

AUDIT PANEL			
Report Title	INTERNAL AUDIT PROGRESS REPORT		
Key Decision	NO		Item No. 3
Ward	ALL		
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES		
Class	Part 1	Date: 23 June 2008	

## 1 Purpose of the Report

The purpose of this report is to present the members of the Audit Panel with:-

- an update on progress against the 2007/08 audit plan,
- a summary of the findings for the audits where Internal Audit have issued “limited” or “no” assurance opinions on the internal control mechanisms that have been audited,
- a progress update on the implementation of previously agreed recommendations.

## 2 Recommendations

2.1 Members are asked to note the report.

## 3 Progress Against the 2007/08 Audit Plan

3.1 The detailed 2007/08 audit plan was approved by the Audit Panel in July 2007. In total Internal Audit planned to undertake 92 audits during 2007/08. However during the course of the year Internal Audit have been asked to undertake some additional unplanned work, and to postpone or cancel some planned audits where the service units had not reached the stage where the reviews could be undertaken in 2007/08.

3.2 The unplanned audits consist of the following:-

- a grant claim for the Momenta Lewisham Schools Sports Partnership programme (CYP);
- a review of the asbestos removal contracts in three schools (CYP)
- a review of the housing refurbishment “Sydenham 2” contract, which covers the period when the housing stock was initially with the Council (being managed by Pinnacle) but has subsequently transferred to Lewisham Homes (Customer/LHL). This review is also looking at the “Sydenham 3” contract, which also covers the period when the housing stock was initially with the Council being managed by Pinnacle (Customer/LHL);
- a review of the Council’s compliance with the Data Protection Act following the officers meeting with representatives of the Information Commissioner’s office (Resources/Corporate);

- A grant claim for the DEFRA Climate Challenge Fund grant for 2006 to 2008 (Resources).

Both the Sydenham 2 and 3 reviews are complex and are being carried out in conjunction with the Special Investigation team from the corporate Anti-Fraud and Corruption Team (A-FACT).

3.3 There are five audits which have been postponed at management's request. These are:-

- Pre-implementation review and procurement arrangements for the new Parking IT system as this is not as advanced as originally envisaged (Regeneration).
- Planning Section 106 agreements, as this has not progressed as quickly as expected (Regeneration).
- Tendering process for the catering contract as this is not as advanced as originally envisaged and management requested the resources be directed towards the asbestos removal audit (CYP).
- Insurance as the insurance contract is currently being re-tendered (Resources).

In addition there are also eight schools that have been postponed at the request of the schools as they were not ready to be assessed against the Financial Management Standards in Schools (FMSiS) despite being advised that they were on the schedule for assessment that was issued in July 2007.

3.4 There are also five low priority audits and one medium priority audit that have been postponed due to insufficient resources available as a result of vacancies, long term sickness, the additional unplanned audits and some audits exceeding the original estimated budgets. These are:

- Review of control risk self assessment returns for Youth Clubs (CYP),
- Review of control risk self assessment returns for Children's Centres (CYP)
- Review of control risk self assessment returns for Day Centres (Community) as in all three cases the methodology to be used for this has been produced but has not been implemented yet;
- Extended implementation audit of free school meals (CYP);
- Review of the modernisation of services as management wants this to be done before it is reviewed (Community Services);
- VFM review of the operating costs of the libraries (Community Services);
- Waste collection, disposal and recycling (medium priority) as management requested a delay in the start of the audit however this subsequently led to a resourcing issue within Internal Audit (Customer Services).

3.5 The table below shows the spread of the audits for the revised plan:-

Directorate	Original Planned Audits	Unplanned Audits	Postponed Audits	Revised Planned Audits
Corporate/Resources	28	2	(1)	29
C & Y P (exc. Schools)	8	2	(4)	6
Schools	31	0	(8)	23
Customer Services	10	1*	(1)	10
Regeneration	6	0	(2)	4
Community Services	9	0	(3)	6
<b>Total planned Audits</b>	<b>92</b>	<b>5</b>	<b>(18)</b>	<b>78</b>

\* Joint with Lewisham Homes

3.6 The table below shows the current position for the audits in the revised plan:-

Directorate	Planned / Unplanned Audits	Audits Completed & Finalised	Audits Completed - Draft Report	Audits in Progress
Corporate/Resources	29	19	5	5
C & Y P (exc. Schools)	6	6	0	0
Schools	23	23	0	0
Customer Services	10	9	1	0
Regeneration	4	3	1	0
Community Services	6	5	0	1
<b>Total planned Audits</b>	<b>78</b>	<b>66</b>	<b>7</b>	<b>6</b>

3.7 As can be seen from the table above, 73 (94% )of the revised planned audits have either been finalised or completed to the draft report stage. The remaining five audits (6%) are underway and are at varying stages of progress. This is a marginal improvement on 06/07 where the section completed 69 out of the 76 revised planned audits (91%). During the year the section had two vacant posts (one Audit Manager and one Senior Auditor) and experienced a high level of staff sickness during the year, which have undoubtedly contributed to the shortfall in performance. The decision by the Council to replace the in-house team with an external provider has also had an impact on the performance of the team during the later part of the year.

