

Audit and Governance Committee

3 April 2007

Report of the Assistant Director of Resources (Audit and Risk Management)

Follow Up of Internal Audit Recommendations and Breaches of the Financial Regulations (2005/06)

Summary

1. This report sets out the progress made by departments in implementing those agreed audit recommendations which were due to have been implemented by 31 January 2007.
2. The report also includes an interim summary of progress made in addressing breaches and waivers of Financial Regulations identified for 2005/06 and reported to Audit and Governance Committee in October 2006, as requested at that meeting.

Background

3. In June 2006, the Audit and Governance Committee approved the process to be followed in reviewing and reporting on progress made by service departments in implementing agreed internal audit recommendations. In accordance with this process reports are brought to Committee for Members consideration every six months setting out progress, together with details of any outstanding recommendations that require referral to the Committee for further action. This report is based on follow up work by the Internal Audit Service. All recommendations are reviewed once their agreed implementation date has passed. The review is carried out using a combination of questionnaires completed by departments, risk assessment, and by further detailed examination by Internal Audit where appropriate.
4. Internal Audit is also responsible for preparing an annual report to Audit and Governance Committee detailing breaches of Financial Regulations along with any approved waivers from the Regulations. In October 2006 Members asked for an interim follow up report, setting out the progress made by departments to address the breaches identified at that time.

Consultation

5. Details of the findings of follow up work have been discussed with the relevant service managers and chief officers.

Follow Up of Recommendations

6. A total of 160 recommendations were followed up as part of this review. A summary of the priority of these recommendations is included in figure 1, below.

Figure 1: Recommendations followed up as part of the current review

Priority of Recommendations	No. of Recommendations Followed Up
1 (High)	10
2 (Medium)	129
3 (Low)	21
Total	160

7. Of the 160 recommendations, 5 (3%) had been superseded (for example by business developments or because of cessation of service). Of the remaining recommendations, 131 (82%) had been satisfactorily implemented.
8. In 24 cases (15%), the recommendations had not been implemented (although progress had been made in some cases). These were referred back to the relevant service manager or assistant director. Following this, a revised implementation deadline has been agreed in 20 cases. These will be followed up again after the revised deadline, and escalated in accordance with the approved procedure if necessary.
9. In four cases, the reasons given for not progressing the recommendation were not considered satisfactory, and the escalation process for these outstanding recommendations has now commenced. All four recommendations are at stage 2 of the escalation process (see Annex 3) and have been referred to the service manager for a response. None of the recommendations are yet at the stage for Member referral.

Follow Up of Breaches and Waivers of Financial Regulations

10. Figure 2 below shows the number of breaches of Financial Regulations reported in relation to 2005/06 (figures for the two previous years are included for comparison).

Figure 2

Number of breaches of Financial Regulations	2005/06	2004/05	2003/04
Total number of breaches reported	40	33	16
Newly reported breaches	13	22	4
No. brought forward from previous year	27	11	12

11. The total number of breaches has continued to increase over the last few years. Officers believe this is largely due to improvements in the systems for

detecting and recording them and that this was a major factor contributing to the large number of new breaches reported in 2004/05. Delays in resolving these breaches (and others from previous years) led in turn to the high number of breaches for 2005/06 – of the 40 breaches reported, 27 were ongoing issues from previous years that had not been addressed before 2005/06.

12. Good progress is now being made to address the outstanding breaches. Of the 40 reported for 2005/06, 16 had already been satisfactorily addressed, or were no longer ongoing issues, when they were reported to Audit and Governance Committee in October 2006. Departmental progress on the remedial action taken to address the remaining 24 breaches have been followed up for this report¹.
13. It was found that of the 24 breaches outstanding, 11 have now been resolved and action is being taken to address a further 10. The remaining three breaches will require input from the Corporate Procurement Team (CPT) - time has been allocated as part of the 2007/08 CPT workplan to support the development of corporate contracts for these areas by the relevant client officers. The results of the follow up are summarised in Figure 3 below. More detail on each of the outstanding breaches is included in Annex 1 and Annex 2.

Figure 3 – Follow Up of Outstanding 2005/06 Breaches

Result of Follow Up	No	Notes
Resolved	11	This includes breaches where a contract is now in place or has been awarded, or the reason for the breach has ceased to be an issue.
In the process of being resolved	10	Tendering is now underway for these breaches. With the exception of one breach it is expected that contracts will be in place by July 2007. The exception is tendered bus services, where retendering is being carried out as existing contracts end – this is not expected to be fully resolved until 2009.
Still outstanding	3	The breaches relate to the provision of security services, lifts and lift maintenance, and newspaper advertisements. All of these breaches will be reviewed by the Corporate Procurement Team as part of their 2007/08 workplan.

