arrangements for reporting suspected fraud and corruption?	20%	20%	47%	13%	8%	31%	47%	14%
Do you feel that information/documentation in order to report suspected irregularities is accessible?	27%	20%	27%	27%	10%	36%	26%	28%

Question	Responses					
	Members			Employees		
	Yes	No	Not required in my role	Yes	No	Not required in my role
Have you received training, advice or a briefing/information in the following areas:						
○ Human Rights	47%	53%	0%	25%	66%	9%
○ Freedom of Information	60%	40%	0%	57%	38%	5%
○ Data Protection	73%	27%	0%	67%	28%	5%
○ Race Relations	87%	13%	0%	42%	53%	5%
○ Sex Discrimination	73%	27%	0%	36%	58%	6%
○ Disability Discrimination	80%	20%	0%	59%	36%	5%
○ Fraud Act	20%	73%	7%	25%	63%	12%
○ Regulation of Investigatory Powers Act (RIPA)	7%	87%	7%	26%	54%	19%

09/0774 - Ethical Governance Framework

Assignment Details:

Report Date: 27 August 2010

Lead Auditor: Robert Bailey - Principal Auditor

Supervisor: Derek Whiteway - Internal Audit Manager

Scope: The council's ethical governance framework - i.e. the processes and procedures through which it seeks to ensure it adopts and maintains high standards of conduct.

Objectives: To assess, through a survey, the levels of awareness and understanding amongst Members and employees of the council's ethical governance arrangements with a view to identifying areas for improvement.

Assurance Opinion:

Level of Assurance Provided:  **Reasonable**

Additional Comments: Whilst the council has put in place the essential elements of an ethical governance framework, more needs to be done to communicate the council's values and standards, particularly amongst employees, through good management which provides support and engenders trust.

Headline Messages:

- The majority responding to the survey realise the importance of sound ethical governance, though more could be done to effectively communicate this.
- Responses indicate feelings that the public do not perceive standards of ethical conduct within the council as good.
- The majority recognise they have a role to play through good conduct and maintaining high standards when acting on behalf of the council, though more work is needed to ensure employees in particular fully understand their role.
- Council leaders, and particularly managers, need to understand their role in promoting ethical standards and providing advice and support.
- Work is needed to ensure the Codes of Conduct, particularly the Officers' Code of Conduct, is understood.
- Work is needed to ensure all officers are aware of the Constitution and how it applies to them.
- Financial Regulations and Procedures and Contract Procedure Rules need to be promoted alongside the provision of training, advice or support as necessary.
- The majority responding to the survey are aware that they have responsibilities in helping the council fight fraud and corruption but more needs to be done to promote the council's commitment.
- Arrangements for reporting concerns or suspicions of fraud or corruption need to be publicised and more needs to be done to engender confidence in the process, particularly with regards the protection given to those making reports.

Internal Audit Commentary:

Ethical governance refers to the processes, procedures, culture and values which ensure high standards of behaviour. Authorities with good governance arrangements are more likely to be well run and effective in helping to improve services, resulting in better outcomes for local people. The conduct of everyone in local government needs to be of the highest standard to support its community leadership role. Failure to achieve high ethical standards can result in poor decisions and a loss of credibility and confidence in individuals, the council and local democracy.

This review sought to assess the adequacy of the council's ethical governance framework through a survey sent to all Members and employees which also aimed to raise awareness of the council's ethical governance arrangements. It is acknowledged that the questions asked in the survey may mean different things to different people, perhaps depending on their role in the organisation and their experience. Responses are also open to interpretation. The agreed actions resulting from this review seek to address the areas requiring development or improvement as suggested by the results of the survey. The results also provide a baseline against which progress can be measured should a similar survey be carried out in the future.

Responses were received from 15 (25%) Members and 147 (15.4%) employees representing all levels of the council's structure and services. The full results can be found at Appendix A, but the audit opinion based on the findings is as follows:

Ethical Standards of Conduct

Results suggest responders realise the importance of sound ethical governance and the majority recognise that as individuals they have a role to play through good conduct and maintaining high standards when acting on behalf of the council. However, few, particularly employees, believe standards of ethical governance within the council are high and over half of the Members responding do not think the public perceive standards of ethical conduct within the council as good.

