

**Audit Committee - 25 October 2010**

**Progress in implementing the Annual Governance Statement (AGS) 2009/10**

**Summary of report**

This report sets out an update on progress on implementing key actions in relation to control weaknesses for 2008/09 and 2009/10 included within the Annual Governance Statement (AGS) 2009/10.

**Recommendations:**

Audit Committee are requested to note the progress in respect of the Annual Governance Statement 2009/10 control weaknesses at Appendix 1 and comment on this.



James Walsh  
Chief Finance Officer

11 October 2010



Rory Borealis  
Executive Director (Resources)

11 October 2010

**Background**

The AGS details the governance framework of the council, the effectiveness of the system of internal control, the review of effectiveness of the system of internal control and details of significant governance issues.

At a recent meeting of audit committee the AGS was presented by the council and the committee also receives quarterly reports from internal audit on progress made against the strategic risk assessment plan.

The 2009/10 AGS identified a number of control weaknesses relating to 2009/10 and work undertaken to address control weaknesses identified in 2008/09.

The following is an extract of the AGS for 2009/10, covering these issues. Their current status is contained at Appendix 1.

*Extract from 2009/10 Annual Governance Statement*

*"2008/09 Identified Control Weaknesses"*

*The review of effectiveness also covered the work undertaken in 2009/10 to address the control weaknesses identified in the 2008/09 AGS including:*

- *Improving controls in place for the management of computer software installed on council owned IT equipment;*
- *Further evidence being required to document that key procurement controls are being applied, particularly those relating to monitoring of contract performance and contract risk assessment;*
- *Improvements in strategic commissioning arrangements;*
- *Improvements in the organisation of scrutiny arrangements;*
- *Improvements to the recording and reporting of officer decisions;*
- *Improvements in arrangements in respect of regional housing pot grant; and*
- *Final contractor accounts. 16 accounts were reviewed and 10 were given a limited or no assurance rating opinion and considered to have been poorly managed. Suggestions for improvement were agreed by managers.*

*Reports are in various stages of follow up and a large number of actions have been implemented. A procurement and commission workshop was held in early 2010 to support the actions arising from the audit of these areas.*

#### *2009/10 Identified Control Weaknesses*

*During 2009/10, 133 specific audit reviews were undertaken excluding unplanned irregularity and consultancy work. This included producing one comprehensive report only for certain fundamental system reviews rather than a separate report for each directorate – debtors, creditors and budgetary control. Although most of the reviews, 111 (83%), received a full, significant or compliant audit opinion, 22 reviews (17%) received an opinion rating of limited, no assurance or non compliant. This list was reviewed by Audit Committee on 14<sup>th</sup> June and comprises;*

- *21 audits with a limited opinion covering the new art gallery; home care; independent sector (day care, residential and residential nursing); community meals (contract monitoring); community alarm service; direct payments (personal and individual budgets); transport services; dolphin house; inventories/stocks (links to work); Edgar Stammers Children's Centre; Birchills Children's Centre; Frank F Harrison Science, Technology, English and Maths Centre; Castle Business and Enterprise College; Bloxwich CE JMI; Fibbersley JMI; Aldridge Airport; St James and Ogley Hay Children's Centre; Beacon Children's Centre; Examination of Control of the Schedule of Rates Contract for Repair Maintenance and Minor Works to Council Buildings 2008/2011; payroll; and Information Security Management.*
- *One audit of Frank F Harrison Community College, which was non-compliant.*

*The assessment of the governance framework and work set out in the above sections did identify that although in most audit assignments the processes examined were generally working satisfactorily, some non-significant system weaknesses were identified in some services. A number of high priority suggested improvements were made during the year to*

address control weaknesses and all were or are being agreed for implementation by managers. Specifically mentioned were:

- *Information security management, received a limited assurance opinion. Areas for improvement noted in the report, including ensuring that a corporate-wide approach to information security management is promoted; that staff awareness of information security control requirements is required; that an update to the overarching information security protocol statement that governs the security of information assets is also required; and that information security control procedures are reviewed and updated.*
- *A contract systems audit was also undertaken this year. The review, entitled the examination of control of the schedule of the contract for repair maintenance and minor works to council buildings 2008/2011, received a limited assurance opinion. Reasons for criticism of systems used to control some major contracts include:*
  - (a) Failure to obtain appropriate authority*
  - (b) Lack of documentation / surety / contract under seal*
  - (c) Instances where documentation approving additional works / time extensions was not available*
  - (d) Delays in submitting final accounts to audit*
- *Contractor accounts. 16 accounts were reviewed and 10 were given a limited or no assurance rating opinion and considered to have been poorly managed. Suggestions for improvement have been agreed by managers. Auditors have received assurances from managers that they have implemented procedures to minimise the risk of these control weaknesses recurring. By their nature, these final accounts are historical and those officers responsible for failure to comply with financial and contract rules, or previous procedures, have now, in the main, left the authority's employment. Senior managers now in place are concerned to ensure that previously encountered procedural difficulties are not repeated and have stated to auditors their intention to continue to take robust action in making sure that their officers' follow the approved rules at all times.*
- *Payroll – receiving a limited assurance opinion from the internal audit service. The summary audit opinion for payroll states:*
  - (a) Some progress has been made in actioning previously agreed audit report actions and HRD have continued to develop and improve HRD direct, the corporate employee and manager portal. Systems for the verification of the establishment structure, including the availability of structure information via HRD Direct; segregation of duties via individual teams such as the transactional recruitment team and the transactional team; and the use of 'Intelligent', an electronic database for the management and recording of personal files remain good practice.*
  - (b) Significant areas for improvement have, however, been identified in ensuring controls and processes are fully effective, for example, in the processing of new starters, variations to pay and leavers. Controls regarding the management and rectification of overpayments; and employee expenses were noted as requiring*

