
Audit and Governance Committee

26 June 2006

Report of the Assistant Director (Audit and Risk Management)

Follow up review of implementation of internal audit recommendations (April 05 – Sept 05 audits)

Summary

- 1 This report sets out the progress made by departments in implementing recommendations made in final internal audit reports issued between April and September 2005. It also sets out the proposed process for following up internal audit recommendations for Member approval.

Background

- 2 Currently, a follow up review is carried out every six months by internal audit, to assess progress made by departments in implementing agreed audit recommendations. Details of progress are reported to the Chief Internal Auditor and to the Director of Resources (the s151 officer). Details are also reported to the directors of the relevant services to inform them of progress and to enable them to address any areas of non-compliance. There is now a need to set out the process for reporting to Audit and Governance Committee to support its role in providing independent assurance on the control environment by enabling it to review and challenge any non-compliance with audit recommendations.
- 3 There is scope to improve the current arrangements. Historically the management information systems available to internal audit prevented individual recommendations from being tracked. Follow up work was instead based on the dates of the original audits. As a result follow up was not always timely because the target implementation dates for recommendations can vary significantly. The introduction of the new audit system (Galileo) late in 2005/06 has improved the ability to track individual recommendations.

Consultation

- 4 Details of the findings of follow up work set out in paragraphs 9 - 13 have been discussed with relevant service managers. The new follow up arrangements have been consulted on with the Chief Internal Auditor and s151 Officer.

Follow Up Process

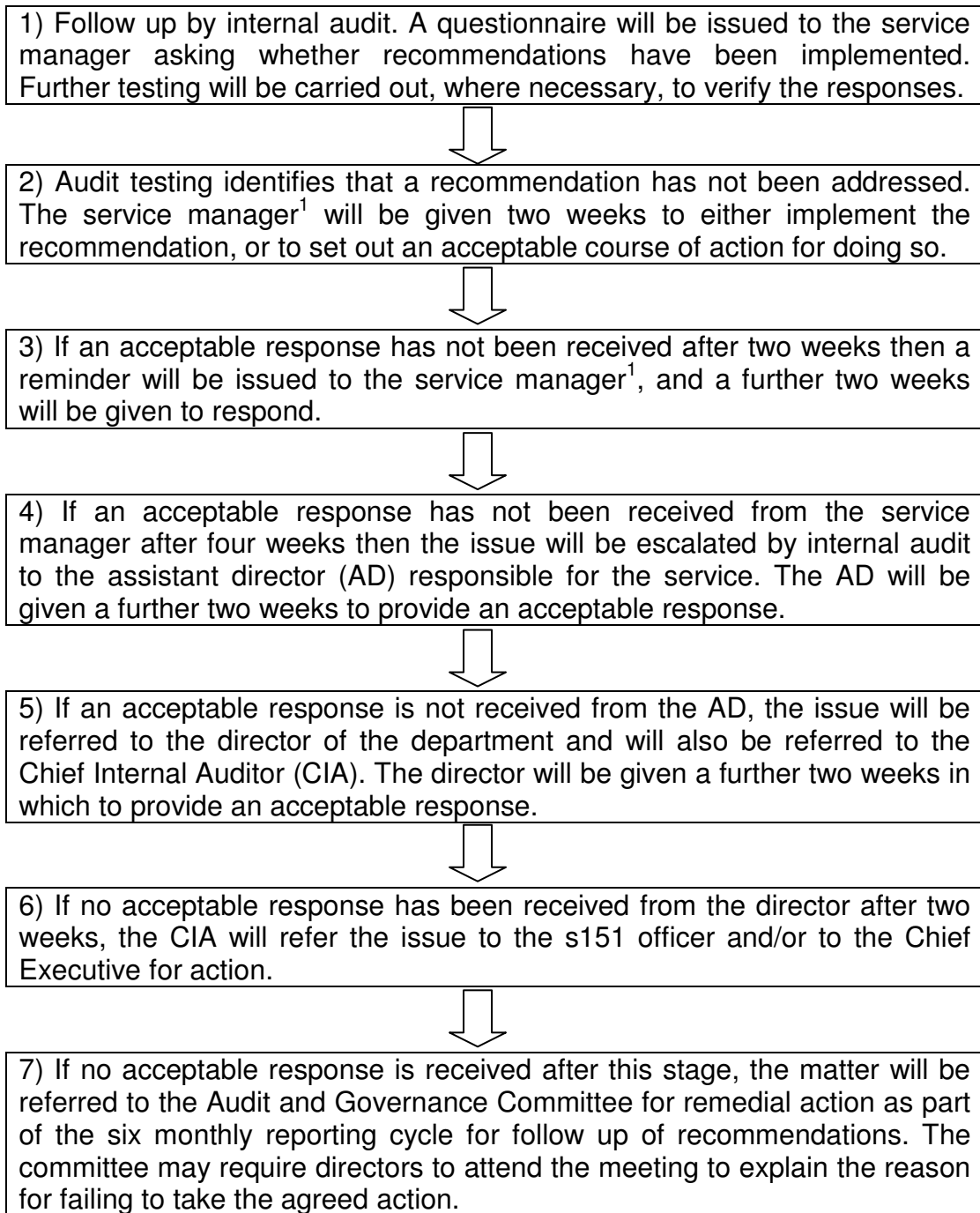
- 5 Internal audit findings and recommendations are made on the basis of audit fieldwork carried out. A report is issued to the department that has been audited. The report includes an overall opinion on the effectiveness of the controls for the area reviewed. Recommendations are made for any weakness in control identified. The recommendations are prioritised using the following categories:

