
Report To:	Audit Committee	Date:	23 August 2011
Report By:	Corporate Director Regeneration and Environment	Report No:	AC/25/11/AF/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	External Audit Progress Report		

1.0 PURPOSE

- 1.1 The purpose of this report is to present the reports produced by Audit Scotland since the last Audit Committee meeting.

2.0 SUMMARY

- 2.1 Three reports have been finalised by Audit Scotland since the last Audit Committee:-
- Shared Risk Assessment: Assurance and Improvement Plan (May 2011)
 - Review of Governance Arrangements and Main Financial Systems (May 2011)
 - Review of Purchasing and Procurement (June 2011)
- 2.2 A representative from Audit Scotland will be in attendance at the meeting in order to address any issues arising from these reports.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members consider the matters raised in this report.

Aubrey Fawcett
Corporate Director Regeneration & Environment

4.0 BACKGROUND

- 4.1 Members of the Audit Committee are required to monitor progress by Audit Scotland who are responsible for the external audit of the Council to enable them to discharge their scrutiny and performance monitoring roles.
- 4.2 In practice, audit plans and findings are reported by Audit Scotland to the Council in a series of reports.
- 4.3 Members are provided with copies of each report to support their understanding and knowledge of the matters raised.

5.0 IMPLICATIONS

- 5.1 Legal: None
Finance: None
Personnel: None
Equalities: None

6.0 CONSULTATIONS

- 6.1 Consultations took place with relevant officers throughout the audit process.

7.0 LIST OF BACKGROUND PAPERS

- 7.1 Audit Scotland's External Audit report
- Shared Risk Assessment: Assurance and Improvement Plan (May 2011)
 - Review of Governance Arrangements and Main Financial Systems (May 2011)
 - Review of Purchasing and Procurement (June 2011)

Shared risk assessment: Assurance and improvement plan 2011–14

Inverclyde Council



Inverclyde Council

Assurance and Improvement Plan

Update 2011–14

Introduction

1. The Assurance and Improvement Plan (AIP) for Inverclyde Council was published in July 2010, setting out the planned scrutiny activity for the council for the period April 2010 to March 2013 based on a risk assessment. As part of the process of on-going scrutiny based on current risk assessments, the local area network met in early 2011 to update the AIP, revise its assessment and reconsider the level of scrutiny required for the council. This update includes a short report which summarises any changes to risk assessments and scrutiny responses. This update also provides a revised timetable for proposed reviews at Appendix 1.
2. The updated AIP draws on evidence from a number of sources, including:
 - The annual report to the Controller of Audit and elected members for 2009/10.
 - The council's own website and supporting evidence.
 - Evidence gathered from the Local Area Network (LAN) consisting of HMIE, SWIA, SHR and the Care Commission (including published inspection reports and other supporting evidence).

Summary

3. Over the past year the council has continued to transform the delivery of services to the people of Inverclyde. Although we have highlighted on-going areas of risk and uncertainty we are confident in the council's ability to manage these areas and work to achieve further improvements in service delivery. In particular the council's services to protect children and young people received a very positive report in January 2011, and HMIE school inspectorate reports and Care Commission reports have continued to be positive. SWIA's overall appraisal is that social work services deliver good outcomes for vulnerable children and adults in Inverclyde. As a collective group the LAN have commented positively on the council's commitment to continuous improvement and their responsiveness to scrutiny.

Areas of on-going risks and uncertainties

4. The following table relate to issues where risks or uncertainties in the council's processes and activities were identified in the 2010/11 AIP and remain unchanged.

Area	R/A/G	2011/12 Update
Depopulation	Significant risks	Multi-agency Outcome Delivery group (ODG) established which focuses on reducing rate of decline. Progress is being made but depopulation is still a major concern. We will continue to monitor progress made by the depopulation outcome delivery group. Audit Scotland will monitor progress made by the ODG through minute review and will provide an update in the Annual Report to Members.
People Management	Uncertainty	Workforce reductions are likely to have an impact on the council's workforce and skills. Implementation of the Workforce Development Strategy and Action Plan approved by members in May 2009 is still on-going and has experienced slippage.
Housing/ Homelessness	Uncertainty	The council are to self assess themselves in early 2011. This will be reviewed by the Scottish Housing Regulator. Until this is completed this is considered to be an area of uncertainty.
CHCP	Uncertainty	It is not possible to identify tangible benefits arising from the establishment of the CHCP as it is still in its infancy. Hence this is an area of uncertainty.
Governance and accountability	Uncertainty	The scheme of delegation is scheduled to be revised by March 2011. Service business continuity plans have been drafted for relevant services and further meetings with the Joint Civil Contingencies Service (Inverclyde Council, East Renfrewshire Council and Renfrewshire Council) continue to take place to revise and finalise these plans to take account of the new Corporate Structure and introduction of the CHCP.
Performance Management & Improvement	Uncertainty	The council are still implementing the new performance management system, Inverclyde Performs, and it is too early to assess its impact.

Changes to 2010/11 Risk Assessments

5. The following table relates to risk assessments that have been changed from the 2010/11 AIP.

Area	2010/11 Risk Assessment	2011/12 Risk Assessment	Reason for Change
Thriving Diverse Economy	Uncertainty	Significant risks	The council have progressed their multi-agency ODG focused on tackling issues of employability and skills development however the gap between Inverclyde and the Scottish average for both employment and being income deprived as a percentage of working age population continues to grow. Furthermore the on-going impact of the population decline will make the provision and maintenance of a thriving economy more challenging. The urban regeneration company Riverside Inverclyde have recently been informed of their funding from Scottish Enterprise and it is significantly less than expected. This will impact on regeneration. Audit Scotland will monitor progress made by the ODG through minute review and will provide an update in the Annual Report to Members.

