

AUDIT PANEL			
Report Title	INTERNAL AUDIT UPDATE REPORT		
Key Decision	NO		Item No. 5
Ward	ALL		
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES		
Class	Part 1	Date: 12 MARCH 2009	

## 1 Purpose of the Report

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

- an update on Internal Audit's progress,
- an update on the implementation of previously agreed audit recommendations.

## 2 Recommendations

It is recommended that the Audit Panel note the report.

## 3 Background

- 3.1 As reported to previous meetings of the Audit Panel, the internal audit service has now been split into a 'client side' and a 'service provision' side.
- 3.2 The Council's Audit and Risk Manager is the lead officer on the 'Client' side and is supported by an Internal Audit Contract Manager. The client side retains overall responsibility for the internal audit service, including the preparation and monitoring of the delivery of the audit plan, reporting to and liaising with managers and the Members, purchasing internal audit services from the service provider, and monitoring the implementation of internal audit recommendations.
- 3.3 The 'Service Provision' side are responsible for undertaking the internal audits and this is undertaken by RSM Bentley Jennison (the Contractor). The Engagement Partner for the contract is Chris Harris and the on site Audit Manager is Debbie Chisman.
- 3.4 The Client side receives regular progress reports from the Contractor and meets with the Audit Manager to discuss progress and issues on a regular basis. The Executive Director of Resources also meets with the Audit and Risk Manager on a regular basis and jointly with the client team and the Contractor at least once a quarter.
- 3.5 At the last meeting of the Audit Panel, members asked the Audit and Risk Manager to identify five or six key performance indicators (KPIs) that they should focus on when assessing the Contractor's performance. The KPIs that will be of most

interest to members and will help them form an opinion as to whether RSM Bentley Jennison are performing to an acceptable level are as follows:-

- Number and % of planned audits completed to draft report stage
- Number and % of planned audits completed to final report stage
- Number and % of draft audit reports issued within 10 working days of completing fieldwork
- Number and % of final audit reports issued within 20 working days following the issue of the draft report (NB this indicator is dependent on the Council responding promptly to draft reports)
- Average level of client satisfaction with the audit (minimum of 3.5 out of 5 for 2009/10)
- Number and % of fundamental and significant audit recommendations accepted

In addition there are two other indicators that members may wish to focus on at the end of the audit year and these are:-

- Number and % of key financial systems audits completed prior to the year end, and
- The external auditor can place reliance on the work of internal audit

- 3.6 As the contract progresses, the Audit and Risk Manager will be looking to introduce KPIs that focus on the qualitative side of the Contractor's performance to assess the level of value being added to the operations that are being audited.

#### **4 Progress Against the 2008/09 Audit Plan**

- 4.1 The revised Audit Plan for 2008/09 was presented to the September 2008 meeting of the Audit Panel. However there are some variations to the plan as Internal Audit have been asked to undertake some additional unplanned work, and also to postpone some planned audits where the service units had not reached the stage where the reviews could be undertaken in 2008/09.

#### **4.2 Unplanned / Additional Audits**

##### Resources Directorate

Audit of the Community Energy Efficiency Fund grant claim

Payroll – additional testing requested by the Audit Commission to cover later part of the financial year

##### C & Y P Schools

Downderry and Coopers Lane primary schools added at the request of the school (to take up capacity resulting from two school audits that have been postponed – see below)

Northbrook Secondary school added at the joint request of the Headteacher, the Diocesan Education Board and C&YP management

##### Community Services

Audit of the supporting people grant claim for 2007/08

#### Customer Services

Three separate audits of lease holder service charges covering the Brockley PFI and the two Dunlop Haywards contracts

#### Cross Cutting

Audit of the LAA delivery plans

Thematic review of risk management across the authority

### **4.3 Postponed / Transferred Audits**

#### Resources Directorate

Review of the telecommunications system. The client commissioned specialist telecommunications consultants to undertake a detailed and comprehensive review of the systems.

