

**Results of Internal Audit Work
26th April 2006**

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.

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 March 2006

2.1 At the completion of each audit, the summary report and action plan and the summary report for each follow-up review are issued to Members for consideration. For each audit, a combined report including the Summary Report and Action Plan has also been posted on the Council's Intranet under Services→Financial Services →Internal Audit→Audit Reports.

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

2.3 The 'headline messages' arising from the following audit reports are attached to this report as Appendix A:

New Audit Reports

<u>Audit Title</u>	<u>Report Date</u>
Financial Management	27 Jan 2006
Treasury Management	20 Feb 2006
Arnside & Silverdale A.O.N.B Unit	27 Mar 2006

Follow-Up Reviews

<u>Audit Title</u>	<u>Report Date</u>
City Centre Development & Management	06 Jan 2006
Ordering, Receiving and Payments	23 Jan 2006
Financial Management	27 Jan 2006
Vehicles & Plant	02 Feb 2006
Cash & Banking (Internet and ATP)	14 Feb 2006

3.0 Matters Arising from Audit Reviews

- 3.1 At the last meeting of the Committee (minute 20 refers), Members requested an update on progress with regard to a new payroll and human resources management system and the system interface between the Finance and NNDR computerised systems. They also requested an update on outstanding actions identified in the follow-up report relating to Contaminated Land. Following publication of the follow-up report into Vehicles and Plant on 02 February 2006, a request has also been made for an update on outstanding actions.
- 3.2 Written responses to these requests have been submitted by the Head of Financial Services, Heads of Health and Strategic Housing and Head of City Council (Direct Services respectively and these are set out in the table attached as Appendix B.
- 3.3 These matters aside, there are no significant matters to bring to the attention of the Committee arising from the conduct of the above audit reviews

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

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

▪ Corporate Procurement Development 2005/06

The Principal Auditor continues to play a lead role in the Procurement Strategy Group led by the Corporate Director (Central Services), and is currently covering many of the Procurement Manager's duties whilst she is on maternity leave.

In 2005/06 to date, the Principal Auditor has contributed to the continuing development of the Council's procurement arrangements through:

- Taking a lead role in the major review of the Council's procurement arrangements and the subsequent drafting of the approved Corporate Procurement Strategy and Improvement and Development Plan 2005-2008;
- Contributing to the development of a Procurement Concordat for Small and Medium Sized Enterprises in line with the relevant National Procurement Strategy milestone, and arrangements currently being made to promote the Concordat in a joint procurement event with the local Chamber of Commerce in May;
- Being instrumental in developing a business case supporting the commissioning of a service provider to carry out a detailed analysis of the Council's expenditure and supplier data. The Principal Auditor is currently acting as the Project Sponsor for this piece of work, which is seen as essential towards securing efficiency savings; meeting e-Government targets and achieving National, as well as corporate procurement actions and targets.

- Being an active representative of the Council, in the absence of the Procurement Manager, with the North West Centre of Excellence and its various procurement workstreams.

- **Corporate Project Management Methodology**

An audit of the Council's Project Management Arrangements is currently being finalised, although the main findings of the audit were reported to the Performance Management Group in February.

The report pointed out that as the nature of work in local authorities continues to change at a rapid pace increasing numbers of Council staff are finding themselves involved in challenging projects, all requiring project management skills and knowledge, and that whilst projects have, and continue to be, delivered successfully, the absence of a corporate project management methodology has resulted in some high risk projects failing to meet project objectives and being significantly over time and budget.

In light of this, it was recommended that the Council adopts a structured approach to programme/project management, based on the core principles of an established methodology, such as PRINCE2 (PROjects In Controlled Environments) developed by the Office of Government Commerce.

This was approved by the Performance Management Group and an Officer Group, led by the Head of Financial Services, and including the Principal Auditor, has been set up with the remit of delivering a project management methodology that is capable of being consistently applied to any type of project proportionate to its significance to the success of the Council, its complexity and degree of risk.

- **Performance Management/Risk Management**

Internal Audit continues to take a proactive role in the development of proposals for the new performance management framework, which is currently being introduced. Auditors also continue to support the Risk & Insurance Officer and Risk Management Group in promoting and developing risk management processes and practices throughout the Council.

- **Use of Resources Judgement**

As part of the performance assessment of local authorities, the Audit Commission has introduced the Use of Resources assessment as a transitional arrangement pending its formal inclusion within the 'Harder Test' CPA Assessments for District Councils to be introduced in 2006.

The Use of Resources assessment requires Councils to complete a self assessment and provide detailed evidence supporting the answers given for each of the Key Lines of Enquiry covering the five modules of the assessment, namely:

- o Financial Reporting
- o Financial Management
- o Financial Standing
- o Internal Control
- o Value for Money

Internal Audit took a lead role in the gathering of this evidence and the completion of the self assessment, which informed the Audit Commission's Use of Resources judgement, which considers how financial management is integrated with strategy and corporate management, and how it supports Council priorities and delivers value for money. Each module was scored individually on a scale of 1 – 4 (1 being the lowest and 4 the highest), and resulted in the Council being awarded an overall score of 3 meaning that the Council is '*Consistently above minimum requirements*' and is '*performing well*'.

More details of the Audit Commission's assessment are contained within the Annual Audit and Inspection Letter.

▪ **Contract Final Account Audits 2005/06**

Internal Audit has carried out a final account audit of one engineering contract, Marsh Lancaster Safer Cycling and Walking Route, which exceeded the approved contract sum of £158,334 by some 58%, because of the addition to the contract of the cycling works at Ryelands Park, amounting to £102,612, which was approved by a variation order authorised by the former Chief Engineer. In accordance with Financial Regulations, arrangements are currently being made for a report to be submitted to Cabinet setting out the reason(s) for the overspend.

4.0 Details of Consultation

4.1 Not applicable

5.0 Options and Options Analysis (including risk assessment)

5.1 Not applicable

CONCLUSION OF IMPACT ASSESSMENT

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

None identified

FINANCIAL IMPLICATIONS

None arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments to add

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments to add

BACKGROUND PAPERS

Internal Audit Files

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