Area	2010/11 Risk Assessment	2011/12 Risk Assessment	Reason for Change
Procurement	Uncertainty	Significant risks	<p>In November 2009 the council scored 4% in the annual procurement capability assessment. A further assessment in November/December 2010 highlighted an increase to 15%. The council have committed to achieving a score of 25% (which is the score required to achieve 'conformance' status) by the end of December 2011.</p> <p>The council are in the process of revising their Contract Standing orders with these being submitted to the February Policy & Resources Committee for approval.</p> <p>Audit Scotland to follow up on national improving Public Sector Purchasing report during 2010/11. Progress will be reported in Annual Report to Members published in October 2011.</p>
Financial Climate	N/A	Uncertainty	<p>The Comprehensive Spending Review covering public sector expenditure for the period 2011/15 was announced in October 2010 and the Scottish Government responded to it by announcing a single year Scottish budget for 2011/12. This creates an uncertainty over medium term financial planning.</p> <p>Audit Scotland will monitor the council's financial position as part of routine audit coverage. Progress will be reported in Annual Report to Members published in October 2011.</p>
Waste Mgt	Significant risks	Uncertainty	<p>The council are increasing level of wastage being recycled (and therefore decreasing the level sent to landfill). The council are part of multi-authority task force which is developing an outline business case to explore the potential for a joint or collaborative approach to the procurement of a new municipal waste treatment service for the eight authorities within the Clyde Valley.</p>
Vision & Strategic Direction – Operating Model	N/A	Uncertainty	<p>The OM is a six phase project focused on developing a customer service centre providing a "one stop shop" for customers whilst combining a number of transactional based processes within the council. Phase two of the OM is progressing. Full six phase implementation of the OM has a revised completion date of 30 April 2013. As slippage has occurred in such a large scale project upon which key savings depend this is assessed as an area of uncertainty. It is further noted that there is an on-going investigation into matters relating to the progress and monitoring of the operating model.</p>
Education - Leadership	Uncertainty	No significant risks	<p>The corporate director of education and communities and the senior management team are considered to be providing strong leadership across the education sector and relevant partnerships.</p>
Carbon Mgt	Uncertainty	No significant risks	<p>Good progress made in addressing actions in the carbon management plan</p>
Roads & Street Lighting	Uncertainty	No significant risks	<p>Flood action plan is being progressed. There is information available to assess the risk assessment making the classification 'area of uncertainty' inappropriate.</p>

Area	2010/11 Risk Assessment	2011/12 Risk Assessment	Reason for Change
Asset Management	Uncertainty	No significant risks	Progress made implementing various asset mgt plans (ICT, Open Spaces, Roads and Vehicle, Plant & Efficiency Review)
Equalities	Uncertainty	No significant risks	Good progress within services was identified however the Corporate Group is currently being re-established.

National risk priorities

6. Inverclyde Council's position on topics identified as being of national importance is as follows:
7. **The protection and welfare of vulnerable people (children and adults) including access to opportunities – No significant risks.** All the council's registered services with the Care Commission are achieving grades of 'Good' or above. This is across the board covering quality of care and support, environment, staffing and management. Of these a high percentage are achieving 'Very Good' and some are graded as 'Excellent.' This compares favourably with the rest of Scotland. Exclusion rates, particularly for looked after and accommodated young people, have risen recently. The council is aware of this and has put a working group in place to look in detail at practice and processes relating to behaviour management. HMIE will continue to monitor this as part of their on-going dialogue with the authority. A recent inspection of services to protect children identified major strengths in relation to the effectiveness of the work of the Child Protection Committee.
8. **Assuring public money is being used properly – No significant risks.** The regularity of expenditure is examined as part of the annual financial audit process. Within the council there are several mechanisms which assist in providing assurance that public funds are not misused. Proper scrutiny of activities is undertaken by both members and officers. The council has an effective Audit Committee which operates in line with best practice and the committee is supported by an effective internal audit section. Audit Scotland will continue to review action taken by the council as part of the annual audit process.
9. **How councils are responding to the challenging financial environment – Area of uncertainty.** The Comprehensive Spending Review covering public sector expenditure for the period 2011/15 was announced in October 2010 and the Scottish Government responded to it by announcing a single year Scottish budget for 2011/12. This creates an uncertainty over medium term financial planning. The financial climate will impact on the council's ability to deliver its outcome targets and maintain service performance into the future. The extent of this is currently uncertain and will be kept under review by LAN members. In April 2008, the council approved its first Financial Strategy designed to provide clear direction on how to manage and structure its financial resources to ensure they are utilised effectively and are clearly directed at achieving the council's corporate objectives in the medium to long term. Since its inception the council have reviewed and updated the strategy on a six monthly basis to identify required amendments to take account of any significant policy or financial developments both at a local and national level. This proactive approach to financial management in difficult times has helped the council progress operational and strategic outcomes within the resources available and, in

particular, reduce the impact of the settlement announced by the Scottish Government in December 2010.

Scrutiny plan changes

10. The statutory minimum frequency of inspection has been removed under the new legislation. Currently all of the Council's registered services are likely to be inspected less frequently due to the high quality of grades they have been achieving.

Review of 2010/11 planned activity

11. Appendix 3 of the AIP issued in July 2010 highlighted the scrutiny activity scheduled to take place in 2010/11. The Scottish Housing Regulator's (SHR) review of the council's self-assessment of its progress in delivering improvements to the Homeless service has been rescheduled at the council's request. The self-assessment is now scheduled to take place in August 2011 and SHR's level of scrutiny will be dependant on its output. The conclusions of these reviews, and any matters identified, have been raised with the council through specific review outputs.

Appendix 1 Summary of scrutiny activity

INVERCLYDE COUNCIL SCRUTINY PLAN	2011-12											
Scrutiny activity year 1	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Audit Scotland audit of Housing Benefits												
Audit Scotland Fire and Rescue												
	2012-13											
Scrutiny activity year 2	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
	2013-14											
Indicative scrutiny activity for rolling third year	Potential scrutiny bodies involved											

Footnotes

The focus of the AIP is strategic scrutiny activity, that is scrutiny activity which is focused at corporate or whole service level, but there will also be baseline scrutiny activity at unit level on-going throughout the period of the AIP. This will include, for example, school and residential home inspections. Scrutiny bodies also reserve the right to make unannounced scrutiny visits. These will generally be made in relation to care services for vulnerable client groups. The annual audit of local government also comprises part of the baseline activity for all councils and this includes work necessary to complete the audit of housing benefit and council tax benefit arrangements. HMIE, through the District Inspector, will continue to support and challenge Education Services regularly and as appropriate.