#### C & Y P (non schools)

The review of the re-tendering of the schools meals contract as this is behind schedule and not at a point where internal audit input would benefit the process.

Review of the Child Protection systems postponed to allow management to review the findings from the joint inspectorate review at L.B. Haringey following the death of baby P and the potential impact, if any, on child protection in Lewisham. The outcome of this review will be taken into consideration when re-scheduling this audit.

#### C& Y P schools

St Michaels and Holbeach primary schools and Pendragon special schools postponed to 2009/10. None of these schools were ready to be assessed for the FMSiS and as such they would not pass (but would still incur the assessment fee). However as all three schools have indicated that they will be ready for assessment early in 2009/10, and Internal Audit are not aware of any specific issues with these school, we agreed to the postponements. In addition, Internal Audit had already received requests from two primary schools (see above) originally scheduled for 2009/10 asking to be assessed early, so these were brought forward into 2008/09 as replacements.

#### Community Services

Review of the systems at the Honor Lea Hostel postponed as this unit is subject to a review by another team from the Audit and Risk Division.

Review of the systems for community sector grants postponed as a review by another team from the Audit and Risk Division is in progress..

Review of the systems at Community Education Lewisham postponed at the request of management due to pending external inspection

#### Customer Services

Two audits of Tennant Managed Housing Co-ops have been transferred to the Lewisham Homes audit plan as they are responsible for these areas.

4.4 The above changes are reflected in the table below:-

Directorate	Original Planned Audits	Unplanned / Additional Audits	Postponed / Transferred Audits	Revised Planned Audits
Resources & Corporate	23	2	(1)	24
C & Y P (exc. Schools)	12	0	(2)	10
C & Y P Schools	34	3	(3)	34
Community Services	13	1	(3)	11
Customer Services	21	3	(2)	22
Regeneration	10	0	0	10
Cross Cutting	4	2	0	6
<b>Total planned Audits</b>	<b>117</b>	<b>11</b>	<b>(11)</b>	<b>117</b>

5.5 The table below shows a summary of the current status for the audits in each Directorate:-

Directorate	Planned / Unplanned Audits	Audits Completed	Draft Report Stage	Audits in Progress	Not Started
Resources & Corporate	24	9	6	8	1
C & Y P (exc. Schools)	10	1	2	7	0
C & Y P Schools	34	1	14	7	12
Community Services	11	1	0	8	2
Customer Services	22	8	8	3	3
Regeneration	10	1	5	3	1
Cross Cutting	6	1	0	3	2
<b>Total planned Audits</b>	<b>117</b>	<b>22</b>	<b>35</b>	<b>39</b>	<b>21</b>

Of the 21 audits that are listed as not started, all have a scheduled start date, and 12 of these are school audits which require significantly less time to carry out than audits of major systems. The Contractor has increased the resources working on the Lewisham audits by some 40% during the last quarter of 2008/09 to ensure the planned audits are completed to at least draft report stage by the end of March 2009.

## 5. Summary Of The Completed Audits With Limited or No Assurance

5.1 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.

### 5.2 Creditors – Limited Assurance

5.2.1 This audit was carried out by Deloitte prior to RSM Bentley Jennison taking over the internal audit contract. Responsibility for the creditors function is split between two teams, the Central Payments Team and the Finance Systems Team. The Central Payments Team consists of 10 members of staff and are responsible for the processing and payment of approximately 350 invoices per day. The Central

Payments Team is managed by the Finance Systems Team. The Finance Systems Team is responsible for the maintenance and updating of supplier records, and for monitoring the movement of payment transactions through the financial ledger. Both teams are located in the main Town Hall.

- 5.2.2 This audit reviewed the internal controls throughout the creditors system. There were no issues raised regarding urgent payments; risk registers; amendments to the standing data (supplier master records); or the system reconciliations.
- 5.2.3 However the audit did identify three areas, policies and procedures; processing of invoices; and the issue of cheques, where improvements in control, or the operation of existing controls, could be made.
- 5.2.4 A total of six recommendations to enhance controls, including one with a fundamental (priority 1) status, have been made and accepted by management, and three of these, including the fundamental recommendation, have already been implemented.

