

## **Results of Internal Audit Work**

**24<sup>th</sup> January 2007**

### **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 the Committee requests further updates on progress with action plans relating to the audits of Value Added Tax and DDA and Race Relations Compliance in relation to recruitment to its first meeting in the new Municipal year.

#### **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 December 2006**

- 2.1 This report covers audit work and reports issued since the last report to Committee in September 2006. Summary reports have been issued to Members for consideration and have also been 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 help if Members could contact the Internal Audit Manager on telephone number 582045 or email [dwhiteway@lancaster.gov.uk](mailto:dwhiteway@lancaster.gov.uk) prior to the meeting.
- 2.3 The 'headline messages' arising from the following audit reports are attached to this report as Appendix A:

<b><u>Audit Title</u></b>		<b><u>Report Date</u></b>
<b>New Audit Reports</b>		
05/0604	Health and Safety	31 August 2006
05/0596	Payroll	01 September 2006
05/0610	Internal Communications	03 November 2006
06/0639	Stores	05 December 2006
06/0636	VAT	07 December 2006
<b>Follow-Up Reviews</b>		
05/0597	Treasury Management	08 September 2006
03/0540	Supported Housing	12 September 2006
03/0514	Grant Management	15 September 2006
04/0531	Members and Civic Expenses	02 October 2006
05/0615	Council Tax	04 October 2006
04/0584	Financial Management	06 November 2006
04/0585	DDA and Race Relations Compliance	04 December 2006
05/0602	AONB	18 December 2006

### **3.0 Matters Arising from Audit Reviews**

- 3.1 Members of the Committee have asked for an update to be provided to the meeting on the results of the VAT audit report (06/0636) and the DDA and Race Relations Compliance follow-up (04/0585). The Head of Financial Services will provide a verbal update on the VAT report and the Internal Audit Manager is arranging for an update to be provided by the Human Resources Manager on DDA and Race Relations Compliance.
- 3.2 In both these cases plans are in place to implement agreed actions over the coming months, with a number of these being by the end of the financial year. It is recommended, therefore that the Committee requests further progress reports to its first meeting in the new municipal year. For the VAT report, this is likely to be in the form of Internal Audit's scheduled follow-up to the audit.
- 3.3 The report from the audit of Stores operations at CC(D)S (06/0639) raised a large number of issues, which the Service has taken on board and has already implemented several agreed actions with immediate effect. The remainder of the action plan aims to effectively address all issues raised by March 2007. A follow-up review is scheduled for April 2007 at which point it is hoped that significant improvements can be reported to the Committee.

### **4.0 Results of Responsive Audit Work (Advice, support and investigations)**

- 4.1 There has been no investigatory work required during the period.
- 4.2 The Internal Audit section again contributed to the preparation of evidence for the Audit Commission's annual Use of Resources (UOR) assessment. Following an initial feedback meeting on 19 December 2006, further evidence is being supplied to the Audit Commission prior to regional and national moderation and publication of the Commission's scores in early March 2007.
- 4.3 The implementation of the Council's corporate project management methodology "LAMP" has been progressing steadily with five two-day practitioner training sessions and two senior managers' overview sessions covering 73 employees having been held at the time of writing. Further sessions are scheduled in the New Year leading up to the formal implementation of the methodology on 1<sup>st</sup> April 2007. In the meantime, it is encouraging that the methodology is already being adopted by project managers in whole or in part for a number of existing projects.

**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 arising from this report

**SECTION 151 OFFICER'S COMMENTS**

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

**LEGAL IMPLICATIONS**

None 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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## Results of Internal Audit Work

**Audit Committee Date – Wednesday, 24<sup>th</sup> January 2007**

### 1. New Audit Reports

#### **05/0604 Health and Safety (issued on 31/08/06)**

Headline messages:

- The Authority has a comprehensive and regularly updated Health and Safety Policy in place.
- There is a need for individual Services H&S Policy Statements to be updated and reviewed annually.
- The Authorities Intranet provides comprehensive, up to date health & safety information and advice.
- There is scope to raise the profile of health and safety through the performance monitoring framework and the EDPA process.
- Data collection procedures are being developed in order that the Authority's ill-health data can be collated and analysed more effectively.
- Documented plans to meet the RHS nationally set targets are to be drawn up once baseline data is available.
- The Authority's Health and Safety Committee is chaired by Senior Management and reports to Management Team.
- Reporting to Members will be improved through the PMF and reports going to JCC.

