

Audit Committee

Results of Internal Audit Work

22nd April 2009

Report of Internal Audit Manager

PURPOSE OF REPORT

To inform the Committee of the results of Internal Audit work for the period.

This report is public

RECOMMENDATIONS

(1) That the report is noted.

1.0 Introduction

1.1 Part of the Audit Committee's terms of reference is:

"To receive and review the findings of both Internal and External Audit examinations and to ensure that management takes appropriate action to implement agreed recommendations and to remedy any internal accounting, organisational or operational control weaknesses identified." (Constitution part 3, section 7, § 10)

2.0 Results of Internal Audit Work to 30 March 2009

2.1 This report covers audit work and reports issued since the last report to Committee on 21st January 2009. Summary reports are issued to Members for consideration and are also posted on the Council's Intranet.

2.2 If there are any specific questions about a report, or more detailed information is required, it would be helpful if Members could contact the Internal Audit Manager on telephone number 582028 or email dwhiteway@lancaster.gov.uk prior to the meeting.

2.3 The list below gives the assurance opinion issued for areas audited since the January 2009 meeting.

Audit Title		Report Date	Assurance Level	
New Audit Reports				
08/0729	Street Cleansing (Enforcement)	05/01/09	Reasonable	✓
07/0769	Markets	10/02/09	Limited	⚠
08/0733	Planning for Floods	25/02/09	Limited	⚠
Follow up Reviews				
07/0711	Sundry Debtors	13/02/09	Reasonable	✓
06/0642	Building Control	25/02/09	Limited	⚠
07/0678	Insurances	05/03/09	Reasonable	✓
07/0717	Income Management (Cultural Services Webstaff Payments)	20/03/09	Limited	⚠

3.0 Matters Arising from Audit Reviews

- 3.1 Members' attention is drawn to the audits where a "Limited" assurance opinion has been issued; there have been no audits resulting in a "Minimal" assurance opinion. The following audits completed since the last meeting of Committee have been issued with a "Limited" assurance opinion:

07/0769 – Markets

This audit covered management of the Festival Market, Charter Market and Assembly Rooms, as the future of the Lancaster Market was under review. Eight risks were considered of which five are considered to be well managed.

The main issue preventing a 'Reasonable' level of assurance being given was in relation to the ongoing arrangements for the majority of market traders to pay their rent in cash. Whilst acknowledging that these arrangements have worked well for many years, the audit report points out that they are now contrary to Council policy and are no longer in line with new arrangements, approved by Star Chamber, to reduce the number of Securicor collections on cost efficiency grounds.

Property Services and Financial Services have been reviewing these arrangements, the latest position being that Securicor collections are to continue as before until such time as the situation can be further reviewed as part of the ICON Income Management Project currently underway.

08/0733 – Planning for Floods

This audit concentrated on the potentially significant implications arising out of the Government's review of flood management and resilience following the major flood emergencies which occurred in the summer of 2007.

The audit report concluded that, whilst arrangements are being considered to ensure that the Council is prepared for a major change in its statutory responsibilities, there are a number of areas where the Council's responsibilities and capacity to deliver is unclear at present. Specifically, these include the provision of effective local leadership and partnership working, managing the risk of surface water flooding and proactive arrangements for ensuring successful engagement with, and education of, the general public in the event of a major flood.

At this time, a 'Limited' assurance opinion was given on the basis that until new legislation in the form of the Floods and Water Bill is in place and the role of local authorities in the district has been clarified by Lancashire County Council there is limited scope for the Council's preparedness to be developed further. Implementation dates of agreed actions reflect that the position is expected to be much clearer after the summer of 2009.

06/0642 – Building Control

The follow up review acknowledges that the Building Control function is undergoing a significant period of change and challenge, with a newly appointed Building Control Manager, expected new legislation on energy efficiency in the construction industry and a reduction in income as a result of the current credit crunch.

Some progress has been made, however, and the Building Control Manager is undertaking a major review of current arrangements, which together with the implementation of agreed actions, should result in a 'Reasonable' level of insurance.

07/0717 – Income Management (Cultural Services Webstaff Payments)

At the September 2008 meeting of the Audit Committee the level of assurance had risen to 'Reasonable' based on comments made by management that significant improvements had been made to ensure compliance with the Data Protection Act and the Payment Card Industry Data Security Standards (PCIDSS).