### 5.3 Private Sector Leasing – Limited Assurance

- 5.3.1 Through the Private Sector Leasing (PSL) scheme the Council obtains residential properties from private landlords for a period of 2 years and then lets these properties to homeless families in need of accommodation. The gross turnover for the PSL scheme is in the region of £7m per annum with some 98% of rents being collected.
- 5.3.2 Whilst this audit found instances of good practice throughout the service and concluded that management had put in place an adequate control framework with regard to its design and effectiveness, audit testing identified instances of non-compliance with some of the intended controls. Consequently only limited assurance could be placed on the application of the controls within the system.
- 5.3.3 A total of six recommendations have been made and accepted by management. None of the recommendations have a fundamental status (priority 1) although five are significant.

### 5.4 Photocopier Contract – Limited Assurance

- 5.4.1 The Council's photocopier contract was competitively tendered and won by a company called Apogee. The contract commenced in January 2007. At the time of the audit there were around 300 devices installed within Lewisham. Many of these machines are multi functional devices (MFDs) which operate as combined photocopiers, printers, scanners and fax machines. The Council's annual spend on the contract is in the region of £1.1m. This review was included in the annual audit plan as the area had not previously been subject to an audit review.
- 5.4.2 This review identified a number of issues in the design and effectiveness of the control systems relating to the photocopier contract, in particular around monitoring the usage of devices and the information provided to users; monitoring the volume of copies being made and billed; approval of the recharge rates to users; and the monitoring and enforcement of the contract conditions.
- 5.4.3 The main finding of this report was that, at the time of the audit, the Council had failed to collect £325,000 that was due to it from Apogee. As a disincentive to users to print in colour, Apogee agreed, at the request of management, to charge users a

significantly higher cost for colour printing and reimburse the Council with the difference between the actual costs of colour printing and the inflated rates. Whilst the 'income' was being collected by Apogee from the start of the contract, the management responsible for monitoring the contract had failed to put in place a mechanism to collect this money from Apogee. In addition the auditors were unable to find any evidence to indicate that the increased charges for colour copying had actually been approved by the Council's senior management.

- 5.4.4 A total of 14 recommendations have been made to improve the design and effectiveness of the control framework, including three with a fundamental (priority 1) status. Management have accepted all of recommendations except for one, which relates to the enforcement of contract conditions. Two of the fundamental recommendations have already been implemented, including the recovery of the monies from Apogee and the introduction of a mechanism to recover future sums on a regular basis.

## **6 Management's progress on the implementation of agreed recommendations**

- 6.1 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 regular 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.
- 6.2 The table shown at Appendix 2 of this report summarises the position as at the end of February 2009 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 them, as a matter of priority, particularly where the agreed target date has passed.

## **7 Legal Implications**

There are no legal implications arising directly from this report.

## **8 Financial Implications**

There are no financial implications arising directly from this report.

## **9 Equalities Implication**

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

## **10 Crime and Disorder Implications**

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

## **12 Environmental Implications**

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

### **13 Background Papers**

There are no background papers reported.

If there are any queries on this report please contact the Audit and Risk Manager on 0208 314 9114.