#### **05/0596 Payroll (issued on 01/09/06)**

Headline messages:

- The risk of incorrect or fraudulent payments going undetected through inadequate controls over BACS transfers is well managed.
- The project group for the new HR payroll system are seeking to address current system weaknesses through the specification of the new system planned for early 2008.
- There is a recognised need to improve paternity leave and maternity support leave procedures.
- Procedures to mitigate the risk of overpayments occurring after an employee has left are to be strengthened.

### **05/0610 Internal Communications (issued on 01/11/06)**

Headline messages:

- The Intranet is reasonably well advanced with many good features already in place.
- The impending review of the Corporate Communications Strategy is to expand the internal communications section and include a sub-section dedicated to the Intranet, and another dealing with how to improve communications with those staff without PC access.
- The aims and objectives of the Intranet are to be defined along with performance indicators and associated targets.
- A mechanism to measure the effectiveness of procedures to consult and inform staff who do not have dedicated access to a PC is to be developed.
- Procedures to improve the management of information and ensure it remains up to date are to be introduced.

### **06/0639 Stores (issued on 06/12/06)**

Headline messages:

- The audit raises several concerns regarding the use, functionality and integrity of the TASK system.
- There are good arrangements in place for the ordering and receipt of goods into stores and for the payment of invoices.
- Duties are separated in accordance with Financial Regulations and Procedures.
- Formal tendering arrangements for the selection of suppliers should ensure good value though there may be scope to improve through acting upon the results of the corporate spend analysis.
- Stores are vulnerable to internal security breaches through a failure to adopt strict stores issuing procedures.
- Fuel issues appear to be well controlled through a key mechanism and the Phoenix TRISCAN system and current fuel loss levels are considered insufficient to warrant further action.
- There is scope to improve stock management though increased utilisation of information within the TASK system.
- There is a need to ensure accurate stock records through the prompt input of information to the TASK system, particularly returns to stores.
- There is a need to ensure accurate stock records through the prompt removal of damaged and obsolete stock.
- Procedures for stock adjustments and write-offs need to be reviewed with a view to practicality and adopting best practice.
- A systematic risk based approach to continuous stock-taking is required.
- A system of ongoing stock-takes for van stocks is required to enable the production of year-end stock certificates and therefore compliance with accounting standards.

### **06/0636 VAT (issued on 07/12/06)**

Headline messages:

- The Authority has a comprehensive VAT manual in place.
- There is a need to update the VAT manual annually, ensuring that it is appropriately promoted to all officers.
- A mechanism is required in order to ensure that VAT returns are submitted to HM Customs and Excise within the prescribed timescales.
- Clearly defined responsibilities in respect of Statutory VAT documents and the monitoring of the VAT element of write offs would strengthen existing arrangements.

## **2. Post Audit Reviews**

### **05/0597 Treasury Management (issued on 08/09/06)**

Headline messages:

- Confirmation of investment letters/emails are now sent to lenders promptly after the deal is confirmed and copies are held electronically providing a thorough audit trail.
- Monthly bank reconciliations are now carried out independently of the Accountancy Assistant (Treasury Management Officer) thus reducing the risk of errors or fraudulent transactions going undetected.
- Authorising officers now verify the accuracy and validity of bank sort code numbers on CHAPS investment forms further reducing the risk of unauthorised investments being made.
- A Supervising Officer now provides daily verification of any loan or investment action to be taken by signing the daily cash balance sheets.

### **03/0540 Supported Housing (issued on 12/09/06)**

Headline messages:

- The Authority has developed a Protection from Abuse Policy and, as required by the policy, is to review its procedures by the end of September 2006.
- Implementation of the policy has included training for Scheme Managers in how to recognise and deal with abuse, and in the preparation of support plans, needs and risk assessments.
- Criminal Records Bureaux checks are always carried out prior to the employment of Scheme Managers and two references obtained.
- Advice has been sought from Legal Services regarding the duty of care in respect of residents who choose to have no formal contact with the Scheme Manager.
- Tenant involvement within Sheltered Housing Schemes has been further developed.

