

Argyll and Bute Council

Governance Arrangements

30 September 2010

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1 Executive Summary

1.1 Introduction

The Council is required to have arrangements in place to ensure propriety, regularity and best value in its stewardship of public funds. It is the responsibility of management to have adequate systems of internal control in place to ensure that resources are applied to the activities intended, fraud is prevented and detected, and resources used economically, efficiently and effectively.

As part of our 2009-10 interim audit, we have reviewed the following areas:

- the effective operation of internal audit, including the progress of implementation of prior year action plan points
- the effective operation of the audit committee, including the progress of implementation of prior year action plan points
- participation in the 2008-09 National Fraud Initiative exercise
- the restructure of the Council's senior management team and services.

1.2 Key findings

Internal audit

The Council is currently undertaking a best value review of the internal audit department and as part of this, will consider the future structure and direction of the service. We will continue to monitor the Council's future strategy for internal audit and consider ongoing compliance with the Code of Practice. The Council have now appointed a head of internal audit.

Our audit confirms that internal audit generally operates to a good standard, however, we noted the potential for the independence of internal audit to be compromised when they become involved in operational management activity.

Audit committee

Overall we found that the audit committee operates effectively, however the results of the self assessment show that there is still progress to be made, in particular with regard to induction training for new members.

The Chair and Vice Chair of the Committee (both lay members) are scheduled to retire from the Committee, with Chair due to retire at 31 March 2012 and the Vice Chair retired on 31 March 2010. It will be important for the Council to plan effectively to fill these key positions to maintain the Committee's development and progress.

National Fraud Initiative (NFI)

The 2008-09 NFI exercise is in ongoing and, to date, the Council has identified errors and overpayments of £50,000. Our audit found that the Council has improved its participation in the NFI exercise over the year, but that further improvements are still required if the Council is to participate and benefit fully from the Initiative.

Corporate Restructuring

We found that the Council's programme to restructure the Strategic Management Team and service heads was carried out in line with the relevant policies and procedures in place covering early retirement and redundancies.

1.3 Way Forward

The findings and recommendations from our review are summarised in an Action Plan that accompanies this report in Appendix A. The Action Plan has been agreed with management and incorporates the management response to audit recommendations. Management should seek to ensure that the outstanding recommendations that have not been implemented within the specified timeframe are prioritised for completion.

1.4 Acknowledgements

We would like to take this opportunity to thank Council staff who have been involved in this review for their assistance and co-operation.

This report is part of a continuing dialogue between the Council and Grant Thornton UK LLP and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.

Grant Thornton UK LLP
30 September 2010

2 Main findings

2.1 Internal audit

Introduction

The Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code) issued by CIPFA in 2006 sets out good practice in delivering internal audit services.

We reviewed the Council's internal audit department against the requirements of the Code and reported our findings in our 2006-07. Since then, the Council has taken a number of actions to improve the internal audit service and move to full Code compliance. At this stage one point remains outstanding: to formalise the role of internal audit in relation to fraud investigations.

A head of internal audit has now been appointed, and this implements one of the main areas of previous non-compliance with the Code.

In 2008-09, we recommended that the Council perform a review of the future strategic direction of internal audit and consider the best way of providing the service. This review is now underway and, in the interim, the Council has extended its contract with KPMG LLP to support its existing internal audit service provision.

Independence

As part of our audit we test internal audit work for compliance with good practice to support our assurance on the financial statements. This process prevents duplication of audit effort.

Our audit confirms that the Council has generally good arrangements for internal audit, however, we identified one assignment (on asset management) where audit findings were not always documented on the file. In discussing this with internal audit, it was clear that this was due to the involvement of an individual member of the internal audit team in the set up of the asset management board i.e. audit findings were derived from the internal auditors' existing detailed knowledge obtained from attending the board.

Whilst our audit confirmed that internal audit's findings and recommendations were sound, there is a threat to independence if members of internal audit become too heavily integrated in operational or management activities. In addition, internal audit work can be compromised by 'self-review' where the auditor is commenting on a management process of which they are part. This occurred in the asset management case referred to above.

The skills and experience of internal audit can be beneficial in developing and improving the operations of the Council, and the Council considers that previous secondments undertaken by internal audit staff have contributed significantly to key projects. We have recommended that when internal audit staff are involved in

the set up or development of systems, a plan should be drawn up setting up how independence will be maintained.