Approximately a third of responders feel the council does not effectively communicate the importance of high ethical standards and conduct and a significant number of employees say they've never received 'training on general standards of ethical governance'.

Members' responses indicate the majority know where to go for advice or support on conduct and ethical issues many saying they've received training on the Members Code of Conduct. In contrast over half the employees responding said they'd not received training on the Code of Conduct and many stated they did not know who to go to for advice and support. Numbers understanding the relevant Code of Conduct roughly equate to those trained.

Results suggest there is scope to promote corporate ethical standards both internally and externally and those responsible for providing advice and support (i.e. council leaders and managers) need to actively nurture their role in developing a strong ethical culture which upholds the values of good governance in a way which creates a climate of openness, support and respect.

Constitutional Framework

Survey responses indicate around three quarters of employees have either a poor or no understanding or awareness of the terms of reference for Cabinet and other statutory and regulatory committees, such as the council's Standards Committee. As might be expected, Members responses indicated a better understanding.

The survey suggests poor knowledge and understanding of the Council's Financial Regulations and Procedures with nearly a third of employees responding being unaware of their existence. Similarly many employees responding were unaware of Contract Procedure Rules and a significant number of those aware said they have a poor understanding of them. In contrast the majority of Members responding said they had a 'good' or 'reasonable' understanding of Financial Regulations and Procedures and Contract Procedure Rules.

Results suggest only a small number of employees and half of Members feel the council's Constitution is relevant, up-to-date and clear, though over half the employees responding did not know. This suggests they are not aware of the Constitution and responses relating to its accessibility seem to support this. Nearly half the employees responding did not know how the Constitution impacts on their role and a larger proportion were unsure of where to go to get related advice and support. Responses to whether the council 'consistently follows proper procedures and practices' were generally negative and particularly so in the case of employees.

It is clear that the Constitution, and in particular Financial Regulations and Procedures and Contract Procedure Rules, need to be promoted with a view to everyone knowing the extent of relevance to them, and ensuring consistency in council procedures and practices.

Roles and Responsibilities

The survey sought to establish the level of understanding of individual ethical responsibilities as well as the roles of senior officers, Members, council committees, statutory officers and external audit. Whilst many responding said they have a clear understanding of their roles and responsibilities it is hard to draw conclusions as it is not clear if answers relate to their overall roles, or roles and responsibilities in respect of ethical governance.

Responses suggest Members have a greater awareness and understanding of the roles and responsibilities of others but employees responding may be basing understanding on expected or perceived roles rather than knowledge of defined roles. Due to issues over the interpretation of questions, survey results in this area are inconclusive though they seem to support other findings in so far as Members appear to have a greater awareness of the governance framework than employees.

Anti-Fraud and Corruption Arrangements

There were significant differences between Member and employee perceptions of the council's commitment to combating fraud and corruption, Member responses being more positive. However, the majority of responders said they were aware, or aware 'to some extent', of their responsibilities and duties in helping the council to fight fraud and corruption.

With regards raising concerns or suspicions of fraud and corruption, approximately a third of responders said they were unaware of the council's arrangements, and results relating to the accessibility of related information suggest scope for improvement.

Although many of those responding said they had a 'good' or 'reasonable' understanding of the council's Whistle-blowing Policy, relatively few said that they had no confidence they would be protected should they raise any concerns or suspicions. This suggests potential trust issues which it is hoped could be addressed through effectively engaging leaders and managers in reviewing and publicising the Anti-Fraud and Corruption Strategy and increasing understanding of the investigation process.

High percentages of those responding felt the council does not 'effectively publicise its anti-

fraud and corruption activities' and many felt that the council does not 'effectively publicise the results of fraud and corruption investigations and prosecutions'. The council needs to be clear on why and when it would publish such information, as publicity could have a detrimental impact on the promotion of an anti-fraud and corruption culture, for example if the sanction is felt by some not befitting the act.

