

COMMITTEE: AUDIT AND GOVERNANCE

DATE: 24 SEPTEMBER 2009

SUBJECT: INTERNAL AUDIT PLAN UPDATE

REPORT BY: HEAD OF AUDIT

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IMPLICATIONS:

LEGAL ☐

COMMUNITY SAFETY ☐

EQUALITIES ☐

ENVIRONMENT ☐

FINANCIAL ☐

RISKS ☐

STAFFING ☐

OTHER

WARDS AFFECTED: NONE

PURPOSE

1. To update the Audit and Governance Committee on the work of the Internal Audit Service.

RECOMMENDATIONS

2. The Committee is recommended to:
 - (i) receive the internal audit plan update report, which covers the period April to August 2009.
 - (ii) request the Head of Audit to report the follow-up audits of IM Disaster Recovery, Homes for the Elderly and Putteridge High School to the March 2010 meeting of this Committee.

BACKGROUND

3. The Council has a statutory responsibility under the Accounts and Audit Regulations 2006 to maintain an effective internal audit of its activities. Internal Audit is an important element of the Council's risk management arrangements, in terms of the work that it undertakes in evaluating and reporting upon the control environment across the Council. The Accounts and Audit Regulations 2006 also require that the Council shall be responsible for ensuring the financial management of the Council is

adequate and effective and that the Council has sound systems of internal control that facilitate the effective exercise of the Council's functions.

REPORT

4. Since the last update the main areas of audit are:-

- Assurance Audits
Teachers Pensions
National performance Indicators
- Consultancy and Advice
National Fraud Initiative
Consultants / Interim staff review.
- Special Investigations
Preventing Violent Extremism (PVE) Grant
Putteridge High School
- Risk Management
Departmental Corporate Risks
Risk Workshops
- Value for Money
HR Review
Legal Review
- External Work
Active Luton
Cultural Trust
London Luton Airport

5. There has been a variety of areas audited during this period. The assurance work on teachers pensions ensures that correct deductions have been made and recorded. The work on national performance indicators is test checks to ensure the accuracy of the data submitted. This is on behalf of external audit who manage the work.

6. The two special investigations noted are on-going so detail cannot be provided. One is in respect of the use of grant money for which the Council is the accountable body. If there is insufficient evidence to support expenditure the Council may ask for the grant to be repaid. We are working with the Islamic Cultural Society to obtain this evidence. The investigation at Putteridge High School is in respect of potential misuse of school funds.

7. Performance indicators are in Appendix A. These reflect a good start to 2009/10 and should ensure the 2009/10 audit plan will be completed. The low levels of sickness should be noted. This is only 13.5 days against a target of 85 days for the year which equates to a target of 35 days for the

period covered by this report. Compared to previous years and current data for the Council this is excellent.

8. For the period 1 April to 31 August 2009 we issued 45 final reports. Only two record a limited or no assurance on controls and one of these has already been reported to this Committee. Summary details of the other report which has no assurance is in the following paragraphs.

Putteridge High School

9. This audit review was planned due to key staff changes at the school including appointment of a new Headteacher and a new Business and Finance Manager. However, this was brought forward due to the special investigation at the school highlighting financial concerns. The audit highlighted some major internal control weaknesses which require immediate attention by the School.
10. The School overspent at the end of 2008/9 by £169,000 and are now addressing this shortfall with an approved 3 year licensed deficit.
11. Budget preparation for 2008/9 was weak. We could not find any information to support how the budget was constructed and the assumptions made to ensure educational priorities were met.
12. Governors were not provided with sufficient information to enable them to agree or monitor changes to budgets. There was no evidence that the Governing Body were receiving regular financial information to enable them to understand the current financial challenges the school was facing.
13. Governors' minutes were poor and did not clearly record whether the Governing Body was fulfilling its responsibilities. Minutes did not demonstrate that Governors have provided adequate challenge to the issues and decisions agreed.
14. The financial framework in which the school operates was poor. There are no clearly defined procedures for staff to apply and this has led to staff making financial commitments without authorisation or recording of expenditure. Insufficient financial information was made available to senior management to enable them identify, monitor and challenge financial decisions. We found some cases of inappropriate spending being made.
15. A significant number of the recommendations were high priority and require immediate attention to ensure that the school are operating under a sound financial management framework. It is our opinion that in respect of the areas covered by the audit we can provide no assurance on the current standards of internal control.
16. The new Headteacher and the Business and Finance Manager are addressing these issues as a matter of priority and from review during the closing meeting some of the control weaknesses identified in the report are

already being addressed. It has been agreed that Internal Audit will undertake a follow up review in October 2009 to assess further progress made.

17. We have followed up on six audits that were previously recorded as limited assurance.

IM – Disaster Recovery

18. The follow-up audit revealed that due to the long-term sickness of the member of staff who has the specialist knowledge in this area and IM staff concentrating on the Government Connect project, in addition to a number of power related incidents through the summer, most recommendations have not been fully implemented. However, there has been some progress and this will continue as a priority once the Government Connect project is fully operational. For these reasons the opinion remains as limited but is expected to be adequate by the time of a follow-up review.