Action Plan Point 1

2.2 Audit committee

Introduction

The audit committee carried out a self assessment exercise during the year, as part of a training away day. This is considered a positive step in achieving compliance with best practice, as set out in the CIPFA guidance *Audit committee principles in local authorities in Scotland: a guidance note*. We have followed up the Council's progress in complying with this guidance, and considered the findings of the self assessment procedure.

Findings

We noted in 2008-09 that there is no formal training programme for audit committee members to ensure they continue to receive adequate training and support for their role. This was confirmed by the results of the self assessment exercise:

As part of the training day that took place on 29 May 2009, the audit committee members were asked to self assess the committee. This assessment confirmed that 75% of members felt that induction training was ineffective, and all members acknowledged that training gaps had not yet been identified. A training module and provider have now been identified, however the implementation of this training has been delayed, awaiting the appointment of the new Vice Chairman of the Committee. There are currently two new members of the committee who have not yet received full induction, awaiting this training. It is important that this training is carried out as soon as possible, and repeated whenever new members are appointed.

75% of members assessed felt attendance at meetings could be improved. We noted in our review that for the three meetings held up to the date of our review there were two apologies at the first two meetings and one at the third, with only one member missing more than one meeting. The committee should continue to monitor attendance at meetings, and take action should attendance fall below a satisfactory level.

The committee reviews internal and external audit plans and strategies on an annual basis, All internal and external audit reports are considered, and where significant findings have been raised, these have been discussed.

An assessment of Internal audit has been carried out. In addition, external audit's performance has been considered and reported to Audit Scotland. We consider this process adequate.

2.3 The National Fraud Initiative

Introduction

The National Fraud Initiative (NFI) is a nationwide data matching exercise run jointly by Audit Scotland and the Audit Commission. The NFI covers a two year cycle and for the latest cycle, 2008-09, Audit Scotland's national report has identified total cumulative frauds in the Scottish public sector of £58 million. The role of external audit in NFI is to review the Council's procedures for managing the exercise and the progress in pursuing potential frauds highlighted by the data matching exercise.

The Council did not identify any frauds as a result of the exercise, however several errors were investigated. At the date of this report, housing benefit and council tax benefit overpayments of approximately £50,000 have been identified. In addition, the Council identified errors in the administration of blue badge parking permits whereby 190 permits were matched to deceased individuals, the section below identifies how this issue was addressed.

Our review of the Council's participation in the exercise has concluded that more work needs to be done in integrating the services into the NFI exercise and ensuring that matches are processed in a timely manner.

Action Plan Point 2

Review of the matches

As we noted in our Annual Audit Report for 2009, the Council was significantly late in starting the review of matches from the NFI exercise. The success of the NFI exercise depends on a timely review of the matches and by applying the filters in the NFI system, the Council can identify the high quality matches which should be reviewed as a matter of priority. Our review found that although the housing and council tax benefit matches were processed in a timely manner, the Council did not start processing some of the other key matches until December 2009. This was mainly due to the absence of the key contact during the year, and then an additional delay in the NFI system in reactivating the key contact on the system.

In addition, we noted that a high proportion of the matches in some key areas were reviewed and cleared by internal audit, rather than the departments responsible for the relevant services. The involvement of internal audit staff was required in order to process the outstanding matches on the system before our review of the process in February 2010.

Blue Badges

The bulk of the errors found in the exercise related to blue badge holders who had died. As a result of the NFI 2008 – 2009 exercise, controls have been improved in relation to Blue Badge administration and the issue of badges. Information workers who process blue badges now have limited access to the NFI website (blue badges only). Information workers check any new application or reapplication against the names on the NFI website to ensure there is no fraudulent behaviour. It was also agreed that no blue badge applications would be processed without a covering letter from a G.P. Links have been created for increased data transfer between departments. The Council have confirmed that a procedure is now in place for this.

Action Plan Points 3

Creditors

Participants in the NFI exercise are required to submit mandatory datasets, such as housing benefits and payroll information, but are also invited to submit other datasets such as creditors. The Council did not submit any creditors data for the 2008-09 exercise, based on a risk assessment for this voluntary dataset. The Council did submit data for the previous exercise, but did not find the resulting matches provided any additional benefit over and above the existing mechanisms that are in place to review creditors data.