Conclusions

14. The follow up testing undertaken by Internal Audit confirms that in general, good progress has been made by directorates to rectify the weaknesses in control identified in Internal Audit reports. However, there are a number of areas where work is still required to address the recommendations made. Progress in implementing these recommendations will be monitored, and reported as required through the escalation procedure. There are no specific issues that need to be brought to the attention of the Audit and Governance Committee at this time.

¹ Follow up is based on reports from service departments about action being taken. These will be reviewed in detail by Internal Audit as part of the 2006/07 breaches and waivers reporting process.

15. For breaches, good progress continues to be made to address known issues. In particular, action has now been taken or is underway to address several breaches within Neighbourhood Services that have been outstanding for a number of years. Of the 40 breaches reported in total for 2005/06, only 13 remain outstanding to be carried forward to the 2006/07 report compared to 27 brought forward for 2005/06. Action is already underway to address 10 of these 13 breaches.
16. It is expected that the numbers of new breaches identified will continue to remain relatively high for the foreseeable future. This is because of continuing improvements in management information systems (eg the new Supplier Contract Management System being introduced by the Corporate Procurement Team - CPT), more rigorous corporate procurement arrangements, and an increasing awareness of the need for compliance with Financial Regulations – particularly in relation to procurement issues. However, ongoing issues are being kept under review by the CPT, and addressed as part of their workplan – either directly, or by promoting better procurement practice within service departments. It is anticipated that this will lead to a gradual reduction in the numbers of breaches in the medium to long term.

Options

17. Not relevant for the purpose of the report.

Analysis

18. Not relevant for the purpose of the report.

Corporate Priorities

19. This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

Implications

20. The implications are:
 - **Financial** – While there are no specific implications arising from this report, the breaches set out in Annex 1 and Annex 2 do give rise to financial risks to the Council as a body corporate. Although it is not possible to quantify or specify the risks arising from any individual breach identified by Internal Audit, for the purposes of this report a summary of the typical kinds of risks arising are included in the section on risk management below, for Members information.
 - **Human Resources (HR)** – there are no HR implications to this report.
 - **Equalities** – there are no equalities implications to this report.

- **Legal** – While there are no specific implications arising from this report, the breaches set out in Annex 1 and Annex 2 do give rise to legal risks to the Council as a body corporate. Although it is not possible to quantify or specify the risks arising from any individual breach identified by Internal Audit, for the purposes of this report a summary of the typical kinds of risks arising are included in the section on risk management below, for Members information.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** – there are no IT implications to this report.
- **Property** – there are no property implications to this report.

Risk Management

21. The Council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if it fails to follow up on audit recommendations and report progress to the appropriate officers and Members. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when this is re-assessed.
22. There are a number of risks that arise as a result of breaches of Financial Regulations and EU procurement rules, which are detailed below.
 - (i) The Council may be subject to scrutiny from central government and may have grant funding withdrawn if it is found to have breached EU purchasing regulations.
 - (ii) Third parties may claim to have been disadvantaged by unfair tendering processes and could raise legal challenges to the award of contracts. There is a risk of financial loss if compensation is subsequently awarded or if contracts are overturned. In this case there is also a threat to the provision of services and the reputation of the Council.
 - (iii) Any damage to the reputation of the Council caused by inappropriate tendering processes may compromise relationships with existing suppliers and make it more difficult to attract new suppliers in the future. Such a situation could hinder the provision of services and may lead to increased costs.
 - (iv) There is an increased risk that the Council will not achieve value for money in its procurement of goods and services.
 - (v) Poor tendering procedures increases the risk that fraud or other inappropriate actions may occur.

- (vi) External Audit may challenge the legality of the Council's activities, which in turn may result in the publication of reports in the public interest under section eight of the Audit Commission Act (1998).

Recommendations

23. Members of the Audit and Governance Committee are asked to:

- consider the progress made in implementing audit recommendations as reported above (paragraphs 6 – 9 and 14) and what further action is required, if any.

Reason

To enable Members to fulfil their role in providing independent assurance on the Council's control environment.

- consider the actions taken to address outstanding breaches of Financial Regulations and express a view about further action necessary on those matters that remain outstanding (paragraphs 10 – 13, 15 – 16 and Annex 1).

Reason

To fulfil their role in considering the Council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice.

Contact Details

Author:

Richard Smith
Principal Auditor
Audit and Risk Management
Telephone: 01904 552936

Chief Officer Responsible for the report:

Liz Ackroyd
Assistant Director (Audit and Risk Management)
Telephone: 01904 551706

Report Approved

Date 20 March 2007

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annexes

Annex 1 – Breaches now resolved or in the process of being resolved.

Annex 2 – Breaches not yet fully resolved

Annex 3 – Escalation process for unaddressed recommendations