



LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Audit Committee

Wednesday, 20 January 2010

The following supplementary information was received too late to be included on the main agenda for this meeting and was marked 'to follow'. It is now enclosed, as follows:

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
8	1 - 6	RESULTS OF INTERNAL AUDIT WORK	Supplementary information not available until after agenda publication.	Derek Whiteway, Internal Audit Manager

Internal Audit - Follow Up Summary Report




Job: 07/0679 - Markets

Date of Final Report: 10 February 2009

Agreed By: Head of Property Services and Accountancy Services Manager

Date of Follow-Up: 19 January 2010

Assurance Opinion History:

Date of Assessment	Source	Level of Assurance Provided	Comments
09-Feb-09	Internal Audit - Final Report	 Limited	Given that income collection arrangements are currently under review, and procedures are subject to change, Internal Audit are only able to provide limited assurance at this time. A formal follow up will be carried out in August '09 to establish developments in terms of income collection arrangements, and progress made with the action plan.
27-Aug-09	Management - Post Audit Review	 Limited	There has been little change in income management arrangements at the Markets with the majority of tenants continuing to pay rent by cash rather than by more cost efficient methods. This is likely to remain unchanged until such time as the future of Lancaster Market has been determined, although plans are being made to introduce a debit/credit card payment facility at the Festival Market by the end of September. The follow-up review currently underway will specify what further action is needed to raise the assurance opinion to 'Reasonable'
19-Jan-10	Internal Audit - Follow-Up Review	 Limited	As income collection arrangements remain unchanged, and are still subject to review, Internal Audit feel that the level of assurance which can be provided at present remains limited. Until such time as the situation regarding invoicing and cash collection arrangements has been resolved, a reasonable level of assurance cannot be given.

Headline Messages From Follow-Up:

- Assembly Room traders have been issued with licences to trade.
- The level of contents insurance cover at the Festival Market has been reviewed and revised accordingly.
- Daily event sheets maintained by Market Managers to record both positive and negative feedback have been successfully used to improve operation of the Markets.
- It is recommended that Audit Committee request the Head of Property Services to attend the next meeting of the Committee on 20th January 2010 to provide an update.

Job: 07/0679 - Markets

Commentary on Follow Up:

Arrangements in place at the Festival Market, Charter Market and Assembly Rooms were subject to review, arrangements in place at Lancaster Indoor Market were not included in the audit.

Three of the eight agreed actions have now been implemented and of the eight risks evaluated five are well managed, and there is scope to improve management of the remaining three.

Income collection arrangements at the markets have remained unchanged since the time of audit with the majority of tenants continuing to pay their rent in cash on the day of trading, income is then collected by Securicor from both the Lancaster and Festival Markets. Whilst this arrangement allows the trader a great deal of flexibility, these procedures fail to comply with the council's income collection policy which is to avoid cash payments in favour of more cost efficient methods. It has also meant that efficiency savings proposed by Financial Services, accepted by Star Chamber and approved during the 2009/10 budget process, in relation to significantly reducing the number of Securicor collections have not been fully realised, as it had been the intention that collections would cease from the markets at the end of March '09 and be replaced with either banking at designated Post Offices, or income being taken to Exchequer Services for banking. Invoicing arrangements currently being operated do not use the corporate financial system and do not comply with council policy in relation income collection; these arrangements also raise issues in relation to appropriate division of duties.

An agreement has been made with Financial Services that Securicor collections may continue at the markets until such time as the future of Lancaster's Indoor Market has been decided, and the facility to accept debit/credit card payments has been installed at the Festival Market, after which time traders will be encouraged to pay their rent by debit or credit card, or to move to payment by direct debit.

These arrangements are to be reviewed again in December '09 and if attempts to move to more cost efficient methods have been unsuccessful, and the Service considers that it cannot avoid taking cash payments, a robust business case must be put forward to the Head of Financial Services seeking permission to continue with current arrangements.

Actions relating to the monitoring and reconciliation of cash income, and arrangements for seeking evidence of traders public liability insurance have yet to be implemented. Agreed actions 2, 3 and 6 in the attached Risk Opinion and Action Plan Exception Report refer.

As the level of assurance being provided remains limited it is recommended that Audit Committee requests that the Head of Property Services attends the next meeting of the Committee on 20th January 2010 to provide an update.

Managers' Comments:

The amounts of income we are dealing with in this matter are:

Festival Market, Morecambe - £360,000 per annum
Charter Market, Lancaster - £65,000 per annum and
Assembly Rooms, L/c - £22,000 per annum

Market managers will be instructed to follow Lancaster City Council's income collection policy under the corporate financial system but we do have severe concerns that, regarding control over the consequences of this action:

- if traders refuse to pay by any other method than by cash this could result in a loss of traders and therefore a loss of income. Also if cash payments are no longer accepted then rent arrears

Job: 07/0679 - Markets

could occur. (Currently there are no rent arrears from the Festival; Charter or Assembly Rooms markets).