The new body, Social Care and Social Work Improvement Scotland (SCSWIS), will be in place from April 1st 2011 and will regulate care services and inspect social work services based on the Public Services Reform (Scotland) Act 2010.

SCSWIS will undertake supported self evaluation work with councils during 2011. Planning is currently taking place and SCSWIS will contact LAN leads when the detail of the fieldwork is established.

HMIE and Learning and Teaching Scotland are to form a new quality and improvement agency on 1 July 2011.

The Accounts Commission has decided to undertake Best Value audits of Fire & Rescue Services and Authorities during 2011. Planning is currently taking place and Audit Scotland will contact LAN leads when the detail of the fieldwork is established.

Audit Scotland also undertakes a series of national performance audit studies. Field visits to individual local authorities often form part of this work. When a visit is planned to a council this will be communicated to the council through the LAN lead.

In April 2008, the Accounts Commission agreed to a request from the Department for Work and Pensions (DWP) to take over the Benefit Fraud Inspectorate's responsibility for inspecting housing and council tax benefit (benefits) services in Scotland. As Audit Scotland has no inspection function, this 'benefits performance audit' work has been incorporated into the annual audit of local government. The housing benefit audit of the council is planned for 2011/12.

Inverclyde Council 2010/11

Review of Governance Arrangements and Main Financial Systems

May 2011



 AUDIT SCOTLAND



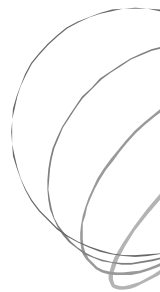
Inverclyde Council 2010/11

Review of Governance Arrangements and Main Financial Systems

May 2011

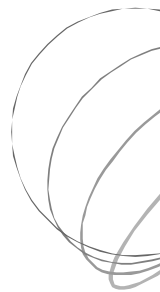
Contents

Introduction	1	Conclusion	9
Scope	3	Action Plan	10
Summary of Main Findings	4		

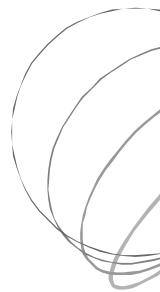


Introduction

1. As part of our 2010/2011 audit activity, we undertook a high level review of the governance arrangements and the main financial systems operated by Inverclyde Council (“the Council”), which were identified during our planning process. The purpose of this review was to evaluate whether the Council have sound and transparent governance arrangements in place and whether the key internal controls operating within the main financial systems are adequate. It should be highlighted that these reviews were restricted to a subset of the overall controls for each system. Those reviewed were the ones we determined to be the key controls to meet our audit objectives and therefore these reviews do not represent a comprehensive review of the controls in place over any of the specified systems.
2. A listing of the systems reviewed is shown on page 2. The code of audit practice requires us to establish the controls in place through discussions with officers, walkthrough tests and tests of controls to confirm that controls are operating in accordance with our understanding.
3. In April 2011 we reviewed the process adopted by the Council to manage early severance packages. In particular we considered whether the severance packages awarded during 2010/11 were:
 - approved within an appropriate decision making framework
 - properly authorised in line with the Council’s scheme of delegation
 - appropriately calculated in accordance with the Council’s policy on early retirement
 - properly assessed to ensure the expected savings outweigh the costs, including the likely impact on the provision of council services
 - charged to the appropriate service budgets
 - subject to members scrutiny and approval where required.
4. In May 2011 we reviewed the Council’s shadow IFRS accounts which are the 2009/10 UK GAAP compliant accounts restated to form the comparative figures for the IFRS compliant 2010/11 accounts.
5. This report summarises the findings from our reviews highlighting, on an exception basis, where we have identified any governance or control weaknesses or areas where procedures are deemed adequate but could be improved further. It also follows up on issues highlighted in our governance report issued in May 2010.



6. The issues outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist. It should be noted that the members and officers of the Council are responsible for the management and governance of the organisation and, as such, communication of issues arising from this audit does not absolve management from its responsibility to address the issues raised and maintain an adequate system of governance, internal control and performance management.
7. In our Annual Audit Plan issued in January 2011 we highlighted governance risks which potentially affected the financial statements of the Council. Note that these risks have not been repeated in this report.
8. The co-operation and assistance afforded to audit staff during the review are gratefully acknowledged.



Scope

9. Our review of the Council's governance arrangements drew upon a variety of information sources including committee minute review, Council reports, meetings with Council officers, corporate and directorate plans and Council documentation such as financial regulations, scheme of delegation and standards of conduct.

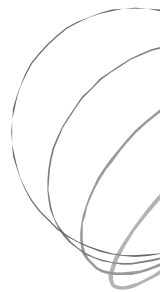
10. We identified the key controls and completed walkthrough tests in the following main financial systems:

▪ Trade Payables (Creditors)	▪ Council Tax Billing & Collection
▪ Trade Receivables (Debtors)	▪ Non Domestic Rates Billing & Collection
▪ Main Accounting	▪ Unified Benefits
▪ Payroll	▪ Budgetary Control
▪ Cash	▪ Treasury Management

11. Responsibility for the performance of more detailed tests of control on these systems was split between External Audit and the Council's Internal Audit Team. The table below shows how responsibility for the reviews was split.

System	Reviewed by
Main Accounting	Audit Scotland
Council Tax Billing & Collection	Audit Scotland
Trade Receivables	Audit Scotland
Trade Payables	Audit Scotland
Cash	Audit Scotland
Treasury Management	Audit Scotland
Payroll (refer to para 12)	Audit Scotland
Non Domestic Rates Billing & Collection	Internal Audit
Budgetary Control	Internal Audit (Report outstanding)

12. Internal Audit recently reviewed Payroll systems (Report outstanding), however based on findings in our May 2010 governance report we also performed focussed detailed test of control work.