High	Necessary to reduce or prevent the risk of significant financial loss, damage to reputation, disruption to a service or continuity of operations, or necessary due to legislative requirements.
Medium	Necessary to improve controls so as to reduce the risk of financial or other preventable losses.
Low	Helpful to the operation of the system or considered to be 'best practice'.

- 6 Findings and recommendations are initially discussed with service managers as issues arise during the course of an audit. A more formal closing meeting is held with the service manager at the end of the audit, to agree the findings and recommendations that will be included in the audit report. Where appropriate, issues are also discussed with assistant directors and other relevant officers. An action plan is agreed with the service setting out the action to be taken in response to each recommendation, the date by which it will be implemented, and the officer responsible.

- 7 It is essential that these recommendations are formally followed up to ensure that they have been implemented. This ensures that risks to the organisation are addressed by service departments, or that outstanding issues are raised at an appropriate level to ensure remedial action is taken. The proposed process for following up and reporting on progress against agreed audit recommendations is as follows.
 - All recommendations which are due to have been implemented will be followed up by internal audit on a monthly basis. Where no action has been taken by the service to address an agreed recommendation, the issue will be escalated in accordance with process set out in figure 1 below.
 - Overall progress made by departments in addressing recommendations due to have been implemented in the relevant period will be reported to the Audit and Governance Committee on a six monthly basis. The reports will detail any areas of non-compliance for reporting and remedial action by Members.

Figure 1 – Escalation Process for Unaddressed Recommendations



¹ Where an audit report has been issued directly to an assistant director, rather than a service manager, then the assistant director will be asked for a response in the first instance (stages 2 & 3). If escalation is necessary, this will be with the director (ie stage 4 is omitted).

Follow up review of implementation of internal audit recommendations (April 05 – Sept 05 audits)

