

REPORT TO AUDIT COMMITTEE – 29 MARCH 2017

INTERNAL CONTROL COMPLIANCE AND GOOD GOVERNANCE

1 Recommendations

Committee is recommended to:

- 1.1 Discuss the attached update provided in this report with regard to internal controls,
- 1.2 Consider whether this piece of work can now be signed off.

2 Background/Discussion

- 2.1 Members will recall a Special Meeting of this Committee was held on 24 March 2016 to consider a number of compliance issues that the Committee were concerned about. The Chief Executive attended this meeting to contribute to the discussion and reinforce the management response to the issues raised. An interim update was provided to Committee on 22 September 2016 and this paper sets out further progress since then.
- 2.2 The Council's Financial Regulations provide the framework for managing the Council's financial affairs and apply to every member and employee of the Council or anyone acting on its behalf. Along with the financial procedures and processes, the financial regulations define many of the internal controls which the Council has adopted and implemented.
- 2.3 The Council's Scheme of Delegation and Officers Delegated Powers also include many internal control mechanisms in that these documents describe the powers which Committees and officers have been delegated for decision making purposes.
- 2.4 Each year the internal controls are reviewed by the Chief Internal Auditor and reported to Scrutiny & Audit Committee along with the Annual Governance Statement. The Chief Internal Auditor indicated last year that, in his opinion, based on his evaluation of the control environment, reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2016. However, some concerns relating to compliance with Council policies and procedures and delays in the implementation of Internal Audit recommendations were highlighted.

On this latter point, the performance over the last 6 months has improved in that the average total number of recommendations not implemented by the due date has reduced from an average of 51 between February and July 2016, to 34 between September 2016 and March 2017. Efforts are continuing to be made to reduce this number further and to put these figures

into context the number of recommendations implemented on time as reported between September 2016 and March 2017 is 86%.

Committee will also recall a substantive item on the agenda for the meeting on 15 February 2017 was on the Budget Review Group Task Force Action Plan on Creditors Payments. Many of the actions as part of that work are relevant to the origins of this report and the Audit Committee agreed to receive updates on the Action Plan 3 times per year, which is in line with the planned monitoring arrangements. The first update will fall due to the June meeting of this Committee.

- 2.5 The Future Governance Working Group have now completed their work and Council has agreed to implement the changes recommended by the Working Group. The new arrangements have been live since 27 January 2017 and there has been at least one cycle of meetings of the various Council Committees. Significant briefing sessions have taken place with Councillors and staff and it is recognised that further briefings on the Council's overall governance arrangements will be required for Councillors after the local government elections in May 2017.
- 2.6 One of the main concerns arising out of previous reports was that non-staffing spend over £60,000 (now £50,000) was not being properly approved. The new governance arrangements require Services to have their advance procurement plans authorised by Policy Committees in advance of going to tender. There is a greater level of delegated authority in place once this advance authority has been obtained. This new arrangement will ensure that Services plan their procurement exercises in a more robust manner and will also ensure that commodity spend across Services can be captured and appropriate procurement routes chosen to ensure legal compliance. This will also enhance the budget setting process with procurement plans underpinning the level of budgeted expenditure.
- 2.7 A frequent issue in the past has been the failure to raise purchase orders in advance of goods receipt or service provision. This can now be measured more accurately with more orders being placed through the corporate iProcurement system and recent audits have shown a reduction in retrospectively raised orders (from 7,000 to 3,900, out of 270,000 orders raised, in the most recent year end creditors payments audit).
- 2.8 With regard to the raising of purchase orders, the project to centralise the payment of invoices function in one team has made good progress. The transfer of the payment processing function to a dedicated team is well under way with all primary school invoices now being paid through one team, with a timetable for further payment processing activities being discussed with Services. For this team to operate effectively an authorised and receipted purchase order will be required, which is then matched to the invoice received by the team and then processed for payment.

- 2.9 Linked to this project is the implementation of e-invoicing. This will involve a substantial change to the 'procure to pay' process and streamlining of authorisation controls. If the purchase order is received, receipted and matches the invoice then the purchase order approval will be enough to make payment. As the purchase order becomes the main point of authorisation then it is increasingly important for officers to raise a purchase order. This is work in progress as the Service encourages suppliers to use electronic invoices. There are currently 15 suppliers submitting their invoices electronically with 4 more planned for the first quarter of financial year 2017/18.
- 2.9 The review of financial systems is underway and being progressed by colleagues in Finance and ICT and will include the consideration of whether we can consolidate the number of systems holding and processing financial information which could help standardise one 'procure to pay' process across the Council. A tender process is currently underway with a planned implementation of September 2018.
- 2.10 The Contracts Register, while not yet fully complete, is now being used as a forward planning tool by Services to help reshape how we commission services in future. A verbal update will be provided at Committee with the most up-to-date position.
- 2.11 Another area of concern was the fact that not all financial documentation was being authorised by officers with delegated authority. This tended to arise in relation to timesheets, travel claims, and invoices. The project to centralise the payment of invoices referred to above will largely address the issue regarding invoice payment. The introduction of electronic timesheets on iTrent will be incorporated within the wider scope of ERM and will be rolled out on a phased basis in approximately 12 months' time.
- 2.12 The Head of Finance, Monitoring Officer within Business Services and the Chief Internal Auditor have been consulted and any comments incorporated.

3 Scheme of Governance

- 3.1 The Committee is able to discuss this item in terms of Section G.1.2 of the List of Committee Powers in Part 2A of the Scheme of Governance as the report relates to internal control systems and policies and practices ensuring compliance with all requirements.

4. Equalities, Staffing and Financial Implications

- 4.1 An equality impact assessment is not required because there will be no differential impact as a result of this report on people with protected characteristics

4.2 There are no direct financial implications arising from this report.

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Report prepared by Ritchie Johnson
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