

Item No.	Classification: Open	Date: 08/07/2003	MEETING NAME EXECUTIVE
Report title:		RECOMMENDATIONS OF THE FINANCE AND GENERAL PURPOSES SUB-COMMITTEE IN RESPECT OF ITS CONSIDERATION OF THE DISTRICT AUDITOR'S ANNUAL LETTER	
Ward(s) or groups affected:			
From:		CHIEF FINANCIAL OFFICER	

RECOMMENDATIONS

1. Members are asked to note the progress made on each of the 8 points raised by Finance and General Purposes Scrutiny (Sub-Committee) on 12.03.03 as set out in paragraphs 3 to 28 below.

INTRODUCTION AND BACKGROUND

2. This report has been written to update the Executive on the progress made in relation to the 8 issues resolved at Finance and General Purposes Scrutiny (Sub-Committee) on 12.03.03. At the meeting of the Executive on 8.04.03 a report back on the progress made in implementing these recommendations was requested. The recommendations and progress against each is recorded in paragraphs 3 to 28 below.

The delivery of an improved Comprehensive Performance Assessment (CPA) rating be the Council's first priority.

3. An improved CPA rating is acknowledged to be a key priority for the Council and officers are working to ensure an improved score is achieved at the time of the next assessment. In particular officers are concentrating effort on those areas where the Council's CPA score was unsatisfactory.

That more robust arrangements for financial management, reporting and control be introduced.

*NB Changes to wording compared to the originally circulated version - paras 4 & 5 below - are shown in **bold italic***

4. ***The Council has recently begun implementation of its "Forward to Sound Financial Management at Southwark" programme which is aimed at improving financial management, control and reporting arrangements to address Audit Commission CPA comments and Finance & General***

Purposes Scrutiny Sub-Committee comments. The key themes of the programme are:

- **clarifying responsibilities and accountabilities,**
- **ensuring financial systems operate rigorously, and**
- **ensuring issues around resources capacity and competency are addressed.**

5. Many of the actions affect back-office financial processes. However to give Members a flavour of the changes, some of the key elements of this programme are outlined below:

- **Ensuring that accounting processes are “Regular as Clockwork” – this improves the accuracy of reported financial information and speed up year end closure of accounts i.e.**
 - **Asset Rents – revaluation and posting to accounts are promptly carried out**
 - **Service Level Agreements (SLAs) are posted promptly to accounts**
 - **Reallocation of overheads – ensuring these are regularly posted to accounts**
 - **Suspense accounts are cleared out monthly as a minimum**
 - **Internal Billing – bills are paid promptly and disputes settled promptly**
- **Ensuring that due diligence is shown in Financial overview of major reports:**
 - **Departmental Senior Finance Managers will ensure they are satisfied with reports before release (or submission to Chief Financial Officer (CFO) for production of a concurrent report)**
 - **The Executive Member will be consulted on reports with sufficient time to allow comments to be incorporated**
- **Adequate controls put in place by Departmental Senior Finance Managers to ensure journal entries in the accounts are properly authorised and evidenced before posting to accounts.**
- **During this year a review will be undertaken of the current SAP expenditure coding structure to address the needs of the users of financial information reports. This review is scheduled to start in Autumn 2003 and is due to be completed by March 2004.**
- **Quarterly financial reporting to members will be further improved to include in addition to service forecast outturns, position statements on approved growth, agreed savings and income management.**

That the Council move forward in developing a risk management strategy.

*NB Changes to wording compared to the originally circulated version - paras 7 & 10 below - are shown in **bold italic***

6. Significant steps have already been taken to develop and implement a Risk Management strategy for the Council.
7. The strategy document has been written and now **approved** by members (meeting of Executive on 8.04.03) and a programme of implementation is now under way. Top level risk registers have been produced for each department and for the Council as a whole via Chief Officer Team (COT).
8. These map both inherent risk (i.e. the gross risk that exists before taking account of any mitigation already in place) and residual risk (i.e. the net risk that exists after considering mitigation already in place). They are then being used to develop action plans to facilitate implementation of any further mitigation actions identified as required as a result of the risk mapping.
9. Following on from the top level risk maps already produced, a programme of mapping risks at each Business Unit across the Council is now taking place with again inherent and residual risk mapped and action plans produced to identify any changes to current mitigation that might be required.
10. The Council is currently in the process of acquiring a software package for maintaining risk registers and generating risk information that will be networked to the defined risk champion (***i.e. the nominated person in each department responsible for promoting the risk management project in that department and ensuring risk registers are kept up to date***). Following roll-out of this software responsibility for updating risk registers to ensure that they remain up to date and accurate will rest with each departmental risk champion. Ultimately, once risk management is fully embedded in Council processes it will become a key source of information for managers in driving resource allocation, business improvement and service delivery.
11. Finally and in order to receive an independent assessment of its risk management programme the Council arranged a review of its arrangements by the Audit Commission. That report was finalised in May 2003. Of the 36 areas considered key by the Audit Commission to ensure an effective risk management process is in place, recommendations for further action were made in respect of 11 of these points with the remaining 25 issues considered to be already satisfactorily dealt with. An action plan to address the 11 outstanding points has now been agreed with the Audit Commission.

