

Meeting of: AUDIT COMMITTEE
Date: 27 July 2005
Report of: Internal Audit Manager
Reference: aud/audcomm/270705
Title: Results of Internal Audit Work

PUBLIC/EXEMPT ITEM

This item is for consideration in the public part of the meeting.

PURPOSE OF THE REPORT

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

RECOMMENDATIONS

- 1. That the report is noted**

REPORT

Introduction

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)

Results of Internal Audit Work to 08 July 2005

The summary report and action plan from each completed audit and the summary report for each follow-up review is submitted for Members' consideration. For each audit, a fuller combined report including the Summary, Action Plan and Detailed Report has been posted on the Council's Intranet under Services→Financial Services →Internal Audit→Audit Reports.

If there are any specific questions about a report, or more detailed information is required, it would help if Members could contact me on telephone number 582045 or email dwhiteway@lancaster.gov.uk prior to the meeting.

The following audit reports are appended to this report:

New Audit Reports

Audit Title

Report Date

| | |
|--|------------------|
| Grants Management | 17 January 2005 |
| Members & Civic Expenses | 01 February 2005 |
| Planning | 13 April 2005 |
| Cash & Banking (Internet & Automated Telephone payments) | 27 July 2005 |

Follow-Up Reviews

| <u>Audit Title</u> | <u>Report Date</u> |
|---|---------------------------|
| Information Management | 16 March 2005 |
| Public Relations & Communications | 09 March 2005 |
| Fraud & Corruption | 26 May 2005 |
| Leisure Management | 01 June 2005 |
| Salt Ayre Leisure Centre | 01 June 2005 |
| Housing Benefits & Council Tax Benefits | 07 June 2005 |
| Personnel Management | 01 July 2005 |

Matters Arising from Audit Reviews

There are no significant matters arising from the conduct of the above audit reviews, although it has to be said that for a variety of reasons progress on the implementation of agreed actions has generally been slower than expected. The following issues arising from the above audits are also worthy of note:

- The action set out in the Council's Improvement Plan for 2004-05 to develop a three-year People Plan has been amended following the 2004 Pay Settlement for Local Government which required all Councils to produce a Pay and Workforce Development Strategy. Human Resources and Organisation Development are now concentrating on fulfilling this requirement, whilst at the same time producing a Workforce Development Plan. The challenge will be to ensure that this document is developed alongside other related strategies and plans (e.g. Medium Term Financial Strategy and the Corporate Plan) to ensure that it is an integral part of the Council's overall performance management framework.
- Resulting from the Internal Audit review of the Council's Grants Management arrangements, procedures are to be reviewed to ensure that grants awarded are appropriately aligned to corporate priorities.
- Following introduction of customer payments using the Internet and telephone, and the subsequent closure of the Central Cashiers Offices, there is a need to issue corporate guidance on the new arrangements.

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

In addition to scheduled audit work, the following main pieces of responsive work have been undertaken:

▪ Investigations

At the last meeting of the Audit Committee it was reported that Internal Audit had undertaken a significant amount of work as Investigating Officers in two complex and wide-ranging disciplinary investigations of a behavioural nature. Both investigations, conducted in full compliance with the Council's Disciplinary policies and procedures, had been very time consuming, involving a large number of witness testimonies and evidence gathering.

In light of the amount of resource required to conduct such investigations and the impact of this on the annual Audit Plan, the Corporate Director (Central Services), with support

from the Chief Executive, determined that in 2005/06 Internal Audit will only conduct investigations that are of a financial nature.

▪ **Procurement Development 2005/06 to date**

Internal Audit continues to play a significant role in the Procurement Strategy Group led by the Corporate Director (Central Services). Work has involved taking a leading role in major reviews of the Council's *Contract Procedure Rules* and *Procurement Strategy (2005-08)*, in light of significant developments in best value procurement arising from the Government's *National Procurement Strategy* requirements, and other national initiatives including *Implementing Electronic Government*, *Re-thinking Construction* and the *Efficiency Review*.

The revised *Contract Procedure Rules*, as recommended by Audit Committee in January 2005 and adopted by Council in February 2005, clearly set out officer responsibilities and accountabilities when procuring works, goods or services on behalf of the Council to ensure the highest standards of integrity, fairness and consistency in all its procurement activity. In addition, they promote procurement on the basis of best value for money (rather than simply lowest price) taking into account quality aspects of the procurement and provides more detailed guidance on procurements subject to the EU's Public Procurement Regulations. Approval of the *Contract Procedure Rules* resulted in the Council's Scheme of Delegation being amended to allow the Chief Executive to award contracts on behalf of the Council to the supplier submitting the '*most economically advantageous tender*'.

The Procurement Strategy has been revised with a view to promoting a corporate and systematic approach to procurement needs and practices, with its main aims being:

- To ensure an effective and corporate approach is taken to procurement, which maximises the contribution it makes to achieving community, corporate, financial and service specific objectives.
- To secure commitment to effective procurement from Members and officers at all levels throughout the organisation
- To supplement the Medium Term Financial Strategy (2005/06 – 2007/08) and the Council's strategy for achieving efficiency gains to 2007/08
- To provide a corporate focus on procurement that assists in co-ordinating procurement activity and helps to achieve optimum resource allocation and avoids duplication
- To plan the way forward for modernisation and continuous improvement in procurement and encourage long-term thinking and commitment to strategic procurement issues
- To 'join up' in a single document a corporate procurement strategy which identifies and promotes the benefits of strategic procurement

▪ **Corporate Governance & Statement on Internal Control (SIC)**

Internal Audit has been instrumental in developing mechanisms and databases for identifying, collating and evaluating sources of assurance and supporting evidence relating to the Council's corporate governance arrangements, including risk management, and the development and preparation of the Statement of Internal Control for 2004-05.

Internal Audit continues to work closely with other Council officers to achieve full compliance with the statutory requirement to carry out a robust annual review of the Council's systems of internal control and to produce an annual Statement of Internal Control and Corporate Governance in accordance with the Accounts and Audit Regulations 2003. This work will help to identify, coordinate and evaluate all relevant sources of assurance as to the effectiveness of the internal control environment and help focus on areas where improvement is needed to achieve the Council's principal responsibilities and objectives.

A detailed report concerning the process and the draft Statement will be submitted for the Audit Committee to consider at its next meeting, on 19 October 2005.

▪ **Contract Final Account Audits 2004/05**

Internal Audit has conducted three final account audits on engineering contracts. Of these, one relating to highways special maintenance work, which was audited in February 2005, exceeded the approved contract sum by more than the established thresholds due to significant additional works being added to the contract from the Lancashire County Council Capital Programme fund. Engineering Services have yet to formally report to Cabinet explaining the reason(s) for this overspend in accordance with the Council's Financial Regulations.

Included within the 2004/05 Final Account audits was a review of the partnering arrangements undertaken between the Council (mainly Engineering Services, Strategic Housing and Neighbourhood Management) and the Council's preferred constructors, Cumbrian Industrials Ltd in respect of the Poulton Homezone scheme. It is a credit to the Services involved that the project was a huge success particularly in view of the fact that the project was conducted in a very technically difficult area in which to operate and was one of the Council's first forays into partnering as a contracting activity under the Government's *Rethinking Construction Agenda*. Internal Audit were involved at an early stage of the process, being represented on the evaluation team responsible for awarding the project to the successful constructor and in a more general role providing guidance on the principles of *Rethinking Construction* and how this related to the Council's Contract Procedure Rules, in place at the time.

FINANCIAL IMPLICATIONS

None arising from this report

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

SECTION 151 OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Internal Audit Files