Young Fundz

19. This follow up review identified that action has been taken by management to implement the recommendations made in our previous report. A review of the recommendations identified that twenty six were fully implemented and fourteen were partly or in the process of being implemented and good progress is being made. Only three were not implemented and these are not due until 30 September.
20. Due to the progress made it is our opinion that we can now provide adequate assurance on the current standards of internal control.

Homes for the Elderly

21. We have recently completed a follow up review of the management of client's personal allowances within elderly peoples homes. We are pleased to report that significant steps have been taken to address the issues. This is partly down to the financial assessments & benefits team issuing clear and structured guidance notes, which define staffs roles and responsibilities for managing client's monies. The balances held both within the safes and bank accounts have reduced and are now at a more acceptable level, in-line with client's assessed needs. Due to the progress made it is our opinion that we can now provide adequate assurance on the current standards of internal control for the areas covered by this audit.
22. However, this audit and an investigation has highlighted two areas of concern regarding the security and insurance of client's monies. Staff continue to breach the council's financial regulations regarding safe access, as due to operational requirements access to client's monies is not restricted and safe keys remain permanently on site. Management have accepted the risk of this non-compliance. It has also come to light that the council's insurance policy only covers money which belongs to the council,

and therefore, monies and valuables held in safes on behalf of client's is not insured. We are discussing with management how to resolve this problem.

Rents

Rent Arrears

23. The follow-up audit found that management have made good progress to implement the recommendations from the previous report and there was evidence that controls were in place or being put in place. Of the ten recommendations made six have been implemented, and four have been partially implemented. In respect of the areas covered by this report and testing undertaken, we can now give adequate assurance on the current standard of internal control.

Rents System

24. It was found that management have taken action to follow up the recommendations in the report and there was evidence that controls were in place. Of the thirteen recommendations four have been fully implemented and eight have been partially implemented but the majority are substantially completed. Only one has not been implemented but this is due to complications of the current housing system. We can now give adequate assurance on the current standard of internal control.

BTS Stock Control

25. This audit has not been finalised and is in draft form. This follow up review identified that action has been taken by management to implement the recommendations made in our previous reports. A review of the twenty one recommendations identified ten were fully implemented, seven were partly or in the process of being implemented, three were not implemented and one was no longer applicable .
26. Most of the recommendations which were partly or in the process of being implemented relate to developing a robust stock control system on IBS (Housing computer system). We understand that IBS is expected to become live in November 2009 and work continues to be carried out in this area.
27. The three recommendations not actioned relate to the purchasing and invoice payment process. BTS have not taken over the role of raising orders on AFP (on-line purchasing system) for responsive repairs and checking consolidated invoices from the Corporate Procurement Unit, due to resource constraints. We understand that BTS expect to takeover these duties once their restructure is in place. However, current processes need to be reviewed as a matter of urgency to address concerns over segregation of duties, manager approval of orders on AFP, and to increase BTS involvement to ensure correct invoices are being paid and authorised goods are purchased.

28. Although good progress has been made in implementing previous recommendations we can only provide limited assurance on the current standards of internal control due to the outstanding recommendations. However, we acknowledge that most of the outstanding recommendations relate to the implementation of IBS. This should be operational soon and as there is no reason to indicate this will not be achieved the recommendations can be implemented and the opinion will improve to adequate.

Trade Waste

29. At the request of the Committee the service manager agreed to undertake additional checks to ascertain the full extent of incorrect charging and to recover lost income and correct the future charge. This check revealed:-
- 22 queries for which:-
 - 4 accounts closed
 - 13 customers written to and to charge back to April 09
 - 2 internal customers being charged
 - one query outstanding
 - one charge was correct
 - one transferred to alternative method of collection
 - If all customers stay with the Council this will achieve an extra £5,286 per annum.

Police Protocol

30. A report on the protocol with the police was requested at the last meeting. As a result of the Street Scene initiative a protocol with the Police was developed to help ensure efficient investigations. This has proved successful for street services activities and for benefits fraud investigation. A good recent example is that the Police contacted the audit investigations team to provided evidence of a potential benefit fraud. The only area where this has not worked is for two ad-hoc investigations which has resulted in delay and a lack of communication. A meeting has been requested with the Police to review this and to ensure the situation is improved.

RISK IMPLICATIONS

31. There are no risk implications to this report other than those set out in the body of the report.

FINANCIAL IMPLICATIONS

32. There are no financial implications to this report other than those set out in the body of the report. This has been agreed with the Head of Corporate Finance on 8 September 2009.

LEGAL IMPLICATIONS

33. There are no direct legal implications to this report save for those set out in the body of the report. This has been agreed with Richard Stevens, Head of Legal Services on 7 September 2009.

APPENDICES

34. The following appendices are attached to this report:-

Appendix A – Performance Indicators

Appendix B - Audit Plan Progress

Appendix C - List of final reports issued April to November 2008

LIST OF BACKGROUND PAPERS

LOCAL GOVERNMENT ACT 1972, SECTION 100D

1. The Accounts and Audit Regulations 2006.
2. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
3. Internal Audit Reports.