## Appendix 1

Audits Planned	Priority	Type	Status	Assurance Level
<b>RESOURCES DIRECTORATE</b>				
Main Accounting System / General Ledger	M	Fundamental	Draft Report	
Fixed Assets	H	Fundamental	In Progress	
Treasury Management / Investments and loans	M	Fundamental	Draft Report	
Capital Programme and Expenditure	M	Fundamental	Draft Report	
Payroll	M	Fundamental	Initial Audit Completed - Required Additional Testing in Progress	Limited
Pension fund	M	Fundamental	In Progress	
Risk management	H	Governance	In Progress	Adequate
Health and Safety	H	Governance	In Progress	
Budget setting and control	M	Fundamental	Completed	Adequate
Freedom of Information (FOI) / Data Protection Act (DPA)	H	System	In Progress	
Creditors - Procure to pay	H	Fundamental	Draft Report	
Criminal Records Bureau (CRB)	M	System	Draft Report	
Agency Managed Service Contract	M	Procurement	Draft Report	
Procurement Cards	M	System/VFM	Completed	Limited
Photocopier Contracts	M	Procurement	Completed	Limited
SCCM Software & Hardware Management System	M	IT	In Progress	
Telecoms System inc Mobile Phones	M	IT/VFM	Postpone to 09/10	
ICT Business Continuity	H	IT	In Progress	
Performance Monitoring System	M	System	In Progress	
IT Infrastructure Audit	H	IT	Completed	Limited
IT Security Policy	H	IT	Completed	N/A
HR / Payroll Integrated System – Pre Implementation Review	L	IT	In progress	
Energy grant claim 06/08	H	Fundamental / Substantive	Completed	N/A
Use of Consultants	M	System	Postponed to 09/10	
Mobile Devices, Portable Storage and WIFI	M	System	Draft Report	
<b>CUSTOMER SERVICES</b>				
Housing Benefits	H	Fundamental	Draft Report	
Council Tax	M	Fundamental	In Progress	
NNDR	M	Fundamental	In Progress	
Cash collection and banking	H	Fundamental	Draft Report	
Debtors	H	Fundamental	Draft Report	
Concessionary Fares	H	System	Draft Report	
Registrars	M	System	In Progress	
Bereavement Services	M	System	Completed	Adequate
Building Services	M	System / compliance	Draft report	
Environmental Health Enforcement, H&S, &	M	System	In Progress	



## Appendix 1

Audits Planned	Priority	Type	Status	Assurance Level
Food Safety				
Fleet & Vehicle Maintenance	M	System	Draft Report	
Building Control	M	System	In Progress	
Homelessness	H	System	In Progress	
Hostels	H	System	Draft Report	
Private Sector Leasing	H	System	Completed	Limited
Tenant Management Organisations	H	System	Completed	Limited
Refuse - Trade	M	System	In Progress	
Abandoned Vehicles	M	System	Completed	
Environmental Enforcement (CCTV) Advisory	M	Consultancy	Draft Report	N/A
Sydenham 2 Housing Contract	H	Investigation	Completed – transferred to Lewisham Homes	N/A
<b>COMMUNITY SERVICES</b>				
Supporting People System	H	System	Completed	Substantial
Payments to residential and domiciliary care providers	H	System	In Progress	
Community Mental Health - SLAM Partnership	M	System	In Progress	
Honor Lea Hostel	M	Establishment	Postpone to 09/10	
Sports Development & Leisure Centres	M	System	Scheduled - Mar 09	
Housing 21	M	Operational	In Progress	
Client Financial Affairs	H	System	In Progress	
Procurement, Contracts & Brokerage	M	System	In Progress	
Care Management IT system	M	IT	Scheduled - Mar 09	
Community Sector Grants	M	Substantive	Postpone to 09/10	
Community Education Lewisham	H	Operational	Postpone to 09/10	
Client Contributions for Residential and Domiciliary Care Services	H	System	In Progress	
Supporting People Grant Claim 06/07	H	Certification	Completed	N/A
<b>CHILDREN AND YOUNG PEOPLE</b>				
Vulnerable Pupils	H	System	In Progress	
Payments for 3 & 4 Year Olds	M	System	In Progress	
Sure Start Schemes	M	System	In Progress	
School audits - primary, nursery and special schools.	H	Establishment	In Progress	
SEN: Independent School Placements & transport	M	System	In Progress	
SEN: Recoupment	M	System	Draft Report	
Youth Service	M	System	Draft Report	
Grant Claims	M	Substantive	In Progress	N/A
Milwall Study Support Centre	M	System	In Progress	
Child Protection & Care Planning	M	System	Postpone to 09/10	
Children's Placements & Procurement	M	System	In Progress	