That delivering the benefit of investment in the new internal audit contract be considered a priority

*NB Changes to wording compared to the originally circulated version - para 17 below - are shown in **bold italic***

12. Officers are working hard to ensure that maximum benefit is gained from the new Internal Audit contract and a number of measures and monitoring systems have been put in place to ensure that maximum value is gained from those new audit arrangements.
13. The audit client-side has developed and put in place a set of key senior management groupings and designated owners of individual audit projects to ensure all Council managers have complete ownership of the service provided by the contractor and that it can be directed by them to address the needs of the Council.
14. The audit client side has overseen the creation of a close working partnership between PricewaterhouseCoopers and the Audit Commission. This includes regular joint meetings and undertaking individual audit projects together on a joint basis. This is to ensure that the needs of the Audit Commission, as a key stakeholder in audit arrangements at the Council, are understood and can be fully met by the client-side on behalf of the Council.
15. A comprehensive range of performance measures, benchmarked with a number of other London Councils, has been put in place to monitor and drive the performance of the audit contractor. The audit client-side reviews the performance of the contractor against these targets on a monthly basis.
16. Targets of 100% implementation of audit recommendations have been set for Council managers. Achievement of this target this will be monitored and tracked by a programme of operational scrutiny and follow-up audits undertaken in a coordinated way by both client and the contractor. Implementation of audit recommendations has also been designated a relevant factor in the performance appraisal of Council managers.
17. The Council has been a leader in establishing the PricewaterhouseCoopers Forum of London Authorities, incorporating the London Boroughs of Lambeth and Hackney, who also employ PricewaterhouseCoopers to provide internal audit. The purpose of this forum is to identify and apply best practice principles to the audit function, and where appropriate, to create economies of scale through joint projects **and a common approach to audit planning. In addition the forum will enable benchmarking of Client and Contractor performance across each Authority on agreed areas. Finally the forum will help to identify and implement a strategy for achieving and maintaining Managed Audit Status. Achieving this goal will have significant benefits for the Council including likely cost reductions in external audit fees. This is because managed audit status allows the external auditor to place reliance on the work of the internal audit**

provider which means that less work is required by the external auditor in undertaking his statutory audit. This results in reduced audit fees.

18. A programme of quality control monitoring and evaluation of the contractor has been put in place by the audit client-side. Feedback from senior managers at the Council indicates very high levels of satisfaction with the audit service produced by the Contractor.

That action in respect of Standards of Financial Conduct and the Prevention of Fraud and Corruption and Grant Claims be monitored.

*NB Changes to wording compared to the originally circulated version - paras 20 & 21 below - are shown in **bold italic***

19. The District Auditor's concerns around issues of Fraud and Corruption as reported in his Annual Audit Letter mainly centre around contract letting. He said: "*Arrangements for dealing with fraud and corruption are generally adequate. The Council has proper procedures and contract standing orders for the tendering and awarding of contracts. However, our work has identified instances where these are not being complied with. This puts the Council at risk of potential allegations of bias or corruption or poor value for money*". Management accepts the comments of the DA regarding weaknesses in the tendering and award of contracts. The Chief Finance Officer arranged his own review of the evaluation and award of tenders earlier in the year, which identified similar weaknesses to those identified in the DA's own review. Following this review, the Directors of the departments concerned have agreed to provide training to staff involved in procurement of works and service contracts.
20. ***Corporately, a new procurement strategy, revised contract standing orders a new procurement Code of Practice and Guidance and an implementation plan are currently being developed and will be finalised for members' approval in September 2003. In addition, a corporate manual to cover the management of capital works, and training in the manual has been developed and will shortly be available through Corporate Learning and Development.***
21. ***Management acknowledges the problems identified by the Financial Management Services (FMS) and DA reviews regarding non-compliance with corporate and departmental procedures. A number of controls have been implemented to address the weakness identified. A "Gateway" system has been introduced. The Gateway Process examines a procurement project at critical stages in its lifecycle to provide assurance that it can progress successfully to the next stage. Most departments have set a financial level for putting contracts through the Gateway process appropriate to the size and types of contracts that they let. High risk and/or complex contracts are scrutinized by a Contracts Review Board consisting of all Chief Officers, the Borough Solicitor and***

Secretary and the Chief Finance Officer at each stage. A complete contract register is being drawn up, which will facilitate better monitoring of the Council's contract arrangements, and aid in the programme of contract audit included in the Annual Internal Audit Plan.