3.8 To regain some of the lost ground, the Council engaged the services of Deloitte and Touche to undertake a number of the fundamental systems audits, such as debtors, benefits, council tax and NNDR. This not only enabled the section to complete more audits but helped to address the quality issues regarding the work undertaken on the key systems that have been experienced in the past.

- 3.9 The section has experience problems with some of the school audits that were scheduled for the 2007/08 year. In particular they encountered significant problems when trying to secure appointments with schools to undertake the audits and, in a few cases, where they had already agreed an appointment and started the preparatory work for the audit, the schools then cancelled the bookings. The key issue appears to be that many schools feel they were not ready for the FMSiS accreditation assessment, which now forms a fundamental part of the audit process, believing that they do not have to achieve the standard until 2010, the deadline for the Council to ensure that 100% of its schools have been accredited. This has resulted in the assessment of eight schools having to be re-scheduled for the 2008/09 year. The Head of Audit and Risk is liaising with colleagues within the Children and Young People's Directorate to find a viable solution to this problem.

#### **4 Summary Of The Completed Audits With - Limited or No Assurance**

- 4.1 This section provides a summary of the findings and action taken by management for the systems/services where Internal Audit feel that either limited or no assurance can be placed on the internal controls that have been reviewed.

A full list of the audits completed prior to the publication of this report (excluding the schools) is shown at the end of section 4.6. A separate report on the schools that have been audited will be presented to the Audit Panel in September 2008.

#### **Corporate/Resources Directorate**

- 4.2 Report No. 12109 – Pensions – Limited Assurance

This audit examined the controls within the systems used to administer the Council's pension scheme. The Pensions Section of the Resources Directorate is responsible for administering the Local Government Pension Scheme on behalf of the employees of the London Borough of Lewisham. All employees (with some exceptions such as teachers) have the opportunity to join the scheme, which is a final salary scheme and provides employer contributions of 18.5%. The pension scheme has over 17,500 members, and the pension fund was valued at approximately £700m in February 2008.

This audit looked at the controls in place within the pensions systems. There are no recommendations arising as a result of our work in the following areas: refunds, pension fund investment, transfer values and inter-fund adjustments and performance monitoring. However, scope for improving controls was identified in the following areas:-

- **Joiners**

There were no procedures available for the Pensions section relating to the use of the Axis system. Discussions established that a new pension scheme is due to be implemented within Lewisham Council and it is the aim of the Pensions section to fully document the tasks they perform, in association with the new users manuals which will come into operation.

- **Employees and Employers Contributions**

The pensions team do not have formal team meetings. Matters are discussed informally, including any updates to legislation or changes to working procedures. Informal meetings are not documented.

Internal Audit also found that the reconciliations are completed to confirm that the correct amounts of contributions are remitted through the general ledger, and these are completed monthly and are comprehensive, however there was no evidence to confirm that the reconciliations were reviewed by an independent officer.

- **Benefits Retirement Pensions and Grants**

Changes to members details are accepted over the the phone, including address changes and bank account changes.

- **Pensions Data**

Whilst there is a disaster recovery programme in place for Lewisham Council, there was no evidence that it had been fully tested. The responsible officer acknowledged that currently preliminary testing is being done on critical systems but this does not include the pensions system.

Pension files are not currently secured in a lockable location due to the volume of files held. It was explained to us that securing the area where files are contained is not possible due to there being fire exits for the main building at either side of the filing area.

Passwords to gain access to the pensions system are not changed on a regular basis. It was explained that only the pensions team have access to the system and that the two senior officers in the team also act as administrators for the system. Officers stated that the security risks are not assessed as high.

A total of seven recommendations, including one with a priority one status, have been made and accepted by management, although management envisage difficulty in implementing the one recommendation relating to the security of the pension files as the storage area is on a designated fire exit route from the Town Hall.