Summary of Main Findings

13. We found that the Council's governance arrangements and internal control systems are generally adequate. Some areas where improvements could be made were identified, in particular relating to the performance of payroll reconciliations. These are highlighted below.

Governance

14. **Missed Audit Implementation Dates** – In our 2009/10 governance report we raised a concern about the number of audit recommendations where the implementation date has been missed. The progress reports presented to the Audit Committee on 26 April 2011 highlighted that:

- the agreed deadline for 27 of the 42 current internal audit action points, and three external audit action points had been missed
- action points with open ended deadlines such as 'to be advised' or 'on-going'
- action points with multiple revisions to the agreed deadlines.

Action Plan 1

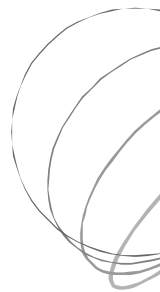
15. **Service Risk Registers** – In August 2010 a report to the Audit Committee stated that the service risk registers were being reviewed and updated with an anticipation that an overview report on key corporate risks would be presented to the October 2010 Audit Committee. This timescale has slipped with the overview report not presented at either the October, January or March Audit Committees. The April 2011 Audit Committee states that the overview report will be presented to the Corporate Management team in April and to the next relevant Audit Committee. We have been advised that slippage has occurred following restructuring and delays in filling vacant posts.

Action Plan 2

16. **Governance Documentation - Scheme of Delegation and Financial Regulations** - The Council partially updated the Scheme of Delegation during 2008/09 and further revisions have been carried out to reflect the current corporate structure. These revisions are still to be finalised. We have been advised that a further review of the Scheme of Delegation is to take place and the documentation will be finalised in 2012. The Financial Regulations are in the process of being updated and are due to be submitted to the Council in September 2011.

17. **Employee Code of Conduct & Whistle Blowing Policy** - The Employee Code of Conduct (with the Whistle Blowing Policy as an appendix) has not been updated since May 2000. A review and consultation process has been carried out and the draft to be submitted to the Corporate Management Team for review before submission to the relevant Committee for approval.

Action Plan 3



18. **Data Recovery Centre** – The Council’s plans to establish an interim data recovery centre were delayed by an issue relating the procurement of storage area network. The site is due to be completed by June 2011.

Action Plan 4

19. **Carbon Management Plan** – We reported in our 2009/10 governance report that progress against carbon management targets was not monitored. It was intended that progress would be made through the appointment of a Carbon Management / Energy Officer. An officer was appointed on 28 March 2011 and his remit will include implementing, monitoring and evaluating the council’s Carbon Management Plan.

Action Plan 5

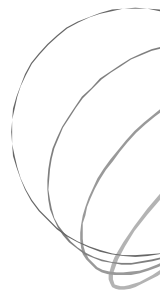
Payroll

20. **Payroll Reconciliations** - Staff costs represent the largest single item of expenditure for the Council. These costs are processed in the financial ledger via a direct interface from the payroll system. In order to ensure that the interface is working correctly good practice involves a monthly reconciliation between amounts (such as tax, national insurance contributions and net pay) posted in the ledger to totals from the payroll system. The CHRIS21 payroll system was implemented in September 2009. Payroll reconciliations were prepared up to March 2010 to support the 2009/10 year end process. However no further reconciliations were prepared until November 2010 (period 8). These were completed and authorised in March 2011. During this time regular controls were not in place to provide assurances over the consistency and accuracy of data held within the payroll and financial ledger systems.

Action Plan 6

21. **Single Person Dependency & Reconciliation Procedures** – Responsibility for the performance of payroll reconciliations was allocated to the Principal Officer Payroll who was seconded to the operating model for an extended period of time. Arrangements were put in place to provide cover during his absence, however the necessary controls were not maintained. Furthermore there are no documented procedures in place to ensure a smooth transfer of responsibilities. Single person dependency and lack of detailed procedures could result in delays in performing future payroll reconciliations.

Action Plan 7



22. **Unreconciled Balances and Supporting Documentation** - Our review of the period 8 payroll reconciliations highlighted:

- Unreconciled balances, in particular in the Local Government Pension Scheme (LGPS) reconciliation (£72,279) and Net Pay reconciliation (£46,615).
- Lack of documentation to support the CHRIS21 balances and the sign off process.

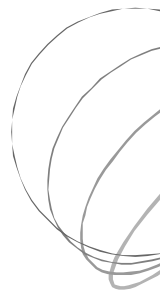
23. Payroll provided Finance with the period 9 reconciliations on 15 March 2011 but, similar to period 8, there was no documentation to support the CHRIS21 balances. Finance's review identified issues including unreconciled balances. It was noted that the unreconciled balance in the LGPS reconciliation had increased to £95,465.

24. Period 10 and 11 were combined and a single reconciliation performed. Some documentation to support the CHRIS21 balances was provided however this was not comprehensive. There were still unreconciled balances although it is recognised that these had reduced. The unreconciled balance in the LGPS reconciliation had reduced to £23,154. We selected a sample of reconciliations and have provided a summary of the unreconciled balances arising for the reconciliations covering November 2010 to March 2011. The table shows that overall there has been a reduction in the unreconciled differences however differences have increased in some areas. Processes and procedures currently in place are not resulting in fully reconciled balances between the payroll and financial ledger systems.

Unreconciled Balances in Reconciliations

Ledger	Description	P8	P9	P10 / 11	P12
96007	PAYE Tax	£469	£469	£-545	£-545
96008	LGPS	£72,279	£95,466	£23,155	£20,987
96009	Teacher's Superannuation Scheme	£18,151	Not Completed	£27,513	£29,168
96021	Net Pay Control	£46,616	NIL	NIL	NIL

Action Plan 8



25. **Reconciliation Sign Off** - The reconciliations covering periods 8,9,10 and 11 had been signed off as completed by the Finance department however this sign off was purely to acknowledge they had been performed and that the format was appropriate. The sign off was not to confirm the accuracy of the reconciliations.

Action Plan 9

26. **Payments on Account** - Payments were made to the LGPS on account until October 2010. In addition contributions amounting to £184,619 were paid in error to the LGPS which resulted in an overpayment of £184,619. The Council were reimbursed by the Strathclyde Pension Fund in April 2011 and payments are now made as they fall due.