22. In respect of monitoring of grant claims and improving performance significant progress has already been made. There has been a large improvement in numbers of grants received by the DA on time in 2002/03 compared with previous years. But other action has also been taken to improve performance further. Joint Audit Commission / FMS Workshops with grants officers have been held to ensure staff are aware of Audit Commission requirements. Income Management Team (IMT) are working closely with departments and the Audit Commission on preparing working papers and claim completions throughout the summer prior to the start of the formal audit. Monitoring of grant claims is now also included as part of the Income & Debt Monitor. These steps will help to improve performance further, building on the progress made in 2002/03.

That contract processes be improved and consistently applied throughout the Council

*NB Changes to wording compared to the originally circulated version - paras 23 & 24 below - are shown in **bold italic***

23. Procurement and contract processes were reviewed and reported on by PA Consulting in 1999. Their **report recommended** that procurement and contract management arrangements needed to be strengthened, particularly the policy, strategy and operational implementation. It also acknowledged that capacity needed to be increased both in terms of skill base and volume.
24. To enable that to happen a small Central Procurement Team was established in Environment and Leisure Department. Following on from the CPA report it has been recognised that it needs to be strengthened further to enable it to deal with **supporting** Southwark in all procurement activities. A BV review of the management of the Capital programme has been carried out and **a** subsequent BV review of Capital Management has reinforced the need to improve control processes and ensure consistent improvement. To do this we are recruiting a Head of Procurement with responsibility for both Revenue and Capital, revising Contract Standing Orders, establishing a procurement strategy supported by an operational Business Plan and further developing the programme set up in 2003/04 to identify the training needs of staff against established procurement competences to ensure that individual staff learning and development plans include improving procurement skills as a target.
25. To date 34 staff have received training through this process. Additionally when the new Contract Standing Orders are agreed a training programme will be rolled out for all staff carrying out procurement.

26. As a final point it should be noted that District Auditor's most recent report (May 2003) on Contract Management has recognised that there has been some significant improvement in practice within the Council since the previous review in 2002 even if further improvement is still required in some areas.

That the Executive be asked to clarify "the inaccuracies" relating to the District Auditor's comments on the Tabard and Aylesbury Estates;

27. The District Auditors Annual Audit Letter received in February 2003 stated that *"the Council received a setback to its stock transfer plans with the strong opposition voiced at the Aylesbury and Tabard Estates. A new strategy has been agreed to deliver improvement although the Council still faces a serious challenge if it is to meet the Government's 'decency standard' target for all social housing by 2010"*

In response to that comment the Strategic Director of Housing has advised that the extent of the challenge faced in bringing all Council properties up to Decent Homes standard cannot accurately be assessed until the current stock condition survey is fully completed next month. Initial indications 16 months ago were that 51% of the stock did not meet the standard, but this was based on a limited sampling exercise. Considerable investment resources are being targeted on the worst condition stock and this will continue over the next few years. Investment strategy is being developed through the HRA Business-planning process. A full stock options appraisal produced by July 2005 will consider how any gaps in investment requirements will be addressed, in accordance with the Government's Sustainable Communities Plan and associated guidance issued in the last month.

That District Audit present the final report on the review of strategic regeneration to the Sub-Committee

28. The District Auditor has confirmed his willingness to present the report on the review of Strategic Regeneration to the Sub-Committee once the report has been finalised with the Strategic Director of Regeneration.

RESOURCE IMPLICATIONS

29. There are no direct resource implications flowing from this report.

LEGAL IMPLICATIONS

30. There are no specific legal implications flowing from this report.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
District Audit Annual Audit Letter	FMS	David Oliver 0207 525 4313

AUDIT TRAIL

Lead Officer	Keith Brown	
Report Author	David Oliver	
Version	Final	
Dated	03.07.03	
Key Decision?	No	
CONSULTATION WITH OFFICERS/DIRECTORATES/EXECUTIVE MEMBER		
Officer Title	Comments Sought	Comments Included
Borough Solicitor and Secretary	No	No
Chief Finance Officer	Yes	No
All Chief Officers	No	No
Executive Member	Yes	Yes
Date final report sent to Constitutional Support Services	04.07.03	