From our review of the NFI process at other local authorities, we noted significant benefits in submitting the creditors data in the 2008-09 exercise, as creditor payments are now matched against Companies House records and can identify potential frauds relating to undeclared interests or procurement irregularities. The Council should consider submitting creditors data in the 2010-11 exercise in order to take advantage of this information.

Action Plan Point 4

Training and access

The 2008-09 NFI application incorporates online training modules for staff using the application to process matches. The Council intends that all staff responsible for investigating data matches undertakes the necessary training. However, at the time of our audit, we noted that not all members of staff were recorded on the application as having completed the training modules. From our discussions with internal audit, we understand that these staff are no longer involved in the NFI process, and are not required access to the NFI application going forward. We recommend that the key contact reviews all accounts with access to the system to ensure only appropriate staff have access rights.

Action Plan Point 5

2.4 Corporate restructuring

Introduction

The Council has recently completed a significant restructuring of the Strategic Management Team and service heads. This involved replacing the four Strategic Directors with three Executive Directors, and a restructure of the services, with a realignment of services leading to the creation of 12 new services to replace the previous 15. As such, there was a reduction in the number of heads of service from 15 to 12.

As part of our audit, we reviewed the Council's process for undergoing this restructure to ensure it complied with the Council's corporate policies and other relevant legislation and guidance on redundancy and early retirements.

The Chief Executive presented a paper to the Executive on the proposed restructuring process, and the new Council's structure was approved by members. We noted that the Council requires a three year payback on severance packages which helps mitigate the risk of excessive packages being awarded

Overall, we found that the Council's restructuring process was executed in line with its relevant policies.

A Action plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Internal audit					
1	<p>Internal audit staff have performed a consultancy role in the set up of the asset management board.</p> <p>There is a self review threat if internal audit staff are involved in the audit of an area where they have advised on the set up of the systems.</p>	Medium	<p>When internal audit staff are involved in the set up or development of systems, a plan should be drawn up, setting up how independence will be maintained, for example separate staff being involved in the audit of that area.</p>	Agreed . A Procedure note will be developed to address this.	31 August 2010
National Fraud Initiative					
2	<p>Although the housing benefit data matches were processed in a timely manner, many of the other high risk datasets were not reviewed until December 2009, several months after the matches were released to the Council.</p> <p>The delay in investigating matches increases the likelihood that fraud or errors will not be detected in a timely manner.</p>	Medium	<p>The Council should prioritise the review and processing of the highest quality data matches and ensure these are processed in a timely manner.</p> <p>The key contact should monitor the progress in investigating matches and the results should be reported to the senior management team.</p>	This will be addressed as part of planning for next NFI but it will be a case of balancing risks, benefits, resources, priorities and quality of matches.	As part of planning for next NFI.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
3	<p>Some of the high risk data matches including payroll, blue badges and residential care homes, were processed by internal audit staff rather than staff in the relevant departments.</p> <p>There is a risk that departments are not being properly integrated into the NFI process.</p>	Low	Staff in relevant departments should be assigned responsibility to review and process the NFI matches. This will integrate these departments into the NFI process and should improve the quality of investigations.	The relevant departments have been integrated into the Review process.	Complete
4	The Council did not submit any creditors datasets as part of the 2008-09 NFI exercise. This dataset was not mandatory, however we have found that other bodies have benefited from the results of matches of creditors data to their payrolls and Companies House records. The results of such matches can help identify inappropriate relationships and related parties.	Low	The Council should consider submitting creditors data for the next NFI exercise.	Yes the Council will consider this as it did for the last exercise and it will take a balanced view of the risks and benefits compared to resources required and other priorities. The outcome will to a large extent depend upon the quality of the data matches.	As part of next NFI
5	<p>Access has been granted to the NFI system to a number of staff who do not require it.</p> <p>In addition, those staff who do require access have not completed the necessary on line training forms.</p>	Low	The key contact should review the required access to the NFI system for the 2010-11 exercise and ensure only appropriate staff have been given access.	This will be put in place for next NFI	As part of preparing for next NFI

No	Finding	Risk	Recommendation	Management Response	Implementation Date
			Relevant staff should complete the online training modules before the exercise commences.		



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