## **Customer Services Directorate**

### **4.3 Report No. 12106 - Debtors – Limited Assurance**

This audit looked at the processes for raising debtor invoices, debt recovery, collecting payments for debts and the accounting and reconciliation of the debtor accounts. At the time the audit was undertaken (Quarter 4) each Directorate was responsible for managing its own debt raising and recovery processes. However a centralised debt recovery team was established in April 2008 and located within the Customer Services Directorate in April 2008.

The audit found that the sound systems were in place for the raising of invoices, cash receipts, provisions for bad debts, system reconciliations, and reporting. However, the audit identified scope to improve the systems and controls in the following areas:-

- **Policies and Procedures**

Procedure notes for the new centralised debt recovery team were not available

at the time of the audit.

- **Amendments to Standing Data**

The new standard Debtors Request Form had not yet been rolled out to all Directorates.

- **Debt Recovery Action**

Oracle Accounts Receivable does not generate automatic reminder letters in respect of outstanding invoices. Whilst Directorates create reminder letters and final notices using standard templates, these are not always sent out at the intervals required in Financial Procedure no 16. Some Directorates had not referred debt recovery cases to Legal Services for a considerable time, and there were no written guidelines for referring cases to Legal. Oracle Accounts Receivable does not have a facility for recording debt recovery actions against individual invoices, so Directorates have to maintain separate debt recovery records. Regular reports on invoices in dispute are not obtained from Oracle and reviewed by management.

- **Instalment Arrangements**

Agreed instalment arrangements were not always being notified to debtors in writing. Oracle Accounts Receivable does not monitor instalment plans automatically, so manual monitoring is required.

- **Write-Offs**

Lists of irrecoverable debts for write-off are not regularly put forward by all Directorates.

A total of eight priority two recommendations have been made and accepted by management who are working towards implementing them by the end of July 2008.

#### 4.4 Report No. 32102 - Council Tax – Limited Assurance

This audit examined the controls within the systems used by the Council for setting and collecting council tax. The rate at which residents pay their council tax depends on which valuation band their home is placed in. The banding of domestic properties is set by the Valuation Office, which is part of HM Revenue and Customs, and is based on the open market value as at 1 April 1991.

Council Tax payers are entitled to a reduction in their Council Tax bill under the following circumstances:

- a 10% discount if the property is a second home,
- a 25% discount if you live alone, or if only one person living in the property counts towards paying the Council Tax,
- a 50% discount if no one lives there who counts towards paying the Council Tax.

The audit found that the systems were sound with regard to the setting of the tax and also around performance review and monitoring. However, scope to improve the systems was identified in the following areas.

- **Valuations List**

Although valuation reports are received from the Valuation office at regular intervals, there were instances where property records were not updated. There were also instances where valuation reports were raised but had not been

attached to the property record in Anite (the document imaging system). The reconciliation of property details held on the Academy system with property details held on the Valuation office database were not completed for this year.

- **Liability**

For a sample of empty properties where the occupant was deceased, there were instances where the Executors form was not available to confirm who was managing the estate of the deceased. It was confirmed that on notification and confirmation of a death, a Class F exception is immediately granted. However, properties are seldom visited to determine whether they were occupied.

- **Billing**

There was no evidence available at the time of the audit to confirm that tax rates for the current year were checked and signed off by the Systems Control Manager.

It could not be confirmed that the number of records input to the main billing for the current tax year equalled the number of properties recorded in the CT1112 property banding scheme (which shows the number of properties currently within each band). There was no evidence available to confirm that sample bills generated by MBA were checked and signed by the Systems Control Officer and two Revenues Managers.

- **Discounts and Recovery**

For over fifty percent of the sample of Single Person Discounts tested it was found that there was no documentary evidence to support the award. Rolling reviews of discounts had lapsed in 2007/08. The Head of Revenues stated that the previous policy of rolling reviews will return for the 2008/09 financial year.

- **Collections and Refunds**

Suspense account reconciliation and clearing of the suspense account is not being undertaken. The responsibility of performing these tasks has not been assigned. A decision has to be made to determine whether Council Tax or the Systems Control Section is responsible for the reconciliation of the suspense account. Letters informing Council Tax payers that their direct debit payment has been rejected are not produced and sent out.

- **Recovery and Enforcement**

Where accounts were written off, there was not always an authorised write off proforma attached to the account record on the Anite system. Four of the 20 proforma's tested did not contain the name of the authoriser of the write off. There is no process in place which monitors and reviews accounts which have been suppressed from recovery. Internal Audit was informed that this exercise will occur more regularly in 2008/09.