*significant strengthening this year. As a result of this, the audit opinion for payroll has moved from borderline significant to limited assurance.*

*In addition to this, the AGS review has a further control issue which requires improvement in relation to control weaknesses relating to the management of the Preventing Violent Extremism grant. An internal audit report has been completed and the actions arising from this are being implemented by the Neighbourhood Services directorate.*

*Action plans are in place (the payroll report is in draft and therefore the action plan is being drawn up) for those and progress on implementation of actions will be reported to Audit Committee through 2010/11.*

## **Significant Governance Issues**

*The officers who drafted the 2009/10 AGS, evaluated assurances and supporting evidence, concluded the effectiveness of the governance framework, including the system of internal control is satisfactory overall and there are no significant governance issues, however the 2009/10 AGS identified areas of significant internal control weakness relating to the management of the European Structural Fund Objective 2 Action Plan, in respect of ERDF grant. Grant Thornton, the council's external auditors, were requested by Council to carry out an investigation into the management of the programme and the circumstances that led to decommitment /clawback of a significant amount of ERDF funds. The report was presented to a special Audit Committee on 24 March 2010.*

*The council's action plan to address the findings and recommendations of the Grant Thornton report was presented to Audit Committee on 14 June for their consideration, comment and approval. Progress on implementing actions will be reported to Audit Committee in 2010/11."*

The current status of the above is contained at **Appendix 1**.

## **Resource and Legal Considerations**

There are no direct financial or legal implications, however the council is responsible for ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money.

## **Risk Management**

None relating directly to this report.

## **Equality implications**

None relating directly to this report.

## **Consultation**

The report is prepared in consultation with relevant senior managers.

## **Background Papers**

Annual governance statement 2008/09, 2009/10 and Internal Audit reports

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**Progress Update: Annual Governance Statement identified control weaknesses 2008/09**

Audit	Agreed Actions	Follow up Status
Software Licensing	7 (0 <sup>***</sup> )	5 confirmed as implemented on 11/5/10. The next follow up is due in November 2010.
Strategic Procurement	20 (8 <sup>***</sup> )	9 confirmed as implemented (including 4 <sup>***</sup> ) on 2/12/09. A 3 <sup>***</sup> follow up audit confirmed that 3 had been implemented, 2 were no longer applicable and 1 was partially implemented. Follow up for <sup>**</sup> and <sup>*</sup> actions sent 12/7/10 – response awaited.
Commissioning	18 (4 <sup>***</sup> )	Follow up sent 4/6/10. Audit co-ordinating follow up response.
Scrutiny	14 (7 <sup>***</sup> )	6 confirmed as implemented (including 3 <sup>***</sup> ) on 10/5/10. Follow up sent 23/8/10 – response awaited.
Constitution & Review of Delegations	5 (3 <sup>***</sup> )	Follow up memo's sent to all 5 executive directors on 19/8/10. Confirmation received that all implemented within resources and children's services – responses awaited from regeneration, neighbourhood and social care and inclusion.
Regional Housing Pot	17 (12 <sup>***</sup> )	All actions confirmed as implemented on 25/3/10.
<u>Contracts:</u>		
Greenfield JMI		All actions confirmed as implemented in action plan.
Leighswood Childrens Centre		All actions confirmed as implemented in action plan.

Moorcroft JMI	All actions confirmed as implemented in action plan.
Darlaston Sure Start (Illmington House)	All actions confirmed as implemented in action plan.
Busill Jones JMI	All actions confirmed as implemented in action plan.
New Invention Infants	All actions confirmed as implemented in action plan.
Dangerfield Lane Nursery	All actions confirmed as implemented in action plan.
New Invention Junior	All actions confirmed as implemented in action plan.
Stroud Ave Children's Centre	All actions confirmed as implemented in action plan.
Streetley School Sports Hall & Dance Studio	All actions confirmed as implemented in action plan.

### **Progress Update: Annual Governance Statement identified control weaknesses 2009/10**

All 2009/10 audit reports are now in various stage of follow up.

A new process is now in place whereby all limited and no assurance audit reports are submitted to Audit Committee on a quarterly basis. The first report, detailing 7 reports, was submitted on 1 September 2010. At the meeting it was agreed that 4 of the reports be considered at a special meeting and the remaining 3 be monitored by internal audit and regular updates be provided to the committee on their progress. The following two areas of improvement action were raised in the AGS, along with significant internal control weakness relating to the management of the European Structural Fund Objective 2 Action Plan, in respect of ERDF grant.

Preventing Violent Extremism grant	The final audit report was issued on 4 June 2010. An early follow up audit was performed in July 2010 which identified that 13 of the 26 agreed actions had been implemented and 13 had been partially implemented. Of the 13 partially implemented, 8 of them could not be fully implemented and were marked with an asterisk as there were no new payments/approvals to sample test to give assurance
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that the controls put in place are working due to programme spend being suspended. Suspension of payments was lifted on 23 July 2010. A second follow up audit is currently being performed.

#### Payroll

The finally agreed audit report was issued in September 2010. Early follow up has been diarised. As a limited assurance opinion was awarded, this report will be presented to Audit Committee as part of internal audit's quarterly reporting of 'limited' and 'no assurance' reports.

#### Grant Thornton ERDF Action Plan

A separate progress report is included elsewhere on tonight's agenda.