Action Plan 10

Early Severance Process

27. **Workforce Plan** – Although the Council have developed a workforce strategy they are still to develop a workforce plan which determines the staffing levels and requirements to deliver services. As a consequence, no 'key' personnel have been identified who should be considered for exclusion from any release process. In a period of significant staff reductions, it is important that the Council are aware of the workforce needed to deliver services and ensure that it has the right people in the right jobs at the right time.

Action Plan 11

28. **Early Severance Policy** – The Council's 'Early Severance Policy' has been in place since 2003 and should be reviewed to ensure it complies with current legislation.

Action Plan 12

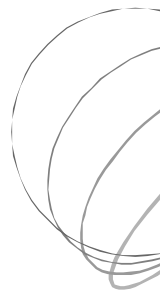
29. **Approval of Severance Packages** - Our sampling of severance packages identified one case without an approval sheet. Enquiries identified that the sheet has been passed to Finance for approval but it was overlooked due to annual leave commitments. The approval sheet has now been completed resulting in the approval date falling after the date of release.

Action Plan 13

Budgetary Control

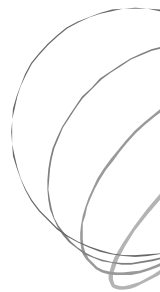
30. **Budget Profiling** – In prior year reports we have highlighted that the Council do not profile budgets and consequently are unable to provide an accurate in year comparison of expenditure to date against the budgeted position. We are still of the opinion that the Council should consider placing greater focus on zero based budgeting with budgets profiled over the financial year. It is recognised that this is an issue where the Council are not in agreement.

Action Plan 14



Shadow IFRS Accounts

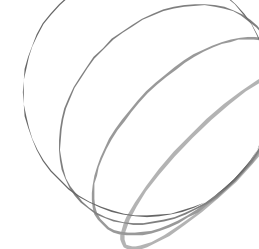
31. We are pleased to report that we have reached agreement with the Council on all the necessary adjustments required to restate the 2009/10 UK GAAP financial statements for the single entity to ensure compliance with IFRS. We will continue to work with the Finance department to help ensure the 2010/11 financial statements comply with the 2010/11 Code of Practice on Local Authority Accounting.



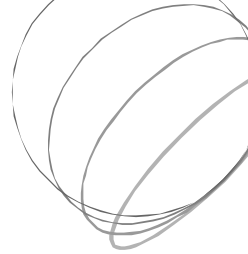
Conclusion

32. On the basis of the work undertaken, we have concluded that, in the main, we are satisfied that there are adequate governance arrangements and controls operating within the main financial systems. There are, however, some important areas where improvements could be made, in particular the controls relating to the payroll reconciliations, and an action plan to address these weaknesses has been provided for consideration by the Council.

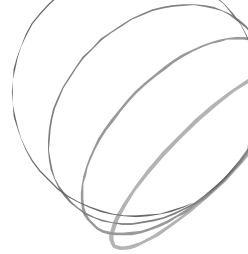
Action Plan



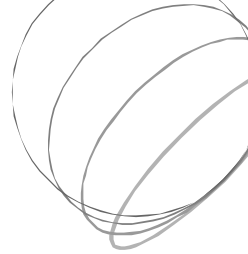
Ref.	Para.	Issue	Responsible Officer	Agreed Action	Action Date
Governance					
1	14	<p>Missed Audit Implementation Dates</p> <p>An excessive number of audit action points are not being implemented within the agreed timescales. Services should be reminded of the need for them to agree realistic timescales. The Audit Committee may want to consider requesting formal presentation from services when deadlines for significant points are missed.</p> <p>Risk: Improvements are not implemented which may have a detrimental impact on the delivery of Council objectives.</p>	Corporate Director Regeneration and Environment	The CMT will receive and review on a bi-monthly basis relevant follow up reports detailing the status of current Internal and External Audit Action Plans and ensure relevant action is taken to address any missed deadlines where appropriate.	31 July 2011
2	15	<p>Service Risk Registers Overview Report Key Corporate Risks</p> <p>The overview report on key corporate risks scheduled to be reported in October 2010 is still to be completed. We have been advised that the delay has occurred following organisational restructuring.</p> <p>Risk: Members and officers are not fully informed and able to act on key risks faced by the Council.</p>	Chief Internal Auditor	All Service Risk Registers have been reviewed and updated. The overview report will be presented to the Audit Committee meeting in August 2011.	31 August 2011



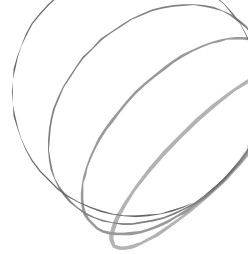
Ref.	Para.	Issue	Responsible Officer	Agreed Action	Action Date
3	16-17	<p>Governance Documentation</p> <p>Reviews of the Scheme of Delegation, Financial Regulations, Employee Code of Conduct and Whistle Blowing Policy are to be finalised.</p> <p>Risk: The Council may not be able to justify disciplinary action taken to manage breaches of policy.</p>	<p>Head of Legal and Democratic Services</p> <p>Chief Financial Officer</p>	<p>The Scheme of Delegation will be reviewed and updated in line with the Committee Structure.</p> <p>Financial Regulations to be reviewed and reported to Members by September 2011.</p>	<p>30 June 2012</p> <p>30 September 2011</p>
4	18	<p>Data Recovery Centre</p> <p>The Council are still to finalise arrangements to establish a data recovery centre to help ensure data can be recovered in the event of a disaster.</p> <p>Risk: The Council may not be able to restore key services in the event of potential disruptions to service delivery.</p>	<p>Chief Financial Officer</p>	<p>The interim Data Recovery Centre is nearing completion and is due for delivery in June 2011.</p>	<p>30 June 2011</p>
5	19	<p>Carbon Management Plan</p> <p>The Council need to implement a process to monitor progress toward achieving the targets set out in the Carbon Management Plan.</p> <p>Risk: The Council may not be able to assess the effectiveness of the plan and whether it is being achieved.</p>	<p>Head of Property Assets & Facilities Management/Head of Regeneration & Planning</p>	<p>Development and implementation of a formal mechanism to facilitate reporting on progress against actions within the Carbon Management Plan. An appropriate procedure will be incorporated into the Draft Plan which will be submitted to the CMT for approval in late summer 2011 and thereafter to the Safe, Sustainable Communities Committee following the summer recess.</p>	<p>Late summer 2011</p>