- **System Reconciliation**

Reconciliation of the weekly refund batches to the general ledger has not been carried out during the 2007/08 financial year. Audit was provided with a demonstration of how the figures would be derived and were informed that time pressures had prevented this reconciliation being performed. The Senior Systems Admin & User Support Officer confirmed that monetary reconciliation is undertaken in the Housing and Council Tax Benefits section. However the Council Tax section are not provided with copies of the reconciliation and are unaware of any discrepancies or differences that may exist between the two systems.

A total of 16 recommendations have been made to enhance the council tax system, including two with priority one status.

#### 4.5 Report No. 32107 – Housing Strategy – Limited Assurance

This audit examined the Council's housing strategy and found that, at the time of the audit, a current housing strategy did not exist. The process of producing one was underway and there is evidence that consultation and engagement with stakeholders, both internally and externally, has been entered into. In this respect a project plan is required to demonstrate that the processes underway are being coordinated to deliver a cohesive response within given timescales. Structures and processes that challenge key partners were still in the process of development. As the Council's core housing function is now becoming that of enabling and strategic, this is an area of high profile and consequently 'high' risk for the Authority.

A total of seven recommendations have been made, including one with a priority one status, and these have been accepted by management.

- 4.6 The table below sets out the audits that have been undertaken during 2007/08 and a final report has been issued. The table also shows the audits of grant claims that have been completed. As these are not a review of internal controls but the substantiation of expenditure included in the claim, Internal Audit do not issue an assurance level opinion for these audits.

Audit	Report No.	Assurance Level	Reported to Audit Panel
<b>Corporate and Resources</b>			
Creditors - Duplicate Payments Testing	12101	Limited	Sept 07
Fixed Assets	12102	Substantial	No
Treasury Management / Investments and loans	12103	Substantial	No
Bank Accounts	12105	Substantial	No
Main Accounting System / General Ledger	12107	Substantial	No
Payroll	12108	Limited	Dec 07
Pensions	12109	Limited	June 08
Risk Management	12111	Substantial	No
Procure to pay *	12117	N/A	No
Oracle - Financials	12118	Substantial	No
Best Value Performance Monitoring System (Data Quality)	12119	Substantial	No
Infrastructure Audit	12120	Limited	Mar 08
IT Security Policy	12121	Limited	Sept 07
LAA Grant Claim 06/07	12122	N/A	No
Performance Indicators	12126	Substantial	No
Corporate Contracts	12127	Substantial	No
Consultant Procurement	12128	Limited	Sept 07
ERMS Meridio Document Management	12129	Substantial	No



Audit	Report No.	Assurance Level	Reported to Audit Panel
IT System			
DEFRA Climate Challenge Grant Claim		N/A	No
<b>Children's and Young People</b>			
Lewisham Information sharing and assessment (LISA)	22101	Substantial	No
Early years and pre-school funding	22102	Substantial	No
Direct Payments For Children	22103	Substantial	No
Education EMS & Tribal Foundation SEN IT System	22109	Substantial	No
Asbestos Removal in Three Schools	22110	Limited	Mar 08
Momenta SSCO Grant Claim	22111	N/A	No
<b>Customer Services</b>			
Debtors	12106	Limited	Jun 08
Housing Benefits	32101	Substantial	No
Council Tax	32102	Limited	Jun 08
NNDR	32103	Substantial	No
Cash Collection and banking	32104	Substantial	No
Civil Contingencies Act	32105	Substantial	No
Housing Strategy	32107	Limited	June 08
Academy Threshold IT System Post Implementation Audit	32108	Limited	Mar 08
Leaseholder Service Charges	32110	N/A	No
<b>Regeneration</b>			
Transport Coordination Unit	42104	Substantial	No
Parking	42106	Limited	Mar 08
Highways Maintenance	42107	Substantial	No
<b>Community Services</b>			
Supporting People Grant Claim 06/07	52101	N/A	No
Client Contributions For Residential And Domiciliary Care Services	52102	Limited	Mar 08
Payments to residential and domiciliary care providers	52103	Substantial	No
Direct Payments To Adults	52104	Limited	Mar 08

\* Due to the External Auditor undertaking a review of the E-procurement system the scope of this audit was reduced to a follow up review of previously made recommendations

## 5 Management's progress on the implementation of agreed recommendations

During the year Internal Audit have adopted a more proactive approach to monitoring progress on the implementation of recommendations. Schedules of recommendations awaiting implementation for each Directorate are sent to the respective Executive Directors. These schedules are produced on a monthly basis and their objective is to provide the Directorate Management Teams (DMTs) with information to facilitate tracking the implementation of audit report recommendations to try and prevent target dates from being missed.