Comments, Compliments and Complaints

Relatively high numbers of those responding are aware of the council's Comments, Compliments and Complaints Policy and broadly understand it. However responses indicate a need to clarify processes for making complaints against Members or employees, and to publicise sources of advice and support.

Relatively small numbers of those responding do not feel the council 'effectively deals with, and responds positively to comments, compliments and complaints'. There were no comments which might help establish whether the issues are procedural, cultural or perhaps down to publicity but the establishment of central review arrangements ensuring quality and consistency might enhance confidence.

Information and Communication

A section of the survey sought to establish whether Members and employees had received training or advice on a number of matters relating to the council's overall ethical governance arrangements, including Human Rights, Data Protection, anti-discrimination policies etc. Responses from Members were generally more positive and, with the exception of the Fraud Act and the Regulation of Investigatory Powers Act, all Members felt the issues raised by the survey were relevant to their role. Whilst the results do not establish whether there is a training need they do suggest there might be scope to offer further training or advice to Members particularly in relation to information governance arrangements, including Data Protection.

Employee responses suggest there is a training need, given a number of employees feel some of the issues raised by the survey are not relevant to their role. Overall employee responses were lower than one might expect if the council had a sound ethical governance framework. A relatively large number of comments were received from employees on this section, many stating the training that they had received had been from outside the council (e.g. through attaining professional qualifications or working in other authorities). It is recognised that the issues raised by the survey will have more relevance to some employees than others but all need to understand their role in for example, respecting individuals' rights to privacy.

Overall the survey indicates the council needs to do more to promote its ethical governance framework. Council leaders and managers have a significant role to play and engaging them in the improvements proposed by the agreed actions will seek to reinforce this.

Report and Action Plan Agreed By: Head of Governance and Head of Financial Services

Follow Up Review Due By: 23 February 2011

I would like to thank the members of the Service(s) involved in the audit for their contributions and cooperation in the audit.



Derek Whiteway CPFA, Internal Audit Manager

Distribution: The Chief Executive
Head of Financial Services
Head of Governance
HR Manager
Members of Audit Committee
The Standards Committee
Audit Manager (External Audit)

Job: 09/0774 - Ethical Governance Framework

ROS/1

Risk Group: Ethical Governance Framework

Risk The council's reputation could suffer if the council fails to adopt and maintain high ethical standards. (R004343)

Current Risk Assessment

Inherent	Residual	Target
		

Internal Audit Opinion  There is scope to improve management of the risk

Agreed Action	Responsibility	Implementation Target Date	Ref
1. The Ethical Governance Framework is to be defined with a view to improving arrangements for communicating it, especially through the Intranet.	Internal Audit Manager	30/09/10	015769
2. Ownership of the Ethical Governance Framework is to be clarified, the corporate Monitoring Officer to be responsible for the framework and to work with Management Team to develop a strong ethical culture which upholds the values of good governance.	Head of Governance	31/10/10	015770
3. The role of the new Governance Service in terms of owning and promoting the Ethical Governance Framework is to be publicised through the corporate cascade briefing arrangements.	Head of Governance	31/10/10	015771
4. Corporate induction arrangements are to be reviewed ensuring: - all new staff are aware of the expectations placed upon them by the Council's rules and standards; - appropriate training is provided; and - sources of advice and support are clear.	HR Manager	31/12/10	015772
5. The Officers Code of Conduct is to be reviewed and its status clarified before being relaunched with all staff being required to sign up to it.	Head of Governance	31/03/11	015773
6. Managers are to be made aware of their responsibilities in setting and upholding high ethical standards in line with the corporate Ethical Governance Framework through the ongoing management development programme. Interviews with managers will seek to identify any training needs.	HR Manager	31/12/10	015774
7. Managers are to be engaged in the development of the new Anti-Fraud and Corruption Policy and Strategy which will be promoted and publicised with a view to making the council's commitment to combating fraud and corruption clear.	Internal Audit Manager	30/09/10	015775