- 8 Paragraphs 9 to 13 below set out the progress made by departments in implementing recommendations made in the period April to September 2005. It should be noted that this report is based on the current procedure for follow up and has not been through the formal system of escalation outlined above. It is anticipated that the next two follow up reports to the committee will follow this format, until the new procedures can be implemented using audit work recorded on the new Galileo system.
- 9 A total of 176 recommendations were followed up, although 16 of these (9%) had been superseded (for example by other audit recommendations or because of cessation of service). Of the remaining recommendations it was found that 149 (84%) had been satisfactorily implemented, were in the process of being implemented, or there were firm plans in place to address the issues. However, there were 11 recommendations that had not been addressed at all and five of these were of a high priority. These related to audits of commercial waste, family support, and Edmund Wilson and Yearsley swimming pools. The details are shown in paragraphs 10 to 13 below.
- 10 Commercial Waste 2004/05: one high priority recommendation had not been addressed. The outstanding recommendation relates to the need to introduce procedures to help ensure that all relevant customer records are updated when there are changes to the service provided. This will ensure that customers are billed correctly, and that appropriate contracts are in place. The department reports that this issue should be resolved by 31 March 2007, following the introduction of a new IT system to manage commercial waste administration. Funding for the new system has been approved and a supplier will be selected by Autumn 2006. However, in the interim, there is still a risk that some customers may not be correctly charged for commercial waste collections and the department should put in place any possible mitigating controls.
- 11 Family Support 2004/05: two high priority recommendations had not been addressed. The first recommendation relates to the need to review management information systems to ensure that managers have sufficient information to enable them to make decisions about section 17 payments. The department reports that this has been delayed due to other pressures during the integration of services as part of the recent restructure and formation of the Learning, Culture, and Children's Services directorate. However, it is still intended to review management information requirements, and this work should be completed by October 2006. The second recommendation relates to the need to update procedure notes. The department reports that a major revision to procedure notes is required, following the recent change to an electronic case file system. The new procedure notes will be completed by January 2007. There are still risks to the Council that inappropriate payments may be made, or that budgets may overspend. However, the auditors conclude that the proposed deadlines for implementation are reasonable, and a realistic reflection of the resources available.

- 12 Edmund Wilson Pool and Yearsley Pool 2004/05: one high priority recommendation had not been addressed at each site. The same recommendation was made at each pool - that manual pool tests (to ensure the water is safe for bathing) are carried out in accordance with set procedures, and that records of the tests are maintained. The department reports that there have been issues in ensuring that staff carry out and record these tests. Work is ongoing to address this. Further action may include centralised checking of pool test records by a senior manager, and the introduction of handheld computers which have inbuilt alarms that can only be disabled by carrying out the relevant tests. There is currently a risk that if an accident occurs and a claim is made, the Council may be unable to demonstrate that it has taken all reasonable steps to protect the health and safety of staff and customers. The current state of record keeping for pool tests is not satisfactory, and this issue should be addressed as soon as possible.
- 13 In general, the progress made in implementing recommendations has been good but there are still some areas where further work is required to address outstanding issues. Although there are five outstanding high priority recommendations these do not represent fundamental weaknesses in control and the action proposed by departments to resolve them appears to be reasonable. There is considered to be no requirement for directors to attend Audit and Governance Committee to provide further explanation, on this occasion.

Options

- 14 Not relevant for the purpose of the report.

Analysis

- 15 Not relevant for the purpose of the report.

Corporate Objectives

- 16 This report contributes to the overall effectiveness of the Council's internal management & assurance arrangements in helping to achieve the following corporate objectives.
- Ensure probity, integrity and honesty in everything we do (Objective 8.3).
 - Provide accurate and transparent management information in a timely and effective manner (Objective 8.3).
 - Improve the forward planning, openness, propriety, speed and effectiveness of decision-making (Objective 8.4).
 - Continue to provide sound and timely financial management, and improve medium and long term financial planning. (Objective 8.6).

- Manage the Council's property, IT and other assets on behalf of York residents. (Objective 8.9).
- Implement risk management and business continuity procedures. (Objective 8.10).

Implications

17 The implications are:

- **Financial** – there are no financial implications to this report.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there are no legal implications to this report.
- **Crime and Disorder** - there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.

Risk Management

18 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 in 2007.

Recommendations

19 Members are asked to;

- consider the progress made in implementing audit recommendations made during the period April to September 2005 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

- note and agree the proposed follow up reporting arrangements.

Reason

To enable Members to monitor the work of the Audit and Fraud team effectively, and ensure that outstanding audit recommendations are addressed to reduce unacceptable risks to the Council.

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Report Approved

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Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

Annexes: