

COMMITTEE: AUDIT AND GOVERNANCE

DATE: 14 MARCH 2012

SUBJECT: FOLLOW UP ON AUDIT RECOMMENDATIONS

REPORT BY: AUDIT MANAGER

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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 follow up of recommendations as requested at the December meeting of this committee.

RECOMMENDATIONS

2. The Committee is recommended to:

- (i) receive the Internal Audit report on the follow up of audit recommendations.

BACKGROUND

3. At the conclusion of an Audit an opinion on the current standard of internal control is given. This opinion can be: Substantial, Adequate, Limited or No Assurance. All Limited and No Assurance opinions are reported to the Audit & Governance Committee. They are then followed up and reported back to committee on the progress made.
4. An action plan is also issued which contains recommendations which the service signs up to. The recommendations are prioritised into: Critical, High, Medium and Low. All recommendations are followed up and a summary of progress made is reported to the Audit & Governance Committee.

5. Due to the apparent lack of progress on some of the recommendations, Audit & Governance Committee requested an update report for the audits of:
 - Leases/Rentals,
 - School Meals at Schools/School Meals Reconciliation,
 - Butterfield Management Contract, and
 - Active Luton Cash Collectionto be brought to the March meeting of this committee.
6. The Audit & Governance Committee also requested a report on our review of Putteridge High School.

REPORT

Leases/Rentals

7. The final report for the audit of Leases/Rentals of equipment in schools was issued in September 2011 and focused on the process followed by Schools when entering into lease agreements and adherence to Financial Regulations and Standing Orders for Schools. We visited 10 Schools in Luton and 1 lease was selected for review from each School. All Schools had access to the Financial Regulations and Standing Orders for Schools, and were aware of procedures to follow.
8. The audit review highlighted a number of control weaknesses which needed to be addressed and 12 recommendations were made. It was our opinion that in respect of the areas covered by the report, we could provide Limited Assurance on the current standards of internal control.
9. A follow up review was undertaken and we can report that immediate action was taken and 11 recommendations (including the High Priority recommendation) have been fully implemented. 1 Medium priority recommendation is outstanding in relation to updating Standing Orders for Schools.

School Meals Reconciliation

10. The first audit of procedures for the reconciliation of actual school meals income to expected income was in May 2010 and it highlighted some internal controls which required strengthening. We recommended a review of the threshold used in determining which variances were to be investigated, that data on pupil account balances was collected on a termly basis from source documentation at schools and that the information was to be incorporated into the reconciliation. We also recommended that significant variances and levels of arrears should be referred to the relevant area manager and to the General Catering Manager so that further action could be taken as required. We proposed that, given the variability of spend per pupil in high schools, alternative methods were developed for monitoring income in these schools as the current reconciliation could not provide appropriate data for analysis.
11. It was our opinion that in respect of the areas covered by the report, we could provide Limited Assurance on the current standards of internal control.

12. This audit was followed up in January 2011 and of the six recommendations made in the previous report, one had been fully implemented, four had been partially implemented and one has not been implemented. At the time of the field work (at the end of November 2010) the April-July Income Reconciliation had not been completed and it was therefore not possible to assess the level of outstanding differences between expected and actual income for individual schools in that term.
13. We made a number of recommendations to enhance controls in order to ensure that the risks highlighted in our original report were addressed. We noted that there was evidence that Catering Services had partially implemented the management actions agreed in the Internal Audit report of May 2010, however, given that the impact of these improvements could not be assessed with reference to a completed reconciliation, our opinion of Limited Assurance in the standards of internal control remained.
14. In October 2011 we issued a second follow up report. We noted that although the closing total debit and credit balances on pupil accounts had been entered onto the reconciliation for most schools, the brought forward balances had not. As a result it was not possible to calculate the movement in balances, which we had recommended should be added to the value of meals served in the period to calculate expected receipts.
15. We found that it had not yet been possible to reconcile school meals income recorded on Civica since January 2011 to school records of income due and pupil balances. Significant differences between expected income and actual cash receipts had not been investigated or resolved. Therefore our opinion on the standards of internal control remained one of Limited Assurance.
16. We were told that since September 2011 Corporate Accountancy and Catering Services were communicating on a monthly basis to resolve un-reconciled items. The General Catering Manager anticipated that this close co-operation would facilitate the prompt investigation of differences between income reported by schools and bankings, and that this would allow the September – December 2011 reconciliation to be completed within the first half of the following term. The General Catering Manager has commented on the current implementation status of our recommendations in his report to this Audit & Governance Committee.