- as previously mentioned not all traders have bank accounts, if it is Council policy to deal only with those parties who have a bank account, then we may lose traders and not be able to attract potential traders. It is uncertain whether the Council can terminate agreements with traders who don't hold bank accounts based on that reason.

- the report makes mention of chip and pin being introduced at the Festival Market. I understand that this system is already several months late in being installed but once it is introduced traders will be encouraged to pay by this method or to move to payment by direct debit. The use of the market hall for concerts is a requirement of the Arts Council funding; the ability to collect cash from traders is sufficiently flexible to deal with periods when the market does not operate. Refunding/reducing rental payments presents greater difficulties for the managers which will have to be absorbed within busy schedules. Similarly this flexibility is helpful when additional days are traded such as Bank Holidays etc.

Invoicing traders under the Council's Authority Financials system would be labour intensive and not appropriate for amounts under £50. In particular, casual traders who turn up to attend a market for a day would have to be turned away unless alternative payment methods can be introduced as payment in advance could not be achieved.

Principal Valuer
15th January, 2010

The s151 Officer has not sanctioned the invoicing arrangements developed outside of the Council's corporate arrangements and therefore requires this position to be corrected as soon as possible.

With regard to payment of market rents by cash, some flexibility has been granted, but once the Lancaster Market position is resolved and Chip and Pin facilities installed at the Festival Market, then the current arrangements will be withdrawn. It is expected that Property Services will assist with this withdrawal. The withdrawal is on the basis that any business needs a bank account to operate, and that some flexibilities through electronic instalment payments will be allowable. As highlighted in the report, the s151 Officer will only consider alternative proposals if these are backed by an evidence based business case. For the Lancaster and Festivals markets, based on information available to date, this seems unlikely.

Head of Financial Services
04/11/09

Job: 07/0679 - Markets

Derek Whiteway

Derek Whiteway CPFA, Internal Audit Manager

Distribution: Head of Financial Services
Corporate Director (Regeneration)
Head of Property Services
Principal Valuer - Property Services
Festival Market Manager
Lancaster Market Manager
Accountancy Services Manager
Exchequer Services Manager
Members of Audit Committee
Audit Manager (District Audit)

Internal Audit Follow Up - Risk Opinion & Action Plan Exception Report

Job: 07/0679 - Markets

FUR/1

Risk: Failure to comply with the Authority's invoicing and cash collection policies through current rent collection arrangements. (R004092)

Inherent Residual Target



Updated Risk Assessment

Internal Audit Opinion There is scope to improve management of the risk

Outstanding Agreed Action(s)	Ref	Responsibility	Implementation Target Date	Status	Comments
1. In order to ensure compliance with Council policy and procedures, traders will be encouraged to move to more cost efficient payment methods. Any impact experienced through introduction of new arrangements will be carefully monitored and reviewed.	013865	Head of Property Services	31-Mar-09		Income collection arrangements have remained unchanged since the time of audit and the majority of traders continue to pay their rent in cash, usually on the day of trading. An agreement has been made with Financial Services that current arrangements, including Securicor collections, can continue until such time as the future of Lancaster Market has been agreed (timescale unknown), and the facility to receive debit and credit card payments has been installed at the Festival Market (due by 30/09/09). Financial Services have confirmed that arrangements will be reviewed at the end of December '09.
2. Market Managers will regularly reconcile income to the general ledger.	013866	Market Managers	31-Mar-09		This agreed action related to arrangements at the Festival Market. The Festival Market Manager has not yet introduced the reconciliation of income to the general ledger but plans to have this in place by the end of December 2009.
3. Regular monitoring of Market rents income will be carried out by an officer independent of its invoicing and collection.	014813	Principal Valuer	31-Mar-09		It has been agreed with the Principal Valuer that arrangements will be put in place by the end of December '09.

Risk: Losses may occur through inadequate insurance arrangements. (R004099)

Inherent Residual Target

Updated Risk Assessment

5 3 1

Internal Audit Opinion

There is scope to improve management of the risk

Outstanding Agreed Action(s)

Implementation Target Date Status Comments

6. Market Managers will request evidence to prove that all traders have upto date public liability policy in place, and, as required by the Market rules, traders not providing evidence of the insurance will not be allowed to continue to trade.
- 013873 Market Managers 28-Feb-09  Although the situation has improved since the time of the audit, testing established that this agreed action has not been fully implemented as two Charter Market, and five Festival Market traders are continuing to trade even though their public liability policy had expired. It has been agreed that these traders will be given until the end of Sept to produce evidence of their public liability insurance.

Risk: Inadequate security in relation to cash collection could lead to injury and/or financial loss. (R004095)

Inherent Residual Target

Updated Risk Assessment

7 5 3

Internal Audit Opinion

There is scope to improve management of the risk
See agreed action no 1