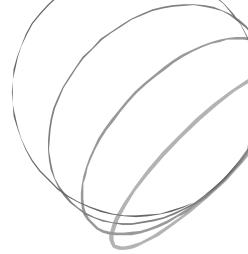
Ref.	Para.	Issue	Responsible Officer	Agreed Action	Action Date
Payroll					
6	20	<p>Payroll Reconciliations</p> <p>The first reconciliation between the CHRIS21 payroll system and FMS ledger system in 2010/11 was not performed until November 2010 and not completed and authorised until March 2011.</p> <p>Risk: Errors in the interface between the CHRIS21 and FMS systems are not identified.</p>	Finance Manager/ Human Resources Manager (Operations)	A plan is now in place to ensure that all reconciliations are completed and signed off by the 25 th of each month.	30 June 2011
7	21	<p>Single Person Dependency & Reconciliation Procedures</p> <p>There are no detailed procedures in place to support the performance of payroll reconciliations and there is currently too much dependency on a single Council officer to perform the reconciliations.</p> <p>Risk: Single person dependency and lack of detailed procedures could result in delays in performing future payroll reconciliations.</p>	Finance Manager/ Human Resources Manager (Operations)	<p>There are 18 reconciliations required each month within Payroll, a timetable to ensure detailed procedures will be completed by 30 June 2011 and will be completed by 31 December 2011.</p> <p>A training programme has started and the reconciliations have been allocated out across the Payroll Team. This will ensure that the single person dependency issue is addressed and also that the ownership and accountability for the completion of each reconciliation is clear.</p>	<p>June 2011 – December 2011</p> <p>June 2011</p>



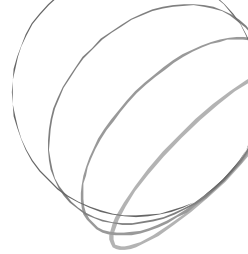
Ref.	Para.	Issue	Responsible Officer	Agreed Action	Action Date
8	22-24	<p>Unreconciled Balances and Supporting Documentation</p> <p>A review of the payroll reconciliations performed since November 2010 revealed a number of unreconciled balances and that documentation provided to support the figures in the reconciliations was not comprehensive.</p> <p>Risk: There may be errors in payments made to Her Majesty's Revenue & Customs for statutory deductions.</p>	Finance Manager/ Human Resources Manager (Operations)	<p>A number of issues have arisen during and since the migration of the payroll systems which required further investigation and resulted in unreconciled balances. Regular monthly reconciliations will prevent this situation occurring again and work continues to ensure that all balances carried forward for 2011/12 are fully reconciled.</p> <p>Access to the Chris21 system has been given to Audit Scotland and Internal Audit to enable validation and verification of the balances in the Reconciliations. (Access was allowed in the previous Payroll System)</p> <p>Reports have now also been provided to support balances in the reconciliations which Audit Scotland have confirmed are satisfactory.</p>	Complete



Ref.	Para.	Issue	Responsible Officer	Agreed Action	Action Date
9	25	<p>Reconciliation Sign Off</p> <p>The Finance department signed off the payroll reconciliations covering periods 8-11 as complete to acknowledge they had been performed rather than to confirm they were accurate.</p> <p>Risk: Errors in the interface between the CHRIS21 and FMS systems are not identified and corrected.</p>	Finance Manager	Finance will be provided with the same information and access as detailed above and a meeting will take place monthly between the Principal Accountant and Principal Payroll Officer to understand the issues and sign off the Recs.	30 June 2011
10	26	<p>Payments on Account</p> <p>Until October 2010 the Council made payments on account to the Local Government Pension Scheme. This resulted in a cumulative overpayment of £184,619 which the Strathclyde Pension Fund repaid in April 2011.</p> <p>Risk: Penalties may be imposed on the Council if future payments to the Pension Scheme do not reflect deductions made.</p>	Human Resources Manager (Operations)	Payments on account were made as the reconciliation had not been completed. Since January 2011 all payments made to SPFO have been reconciled and accurate payments passed over. The reconciliations are now being completed in a timely manner. The actions detailed above will ensure that this continues.	Complete



Ref.	Para.	Issue	Responsible Officer	Agreed Action	Action Date
Early Severance Process					
11	27	<p>Workforce Plan</p> <p>The Council are still to develop a workforce plan to ensure that it has the right people in the right jobs at the right time.</p> <p>Risk: In future years the Council could have skill gaps which will impact on its ability to deliver services.</p>	Head of Organisational Development, Human Resources & Performance	<p>It was agreed by the CMT that the Workforce Plan would be carried out in a phased approach, the first phase was to roll out staff appraisals to all staff which is now complete.</p> <p>The next phase Succession Planning will commence in the summer and completed by 31 December 2011.</p> <p>Workforce Analysis will be informed by number of other reviews being carried out in the services and be completed 31 March 2013.</p>	<p>Complete</p> <p>31 December 2011</p> <p>31 March 2013</p>
12	28	<p>Early Severance Policy</p> <p>The Council's 'Early Severance Policy' has not been reviewed since it was established in 2003.</p> <p>Risk: The policy may not comply with current practice and legislation.</p>	Head of Organisational Development, Human Resources & Performance/ Chief Financial Officer	The Council Policy will be reviewed in line with the current review of Severance compensatory policies.	September 2011