The table shown at Appendix 1 of this report summarises the current position regarding the recommendations that are awaiting implementation. Once all of the recommendations from a specific audit report have been implemented and this has been reported to the Audit Panel, the audit is deemed to be fully complete and as such it is removed from the table. Internal Audit will continue to monitor the progress on the implementation of these recommendations and to press management to implement those recommendations, as a matter of priority, where the agreed target date has passed.

**6 Legal Implications**

There are no specific legal implications arising directly from this report.

**7. Financial Implications**

There are no specific financial implications arising directly from this report.

**8. Equalities Implication**

There are no specific equalities implications arising directly from this report.

**9. Crime and Disorder Implications**

There are no specific Crime and Disorder implications arising directly from this report.

**10. Environmental Implications**

There are no specific environmental implications arising directly from this report.

## Appendix 1

Audit	Date of Final	Recommendations										
		Total Agreed	Total Completed	In Progress of Being Implemented			Not Yet Implemented & Overdue			Not Yet Implemented But Not Yet Due		
				Priority			Priority			Priority		
				1	2	3	1	2	3	1	2	3
<b>Resources &amp; Corporate</b>												
Procurement	28/03/2007	8	7	1								
Creditors - duplicate payments testing	06/07/2007	6	4	2								
Consultant Procurement	29/07/2007	19	13		5						1	
IT Security Policy	05/09/2007	1			1							
Oracle - Financials	06/09/2007	7	6		1							
Best Value Performance Monitoring System	06/09/2007	4	1		3							
Merdio ERMS	07/09/2007	6						4	1		1	
Payroll	30/11/2007	9	8		1							
IT Infrastructure Audit	12/12/2007	14	5	3	5		1					
Procure to pay	28/01/2008	5	3		2							
Corporate contracts	31/01/2008	4	2		2							
Pension fund	16/04/2008	7					1	1			4	1
Treasury Management, Investments & loans	06/05/2008	7									3	4
Main Accounting System / General Ledger	14/05/2008	4									1	3
<b>Resources Total</b>		<b>101</b>	<b>49</b>	<b>3</b>	<b>14</b>	<b>0</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>3</b>	<b>16</b>	<b>8</b>
<b>CYP</b>												
EMS Data Quality	30/11/2007	5			2	3						
Asbestos	31/01/2008	25	3		3			12			7	
Direct Payments - Children's	29/04/2008	18							1		8	9
Lewisham Information sharing and Assessment (Lisa)	23/05/2008	1						1				
<b>CYP Total</b>		<b>49</b>	<b>3</b>	<b>0</b>	<b>5</b>	<b>3</b>	<b>0</b>	<b>13</b>	<b>1</b>	<b>0</b>	<b>15</b>	<b>9</b>

		Recommendations										
Audit	Date of Final	Total Agreed	Total Completed	In Progress of Being Implemented			Not Yet Implemented & Overdue			Not Yet Implemented But Not Yet Due		
				Priority			Priority			Priority		
				1	2	3	1	2	3	1	2	3
<b>Customer Services</b>												
Civil Contingencies Act	05/03/2008	3								1	2	
Debtors	26/03/2008	8									8	
Cash collection and banking	31/03/2008	3						2	1			
NNDR	04/04/2008	5					1				4	
Council Tax	09/04/2008	17	8		4					1	4	
Housing Strategy	11/04/2008	7					1	4			2	
Housing Benefits	10/06/2008	3						2			1	
<b>Customer Services Total</b>		<b>46</b>	<b>8</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>2</b>	<b>8</b>	<b>1</b>	<b>2</b>	<b>21</b>	<b>0</b>
<b>Regeneration</b>												
Parking	31/01/2008	13	2					2		3	6	
Highways	28/02/2008	5	2								3	
<b>Regeneration Total</b>		<b>18</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>3</b>	<b>9</b>	<b>0</b>
<b>Community Services</b>												
Client contributions for residential and domiciliary care services	07/12/2007	19	11		2			6				
Direct Payments	21/01/2008	38	7				5	24	1		1	
<b>Community Services Total</b>		<b>57</b>	<b>18</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>5</b>	<b>30</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>
<b>Grand Total</b>		<b>271</b>	<b>82</b>	<b>3</b>	<b>25</b>	<b>3</b>	<b>9</b>	<b>58</b>	<b>4</b>	<b>8</b>	<b>62</b>	<b>17</b>