

# AUDIT COMMITTEE

## Results of Internal Audit Work 21 September 2011

### 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.
- (2) That, regarding audits ref 07/0708 - Income Management (Housing Rents Direct Debit Payments), 07/0709 – Payroll, and 09/0750 – Academy/Civica Interfaces, the Internal Audit Manager continues to track and report on progress to the committee.
- (3) That, regarding audit ref 07/0679 – Markets, progress is noted and no further updates to Committee are required.

#### 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 31<sup>st</sup> August 2011

- 2.1 This report covers audit work and reports issued since the Results of Audit Work were last reported to Committee on 11<sup>th</sup> January 2011. 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](mailto:dwhiteway@lancaster.gov.uk) prior to the meeting.

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

| Audit Title              |                                      | Report Date | Assurance Level |    |
|--------------------------|--------------------------------------|-------------|-----------------|----|
| <b>New Audit Reports</b> |                                      |             |                 |    |
| 10/0762                  | Regeneration and Policy Probity      | 21/03/11    | Substantial     | ✓  |
| 10/0791                  | Corporate Learning and Development   | 21/03/11    | Limited         | ⚠  |
| 10/0795                  | Capital Contract Management          | 04/04/11    | Limited         | ⚠  |
| 10/0811                  | Creditors 2010/11                    | 05/04/11    | Substantial     | ✓  |
| 10/0813                  | Debtors 2010/11                      | 19/04/11    | Substantial     | ✓  |
| 10/0814                  | Value Added Tax 2010/11              | 19/04/11    | Substantial     | ✓  |
| 10/0809                  | Officer Expenses 2010/11             | 31/05/11    | Substantial     | ✓  |
| 10/0806                  | Treasury Management 2010/11          | 06/06/11    | Maximum         | ✓✓ |
| 10/0817                  | Main Accounting                      | 08/06/11    | Substantial     | ✓  |
| 10/0819                  | Purchasing Cards                     | 15/06/11    | Minimal         | ⚠  |
| 10/0815                  | Income Tax and NI 2010/11            | 20/06/11    | Maximum         | ✓✓ |
| 10/0787                  | National Fraud Initiative 2010/11    | 15/08/11    | Maximum         | ✓✓ |
| 10/0816                  | Income Management 2010/11            | 16/08/11    | Substantial     | ✓  |
| 10/0812                  | Car Parking 2010/11                  | 18/08/11    | Substantial     | ✓  |
| 10/0823                  | Council Tax 2010/11                  | 31/08/11    | Maximum         | ✓✓ |
| <b>Follow up Reviews</b> |                                      |             |                 |    |
| 09/0739                  | Creditors 2009/10                    | 03/11/10    | Substantial     | ✓  |
| 09/0779                  | Housing Rents 2009/10                | 28/01/11    | Substantial     | ✓  |
| 09/0776                  | Payroll 2009/10                      | 28/01/11    | Limited         | ⚠  |
| 08/0753                  | Williamson Park Financial Procedures | 25/02/11    | Limited         | ⚠  |
| 09/0759                  | Housing Standards                    | 09/03/11    | Limited         | ⚠  |
| 09/0730                  | Climate Change                       | 26/04/11    | N/A             |    |
| 10/0813                  | Sundry Debtors                       | 01/09/11    | Substantial     | ✓  |

### 3.0 Matters Arising from Audit Reviews

3.1 Members' attention is drawn to the audits where a "reasonable" level of assurance has not been achieved as follows:

#### 10/0791 – Corporate Learning and Development (Limited)

The audit concluded that the process for determining learning and development priorities needs to be reviewed with a view to ensuring that identified needs are appropriate, and effectively inform budget setting and allocations.

The Council does not currently have a comprehensive list of learning and development activities undertaken and the true cost of training cannot easily be ascertained from the Authority's financial information systems due to inconsistencies in the coding of expenditure.

The audit also concluded that corporate arrangements to share knowledge and thereby reduce the need for the external procurement of training could be improved.