Ref.	Para.	Issue	Responsible Officer	Agreed Action	Action Date
13	29	<p>Approval of Severance Packages</p> <p>Sample testing highlighted a severance package which has been passed to Finance for authorisation but this was overlooked due to annual leave commitments.</p> <p>Risk: Severance packages may be awarded which do not comply with the Council's value for money criteria.</p>	Head of Organisational Development, Human Resources & Performance	Employees will not be released without the necessary signed documentation being completed and approved.	Immediate
Budgetary Control					
14	30	<p>Profiling Budgets</p> <p>The Council do not profile budgets and consequently are not able to provide an accurate comparison of expenditure to date, against the budgeted position. Consideration should be given to placing greater focus on zero based budgeting with budgets profiled over the financial year.</p> <p>Risk: Members and key officers are not fully aware of the Council's actual financial position in relation to its budget during the year.</p>	Chief Financial Officer	In line with previously, the Chief Financial Officer believes the current approach achieves a balance between accuracy of projections and the resources available. No action proposed.	-

Inverclyde Council

Review of Purchasing and Procurement

June 2011



 AUDIT SCOTLAND



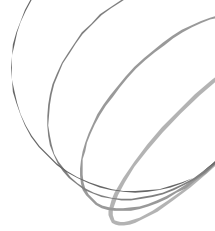
Inverclyde Council

Review of Purchasing and Procurement

June 2011

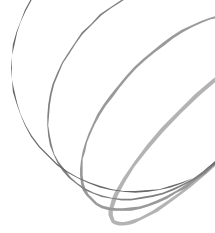
Contents

Summary	1	Identified risks and management action	6
Findings	2		



Summary

1. As part of our 2010/11 audit activity, we undertook a review of the purchasing and procurement activities within Inverclyde Council (the council).
2. The purpose of the review was to evaluate whether purchasing and procurement arrangements are adequate. Part of this process involved reviewing the results of the work carried out by Scotland Excel through their procurement capability assessments (PCA) and the council's response to its assessment. We also followed up issues raised in our report to members and the controller of audit from the 2009/10 audit.
3. This report summarises the findings from our review. The areas for improvement outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist. Internal audit have also issued a number of reports highlighting weaknesses which are being addressed by management through agreed action plans.
4. Communication of issues arising from this audit does not absolve management from its responsibility to address the issues raised and maintain an adequate system of governance, internal control and performance management around procurement activities.
5. The factual content of this report and the management actions has been agreed with the appropriate officers. The cooperation and assistance afforded to audit staff during the review are gratefully acknowledged.



Findings

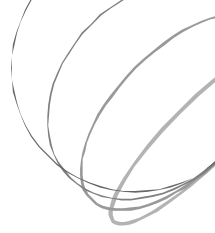
Commitment to achieving improvements in purchasing practice

6. The Scottish Government approved the Procurement Capability Assessment (PCA) model in July 2009. The intention of the model is to promote the sharing of best practice and continuous improvement across the Scottish public sector. Scotland Excel reviews and assesses procurement capabilities of Scottish local authorities using the PCA model.
7. Local authorities need to achieve a score of 25% or above through the PCA in order to obtain a “conformance” rating. Inverclyde Council was subject to its first PCA in 2009 and achieved a score of 4% - one of the lowest scores in Scotland. A significant number of improvement areas were identified at that time. Corporate Procurement across all council’s was weak, with a conformance score achieved by only 8 local authorities (25%) in Scotland in 2009.

The council was reassessed in November 2010 and at that time some improvement had been achieved, although the council remained with a non-conformance score of 15%. The council showed some improvement in 8 of the attributes assessed under the PCA, but with one area showing deterioration in performance. We have been advised that this was due to inaccurate reporting on the role of sustainable procurement in previous years. It is expected that the 2010/11 score will show an improvement as procurement will be properly linked with the corporate plan and the forward looking actions on sustainability. The strategic procurement framework action plan requires to be updated to reflect recent developments.

Risk No 1

8. Across the 8 categories identified in the McLelland Report as being fundamental to achieving best value, improvement has been demonstrated in 7, although in the ‘Defining the Supply Need’ category, the score remained at zero. The strategy to date has concentrated on the internal governance and policy changes but will now focus on the Council’s relationship with suppliers. The most significant improvements were in the following areas:
 - Procurement strategy and objectives
 - Procurement leadership and governance
 - Key purchasing processes and systems
 - People.



9. However significant weakness existed over the following areas:

- Resources & Skills
- Corporate & Social Responsibilities
- Benchmarking
- Supplier Strategy & Policy

The only area that has been assessed as conformant is over procurement strategy and objectives. The strategy however requires to be updated to take account of the revised procurement improvement plan.

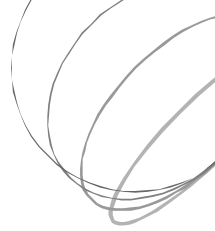
Risk No 1

10. The improvement in the PCA was primarily due to the council having appointed a Corporate Procurement Manager, who agreed an action plan to address the significant weaknesses identified in procurement following the first PCA. The foundation to this improvement is the introduction of the Strategic Procurement Framework. Progress has continued, with the introduction of a Procurement Programme Board, and an operational team looking to improve procurement practices at a service level.

11. The council is taking a pragmatic approach to procurement in the current economic climate of restricted resources – and recognised the potential and importance of corporate procurement through increasing the staffing of the corporate procurement section. It has adopted a systematic approach to its procurement practices and targeted key priority areas in accordance with the Strategic Procurement Framework. There is recognition that an increase in staffing levels may not result in an immediate return on investment. Benchmarking with other Councils has illustrated that there is not a direct proportionate relationship on return on investment with increased staffing levels.

12. Progress made since the appointment of the Corporate Procurement Manager is monitored through an action plan reported to the Policy & Resources Committee against targets set on the Strategic Procurement Framework. This is a 2 stage approach to achieving the improvement required, with stage 1 concentrating on the structure, data and processes associated with a successful corporate procurement programme. Stage 2 will commence once all the objectives at stage 1 have been achieved. Progress has also been reported to the corporate management team (CMT).

13. The introduction of the Procurement Programme Board has resulted in greater consultation with services on procurement. It is intended that this will help improve policies and procedures in procurement and provide feedback on structural changes. A further team has been established to develop operational procurement, with the aim of improving communication between services, identifying savings and ensuring compliance with EU legislation.