School Meals in Schools

17. At the same time as following up on the school meals reconciliation audit we completed a review of the procedures for the safeguarding and recording of income and stock in school kitchens where meals are provided by Catering Services. This was to ensure that the issues with the reconciliation were not as a result of data provided by the schools.
18. We found that detailed procedure notes and standard documents had been provided to kitchen staff by Catering Services. However, from our visits to two Luton schools it was evident that the reconciliation of actual bankings to records of income received, manual registers (primary schools) and electronic systems (high

schools), was not taking place consistently. If performed correctly these reconciliations provide assurance that all meals provided have been paid for, or a debt has been accurately recorded, and that all cash and cheques received by the kitchen have been banked. We have made recommendations for the simplification of these reconciliations to make them easier for the cashier to perform and for the Kitchen Manager to verify. We have recommended that this verification and the investigation of any anomalies by the Kitchen Manager should be evidenced on these forms.

19. We made 13 recommendations of which 3 were a High Priority and it was our opinion that in respect of the areas covered by the report, we could provide Limited Assurance on the current standards of internal control. The final report for this audit was issued in October 2011 and therefore the follow up is due in April 2012. The General Catering Manager has commented on the current implementation status of our recommendations in his report to this Audit & Governance Committee.

Butterfield Management Contract

20. A follow up on the audit of the Butterfield Management Contract was requested by the Audit & Governance Committee as out of six recommendations made in the audit of November 2010, three had been fully implemented and three had no progress. The audit received an opinion of Adequate Assurance on the standards of controls.
21. We performed a second audit in this area in July 2011 at which time our opinion was one of Substantial Assurance with no recommendations made. As part of the review we looked at the recommendations which had been made previously and the progress that had been made on their implementation.
22. The recommendations that were not implemented related to the receipt of profit share from Basepoint. We had recommended that the profit share calculation should be received quarterly, that interim payments were requested and that the final payment was requested within 60 days of the year end.
23. These were not implemented due to the low level of income being received at the time (excluding an insurance receipt, income for the year was approximately £25k). We continue to receive quarterly management accounts. At the time of the July 2011 audit, the current trading conditions made it unlikely that the receipt of interim payments would represent a substantial material advantage to the Council.
24. We understand that as at March 2012 we have moved on from the insurance payment and have settled down to 80-90% occupancy resulting in regular income. The service manager intends to arrange for interim payments based on projected profits to be started later this year. It has been agreed that Basepoint will notify us of the amount due for 2011-12 after their accounts have been externally audited in May and we will raise an invoice immediately.

Active Luton Cash Collection

25. We completed a review of Cash Collection in Leisure Centres during March 2011 on behalf of Active Luton. Four centres were reviewed to ensure that all income was collected and banked in accordance with the Council's Financial Regulations.
26. The audit review highlighted some internal controls, which required strengthening and 13 recommendations were made. It was our opinion that in respect of the areas covered by the report, we could provide Adequate Assurance on the current standards of internal control.
27. We followed up this audit in September 2011 and found that 10 medium and 1 low priority recommendations were still outstanding. Due to the lack of progress we followed up again in January 2012. We identified that eight recommendations have been fully actioned and work is in progress on two more. Only one recommendation had not been progressed.
28. We ascertained that progress on implementing the recommendations had been slow due to a prolonged staff restructure which started in April 11 and is only just starting to be put into action. The service has also had to deal with the closure of 3 leisure facilities and the opening of 2 new ones (Aquatic Centre and Lewsey Sports Park).
29. Over the past 5 months Active Luton have also introduced the new Legend software across all centres on a rolling programme and all staff have been trained in its use. This is to replace the FLEX system which controlled income, bookings, stock control, sales etc. This was a huge undertaking at a time of great change and uncertainty due to staff restructure and centre changes. Although the timing wasn't ideal to replace the software, they discovered that the old FLEX software wouldn't be supported after March 12.

Putteridge High School

30. We completed a review of Putteridge High School at the request of the Head of Support Challenge & Intervention, following the School's proposed intention to leave the authority to become an Academy within the Barnfield Federation of Schools.
31. The School Budget Plan is currently set to recover a deficit, which was agreed with the Authority. In year, the Authority have agreed 3 revisions of the recovery plan, to ensure that the School can effectively meet the targets set. To facilitate this, the Operational Headteacher's salary is now being paid by the Barnfield Federation of Schools. Budget monitoring is being undertaken on a regular basis by the Business Manager with frequent reporting to the Operational Headteacher on the achievement of the targets set. At the time of the audit targets were on track.
32. We identified no major concerns in the areas reviewed and in the main internal controls were operating effectively. We made ten recommendations of which 7 were a low priority. It is our opinion that in respect of the areas covered by this

report, we can provide Adequate Assurance on the current standards of internal control.

RISK IMPLICATIONS

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

FINANCIAL IMPLICATIONS

34. There are financial risks relating to the lack of implementation of the audit recommendations relating to school meals and leases/rentals of equipment in schools. This has been agreed with the Head Finance on the 29th February 2012.

LEGAL IMPLICATIONS

35. 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 the Head of HR & Monitoring Officer on the 1st March 2012.

APPENDICES

None

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