# Appendix 1

Audits Planned	Priority	Type	Status	Assurance Level
School catering	M	Procurement / Contract	Postpone to 09/10	
Downderry School	H	Investigation	Completed	N/A
<b>REGENERATION</b>				
Corporate Estate - Property Asset Management	H	Fundamental	Draft report	
Programme Management - BSF PFI Projects	M	Operational	In Progress	
Land Management	M	System	Draft Report	
Passenger Services - Door To Door	H	System	In Progress	
Parking Income Collection	H	System / Compliance	Draft Report	
Parking System	M	IT	Not Started - may be postponed	
Winter Maintenance	M	System	Completed	Substantial
Opening Doors	M	System	Draft Report	
Land Charges	M	System	Draft Report	
Planning Section 106 agreements	M	System	In Progress	
<b>CROSS CUTTING</b>				
LPSA Grant claim 07/08	H	Fundamental / Substantive	Draft report	N/A
Strategic Partnerships	H	Fundamental / Corporate Governance	Scheduled Feb 09	
Follow up of Recommendations	M	Follow up	On going	
Control Risk Self Assessment for Council Establishments	M	Compliance	Not Started – May be postponed	
Thematic Review of Risk Management	H	System	In Progress	
LAA Delivery Plans	H	Compliance	In Progress	
<b>OTHER WORK</b>				
Leasehold service charges (Lewisham Homes)	H	Certification	Completed	N/A
Leasehold service charges (Dunlop Haywards - Grove Park)	H	Certification	In Progress	N/A
Leasehold service charges (Brockley PFI)	H	Certification	Completed	N/A
Leasehold service charges (Dunlop Haywards – Chrysalis)	H	Certification	Completed	N/A

## Appendix 2

Department	Report Name	Final Report Issued	Completed			Outstanding			Not Yet Due			Total No. of Recs. Made
			1	2	3	1	2	3	1	2	3	
Resources & Corporate	IT Infrastructure Audit	12/12/2007	3	5	1	2	2			1		14
	Main Accounting System / General Ledger	14/05/2008		1	2						1	4
	Corporate Purchasing Card	01/09/2008	3	2	4		2					11
	Risk management	07/10/2008		2	2						2	6
	Creditors	30/11/2008	1	3						2		6
	Budgetary Control	23/02/2009								3	3	6
	Photocopier Contract	26/02/2009	2						1	10	1	14
	<b>Total</b>		<b>9</b>	<b>13</b>	<b>9</b>	<b>2</b>	<b>4</b>	<b>0</b>	<b>1</b>	<b>16</b>	<b>7</b>	<b>61</b>

Children & Young People	Asbestos	31/01/2008		24						1		25
	<b>Total</b>		<b>0</b>	<b>24</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>25</b>

Customer Services	Civil Contingencies Act	05/03/2008		2		1						3
	NNDR	04/04/2008	1	2						1		4
	Housing Strategy	11/04/2008	1	5						1		7
	Excalibur TMO	13/10/2008		4						4		8
	Bereavement Services	10/11/2008					1	2				3
	Abandoned Vehicles	07/01/2009									2	2
	Private Sector Leasing	07/01/2009		1			4	1				6
	<b>Total</b>		<b>2</b>	<b>14</b>	<b>0</b>	<b>1</b>	<b>5</b>	<b>3</b>	<b>0</b>	<b>6</b>	<b>2</b>	<b>33</b>

Department	Report Name	Final Report Issued	Completed			Outstanding			Not Yet Due			Total No. of Recs. Made
			1	2	3	1	2	3	1	2	3	
Community Services	Supporting People System	15/01/2009									1	1
	Total		0	0	0	0	0	0	0	0	1	1

Regeneration	Parking	31/01/2008	1	5		1	4		1	1		13
	Highways Maintenance	03/05/2008		4						1		5
	Parking Income	06/02/2009							7			7
	Winter Maintenance	09/01/2009									3	3
	Total		1	9	0	1	4	0	8	2	3	28

Grand Total	12	60	9	4	13	3	9	25	13	148
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