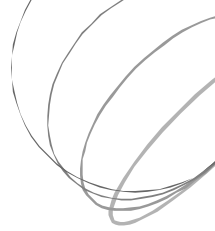
14. Both elected members and the CMT have demonstrated a commitment to achieving improvements in purchasing practices. This has resulted in the standing orders relating to contracts being revised and clarified over the last few months. The Corporate Procurement Manager has conducted awareness sessions with the elected members on the changes to the contract Standing Orders and the Corporate Procurement Manual.

Delegation and authority for purchasing

15. Purchasing authority is delegated to services by way of the council's scheme of delegation, the financial regulations and the standing orders relating to contracts. As previously mentioned the standing orders relating to contracts have been revised during the last year and the scheme of delegation is being reviewed for procurement officers. Delegated approval limits are in place for officers with regards to purchasing powers. The executive directors are responsible for ensuring best value is achieved through purchasing activities within their directorates.
16. The corporate procurement section has recently completed a contract register which will be under continuous review to identify contracts approaching renewal. This helps ensure various renewal options can be considered and the most beneficial option put in place prior to the contract expiry date. The corporate procurement section also reviews the largest areas of the council's expenditure with a view to identifying more efficient and effective purchasing options.
17. Internal audit carried out a review on Procurement Compliance which was completed in September 2010, with a number of action points relating to the Strategic Procurement Framework and the introduction of a designated procurement officer network which have subsequently been introduced. The council's internal audit section has also carried out a review of the council's expenditure, including corporate purchase card activity. Several recommendations have resulted from this review, which will be addressed by an agreed action plan.

Corporate Purchasing

18. There is an expectation that at least 50% of the overall procurement expenditure is influenced by the Corporate Procurement Section. Within councils with expenditure greater than £20m, this is expected to increase to a level of between 70% and 80%. At present, the Corporate Procurement Section does not have this level of influence over service procurement. However it is expected that this will improve with the appointment of designated procurement officers having responsibility for the provision of procurement information to the Corporate Procurement Manager, and the provision of support and advice on procurement matters within their service area. These officers will meet regularly with the Corporate Procurement Manager to discuss future procurement plans, so the influence of corporate procurement will increase significantly. Links between the corporate procurement section and service



procurement require to be monitored to encourage best value and compliance with the procurement strategy.

Risk 2

19. The Organisational Improvement & Resources directorate plan includes objectives for the corporate procurement section. The council has taken steps towards achieving a corporate approach towards procurement. However, increased progress has been restricted as a consequence of the limited resources available, but increased progress is expected following the appointment of the new officer during May/June 2011.
20. A procurement programme board with representatives from all directorates is in place and meets regularly to identify improvement actions. The corporate procurement section has been restructured with additional resources being deployed to meet the challenge ahead. The CMT continues to receive regular review and progress reports on procurement activity.
21. The 2011/14 council budget included a £700,000 procurement efficiency target. Officers have advised that this target has been achieved, with further opportunities already identified. However, the cuts to the funding received from the Scottish Government will bring added pressures to achieving further savings. At the meeting of the May Policy and Resources Committee it was agreed to increase the target to £1m, of which only £40k remains to be achieved. Contracts due for renewal in 2011/12 should give opportunities to deliver further efficiencies. With the expected shortfall on the savings expected from the introduction of the Operating Model, it is hoped some of this can be delivered through further improvements to the corporate procurement process. The achievement of planned efficiency savings is monitored through the regular budget monitoring reports presented to the CMT and Policy & Resources Committee.

Risk No 3

22. While the council has been increasing the number of collaborative procurement contracts, there remains further opportunity to secure savings through collaboration with other public sector bodies. In an effort to achieve these savings, regular meetings are held with Procurement officers from Renfrewshire Council to identify further areas allowing for joint working. A small number of contracts with the neighbouring Ayrshire Councils are in place which demonstrates the council's willingness to make progress in this area. However, there remain additional savings opportunities resulting from collaborative purchasing, such as the Clyde Valley Shared Services review of social care procurement.

Risk No 4

Identified risks and management action

No	Para No.	Issue/ Risk	Responsible Officer	Management Response	Target Date
1	7 9	<p>Issue: The strategic procurement action plan has still to be reviewed following the PCA in November 2010.</p> <p>Risk: There is a risk that action has not been taken help improve purchasing practices.</p>	Corporate Procurement Manager	A review will be undertaken in conjunction with Scotland Excel which will produce a refreshed SPF Action Plan. This will be reported to Committee in September 2011.	Sept 2011
2	18	<p>Issue: Monitoring arrangements are not in place to assess the level and effectiveness of linkages between the corporate and service procurement functions.</p> <p>Risk: There is a risk that best value in relation to procurement will not be achieved.</p>	Corporate Procurement Manager	Regular and minuted meetings of the procurement Board and Designated Procurement Officers Group will ensure better linkages and improved communications.	From May 2011
3	21	<p>Issue: Procurement efficiency savings require to be identified on a continuous basis and then monitored to ensure planned savings are achieved.</p> <p>Risk: There is a risk the optimum savings are not delivered from procurement activities.</p>	Chief Financial Officer	Benefits are tracked and applied as each tender closes. Moreover, savings resulting from in contract spends will be monitored. Savings are reviewed with the CFO monthly and reported to CMT monthly and every second committee cycle.	From April 2010
4	22	<p>Issue: Collaborative procurement contracts have recently been increasing in numbers. Every collaborative contract is reviewed upon being made available. Savings are identified and reviewed with the CFO.</p> <p>Risk: All possible collaborative procurement opportunities are not taken up.</p>	Corporate Procurement Manager	<p>With the establishment of the DPO Group and greater involvement between Services and Corporate procurement it is expected that increased collaborative opportunities will be identified.</p> <p>Relevant Officers will ensure that the Councils Standing Orders are adhered too prior to entering any such arrangements.</p> <p>Social Care in particular is an area where further opportunities exist either through Scotland Excel, Clyde Valley Shared Services or with neighbouring Councils.</p>	On Going