Mechanisms are not in place to fully evaluate the effectiveness of learning and development activities and the extent to which these raise individual competencies and improve corporate performance. Evaluations do not inform future strategy.

The audit is scheduled for follow-up review in November 2011.

#### **10/0795 – Capital Contract Management (Limited)**

The audit looked at capital contract management arrangements across the Council. In all the cases tested, the tendering arrangements and contract awards were in accordance with Contract Procedure Rules and good practice was acknowledged in a number of areas. The audit concluded that improvements were necessary in the following:

- the maintenance of contract registers to ensure that key contract documents and dates are dealt with and to increase understanding of the contracts managed to enable improved contractor negotiations which might lead to cost savings;
- establishing and assigning contract administrator responsibilities and delegated authorities;
- the consideration of 'whole life costs' in contract award processes;
- the conduct of robust prequalification checks;
- improvements in contract management arrangements and documentation evidencing that appropriate checks and monitoring are being carried out;
- clarification of rules relating to the issue of variations to ensure that consistent information is available to contract managers;
- the provision of training for contract administrators in Financial Regulations and Procedures and Contract Procedure Rules; and
- the standardisation of contract management documentation and improved arrangements to share good practice.

A follow-up review of progress with the action plan is scheduled for October 2011.

#### **10/0819 – Purchasing Cards (Minimal)**

The audit concluded that, whilst transactions made using Council purchasing cards are generally appropriate and in line with the Purchasing Card User Guide, the system required strengthening in the following areas:

- improved filing of documentation supporting cardholders' limits;
- improved recording on the system of the description of goods purchased;
- reiteration of cardholders' responsibilities and strengthening of the card user agreement;
- cardholders' arrangements to ensure documentation supporting transactions is appropriate and readily available;
- VAT recording arrangements to ensure the Authority can maximise the amount of VAT reclaimed;
- storage and retrieval of electronically held invoices; and
- consistency on what constitutes valid expenditure.

The audit also identified that in some areas and with certain suppliers, there is scope to improve efficiency through reviewing existing payment arrangements.

A follow-up review of progress with the action plan is scheduled for September 2011.

#### **09/0776 – Payroll 2009/10 Follow-Up Review (Limited)**

The audit concluded that, whilst significant improvements had been made to enhance the accuracy and consistency of the Establishment Book, an inherent risk of error remains in the current manual system. This is an issue identified in previous audits and is due to be addressed in the procurement of a replacement payroll system.

An update on progress with procuring a replacement payroll system is given in Appendix A under job number 07/0709 – Payroll.

#### **08/0753 – Williamson Park Financial Procedures Follow Up Review (Limited)**

A brief follow-up review was undertaken in February 2011. This did not go into great depth as the Park was in a transitional period bringing operations back under City Council responsibility and control. The review did identify that attention was needed to:

- establish arrangements for future purchases of low value items as the petty cash facility is to be withdrawn across the council;
- bring ordering, receiving and payment arrangements in line with council policy; and
- identify and address training needs following the transfer over to council systems.

A new and more in-depth audit review, including progress on these issues, is to be undertaken in the second half of the year.

#### **09/0759 – Housing Standards Follow Up Review (Limited)**

The follow-up review concluded that, although good progress had been made to implement the agreed actions, the level of assurance should remain at “limited” as a comprehensive housing strategy for the district is still required. It is evident that work is ongoing to develop this strategy, ensuring that it is based on up-to-date data and with all relevant services feeding into its development. We are therefore satisfied that a 'substantial' level of assurance will be achieved once this strategy is in place (currently due by December 2011).

### **4.0 Update on Previous Assurance Opinions**

- 4.1 Appendix A provides the updated position and recommendations for further action for all previously reported audits where the level of assurance has not yet reached “substantial”.

### **5.0 Details of Consultation**

- 5.1 Not applicable

### **6.0 Options and Options Analysis (including risk assessment)**

- 6.1 Not applicable

**CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

None identified

**FINANCIAL IMPLICATIONS**

None directly arising from this report

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments.

**LEGAL IMPLICATIONS**

None directly arising from this report.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

Internal Audit Files

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