### **03/0514 Grant Management (issued on 15/09/06)**

Headline messages:

- A review of grant management procedures has been carried out by an informal working group of Officers and Members to consider what improvements could be made to ensure that the Authority is accountable, and is able to demonstrate value for money from its grant funding.
- A report prepared by the working group containing recommendations to improve grant management arrangements has been approved by Cabinet.
- A formal task group is to be set up to develop the proposals set out in the report.
- The majority of the actions agreed following the audit review have not yet been implemented; however they will be addressed during the development of the new arrangements for grant management.

### **04/0531 Members and Civic Expenses (issued on 02/10/06)**

Headline messages:

- A Civic Task Group has recently been set up by the Overview and Scrutiny Committee to review current and past civic events and establish a vision for the Civic events programme.
- Reviews of the civic programme are carried out after the first six months to evaluate whether spending plans are on target and to review priorities.
- The induction process for the new Mayor has been improved with the introduction of a training course which covers the responsibilities and objectives of the role.
- Files are maintained for each civic event and aims and objectives are to be included.
- Feedback following civic events will be documented and retained on file to inform future event planning
- The inventory of civic regalia is currently being reviewed but discussions need to take place with Property Services regarding responsibilities.
- The Authority's funding arrangements with the Sports Council are currently being reviewed.

### **05/0615 Council Tax (issued on 04/10/06)**

Headline messages:

- Two actions were agreed following the audit and it is pleasing to report that both of them have been fully implemented.
- Procedures are now in place to standardise the quality control checks performed by Team Leaders on various tasks carried out e.g. quality of work checks, standard of letters issued and direct debits processed.
- A random sample of discounts/exemptions is now being checked on a monthly basis for validity and supporting documentation and these checks are evidenced and dated.

### **04/0584 Financial Management (issued on 06/11/06)**

Headline messages:

- A corporate approach to project management has been adopted and is currently being rolled out to all Services through a training programme.
- Scope to make statutory financial obligations set out in the Constitution clearer and more accessible, particularly to those not directly affected, is to be addressed alongside a review of the scheme of delegation scheduled for completion at the end of December 2006.
- Capacity within Financial Services to deliver training is to be addressed through the budget and business planning process for 2007/08.
- Responsible Spending Officers will be required to 'sign off' their 2007/08 budgets to show that they have agreed and taken responsibility for them.
- The database supporting the Statement on Internal Control and Corporate Governance (SIC&CG) has been updated to incorporate the Good Governance Standard for Public Services and is to be reviewed again once the new CIPFA Solace Framework is published.
- The role of the SIC&CG Management Group is to be further developed with a view to it taking ownership of the data within the database and the detailed action plan arising.
- Assurance from officers is to be sought in support of the 2006/07 SIC&CG.
- The SIC&CG Management Group aims to report the substance of the 2006/07 SIC&CG to the Audit Committee in April 2007 to enable it to challenge the content prior to approving it in June.
- Significant issues arising from the 2005/06 SIC&CG have been incorporated into the Corporate Improvement Plan.

### **04/0585 DDA and Race Equality compliance in relation to recruitment (issued on 04/12/06)**

Headline messages:

- Performance management arrangements are being developed.
- A Corporate Equalities Officer Group is to be set up who will concentrate on all equality and diversity issues and will review the effectiveness of the Authority's equality policies.
- Targets in relation to recruitment and composition of the workforce have been reviewed and revised to a more achievable and realistic level.
- A disability scheme is currently being developed.
- An action plan has been agreed with the new Human Resources Manager to progress the outstanding issues, most of which should be implemented by the end of March 2007.



### 05/0602 AONB (issued on 18/12/06)

#### Headline messages:

- Performance management arrangements should improve through proposals to revise the action plan accompanying the statutory Management Plan which is due to be revised by 2009. Long-term focussed measurable outcomes are to be sought and supported by annual business plans.
- The Service's implementation of Escendency (delayed through other priorities) should help in developing the new action plan.
- The Unit's financial spreadsheets have been developed to improve the audit trail.
- A documented charging policy is in place and customers have been formally informed. A database and associated procedures ensure invoices are raised and all income received can be traced to the general ledger.
- Financial management information in respect of the Local Nature Reserves (LNRs) has improved through the setting up of a separate budget heading in the general ledger.
- The previous lack of flexibility within the wardening contract for the LNRs has been addressed.
- Information and Customer Services are working on technical problems with the Unit's network link which are currently preventing full utilisation of the corporate finance systems.