During the follow up review undertaken during January 2009, however, a breach of PCIDSS came to light which could have had serious repercussions for both the Council and individual officers in the form of considerable financial penalties, and could have impacted on customer confidence in the Council's arrangements for debit/credit card payments.

Cultural Services have reacted positively to the implications of this breach by taking further steps to ensure full compliance with the PCIDSS requirements. There has been insufficient time to assess the effectiveness of these new arrangements, however, and so Internal Audit can only give a 'Limited' assurance opinion at this time. Plans have been made to undertake a further review in six months time, the outcomes of which will be reported to Audit Committee in due course.

4.0 Update on Previous Assurance Opinions

- 4.1 Appendix A provides an updated position for all those audits where the level of assurance provided has not yet reached "Reasonable", including the Income Management (Cultural Services Webstaff Payments) and Building Control audits referred to in §3.0 above.
- 4.2 The last meeting of the Committee resolved (Minute 28(2)) that *"...if the follow up audit to Housing Rents (debit control) and Income Tax and National Insurance 2007/08 (Expenses and Benefits) does not improve the assurance level, the relevant Officers be requested to attend the next meeting of the Audit Committee to explain why."* In both instances, the follow up audits are still to be completed. The most recent updates provided by officers suggest that the assurance level has improved for the Income Tax and National Insurance audit, but not for Housing Rents (Debit Control) – Appendix A provides an update statement on this audit. The Internal Audit Manager will provide a verbal update to the meeting on the outcome of the follow up work and arrange for the appropriate officers to attend and report as necessary.
- 4.3 Also at the last Audit Committee meeting Members were informed of the findings and agreed actions arising from a review of financial management arrangements at Williamson Park, which had been requested by the Williamson Park Board. This work was completed at the end of November 2008 and a formal follow up review is due to be carried out in April 2009. Cultural Services continue to provide interim operational support at the Park and management have stated that progress has been made in implementing agreed actions, particularly in respect of petty cash arrangements and the ordering, receipt and payment of works, goods and services. A number of actions are ongoing or are yet to be implemented in respect of budgetary control, income management, security and other operational arrangements and, on that basis, a 'Limited' assurance opinion remains in place.

5.0 Results of Responsive Audit Work (Advice, Support and Investigations)

- 5.1 Internal Audit have provided ad-hoc advice and support to all levels of management, the most significant of which relate to:
 - o Ongoing project assurance and related support work, notably the ongoing Fair Pay Project (Internal Audit Manager) and the development of the Storey Creative Industries Centre (Principal Auditor).

- Co-ordination and management of the National Fraud Initiative (NFI) in line with the relevant *Code of Practice* and Data Protection requirements. Following submission of personal data information to the Audit Commission by the required deadline some 4,000 data matches have been identified. All of these have now been allocated to Council officers for investigation. Progress is being monitored by the Principal Auditor, who will be responsible for reporting on the outcomes of these investigations and recommending improvements to any identified control weaknesses.
- 5.2 The Principal Auditor also continues to take the lead role in the ongoing work to identify the number, type and level of significance of the Council's partnerships and the development of a framework for evaluating their effectiveness and performance. Good progress has been made with the 'mapping exercise' and the pilot study of the Partnership Development and Evaluation Toolkit now completed. Following approval by the Budget and Performance Panel arrangements are currently being made to evaluate the effectiveness of eight of the Council's major partnerships during 2009/10 and for this work to be incorporated within relevant Service Business Plans.
- 5.3 In the last quarter of the year, Internal Audit has undertaken two investigations in accordance with the Council's Disciplinary Policy and Procedure. One has been completed with no further action being taken. The other is ongoing and will require a substantial amount of audit resources in the coming weeks.
- 6.0 Details of Consultation**
- 6.1 Not applicable
- 7.0 Options and Options Analysis (including risk assessment)**
- 7.1 Not applicable

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>None identified</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments.</p>	
<p>LEGAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments.</p>	
<p>BACKGROUND PAPERS</p> <p>Internal Audit Files</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/audcomm/220409/ROIAW</p>