

AGENDA ITEM NO.

**TO: AUDIT AND RESOURCES OVERVIEW AND SCRUTINY
COMMITTEE - 8th JUNE 2004**

**SUBJECT: INTERNAL AUDIT ASSESSMENT OF THE COUNCIL'S SYSTEMS
OF INTERNAL CONTROL 2003/04**

FROM: FINANCE

1. PURPOSE OF REPORT

- 1.1 To enable Members to confirm the adequacy, or otherwise, of the Council's systems of internal control, as assessed by Internal Audit, for the financial year 2003/04.

2. BACKGROUND

- 2.1 The Council's operations and its performance are subject to various forms of review: Some are internal, such as best value reviews (with external moderation), and others are external, such as EFQM peer assessment reviews and the Opinion and Systems audits carried out by the Authority's External Auditors, KPMG.
- 2.2 Internal Audit is, as its name suggests, an internal review unit; its role being to appraise the organisation's systems of internal control. An assessment of the Council's performance, therefore, for the purposes of this report, is in the context of how satisfactory its controls are. This assessment is presented by providing summaries of the audit reviews carried out during the year by the Council's Internal Audit Section. These summaries are set out as Appendix 1 to this report.
- 2.3 It should be noted that the appendix contains summaries only of audit reviews included in the audit plan for the year and does not, therefore, include unplanned work such as fraud/irregularity investigations or indeed any other responsive-based activity, work which amounted to approximately one-fifth of Internal Audit's time. Reports on investigations concerning any suspected irregularities are reported separately to members.
- 2.4 Further information on the role and objectives of Internal Audit, its statutory basis and brief details on how it operates is set out as Appendix 2 to this report.

3. POLICY AND BUDGETARY FRAMEWORK

- 3.1 There are no direct policy and budgetary implications.

4. OUTCOME REQUIRED

- 4.1 That, through the accompanying report, Members determine the adequacy, or otherwise, of the systems of internal control within the Council for the financial year 2003/04 and advise the Executive accordingly.

5. SUMMARY OF INTERNAL AUDIT WORK UNDERTAKEN 2003/04 AND ASSESSMENT OF THE COUNCIL'S SYSTEMS OF INTERNAL CONTROL

- 5.1 The audit reviews carried out in the year provide strong evidence that the Council has good systems of internal control.
- 5.2 Substantiation of this view of the Council having good systems of internal control is provided by the Council's External Auditors, KPMG, who, once again, considered themselves able to apply the Managed Audit approach to Warwick District Council. This approach, promoted by the Audit Commission, is defined as the opinion audit service that results from applying the principles of auditing and proper professional standards in conditions where the audited body is able to demonstrate:
- sound financial systems
 - effective budgetary controls
 - good internal audit, and
 - reliable accounts production processes
- 5.3 The External Auditors have decided they can apply the approach because of their general satisfaction with all the above conditions. It is also worth noting that the application of the Managed Audit enables the External Auditors to be able to place reliance on the work of Internal Audit, in particular when undertaking their opinion-based work.
- 5.4 There is no room for complacency, however, and Internal Audit will continue to work with management and staff to maintain and, where necessary, improve these systems.

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BACKGROUND PAPERS:
Internal Audit Reports for 2003/04
Internal Audit Plan 2003/04

Areas in District Affected: Not applicable
Executive Portfolio Area and Holder: Corporate and Strategic Leadership /
Cllr Crowther

SUMMARY OF INTERNAL AUDIT REVIEWS 2003/04

A brief summary of the main points of each audit review follows.

Some of the audits are of Fundamental Systems. These comprise ten key financial systems which the Council's External Auditors are required to audit each year so they can form an overall opinion on the Authority's accounting statements. For reasons of efficiency, the External auditors, KPMG, rely on the work carried out by Internal Audit in respect of these ten key financial systems.

KPMG require what they have determined as the high-level controls and 'key streams' to be audited annually. In order to accommodate this with limited internal audit resources, a concentrated, 'mini-audit' covering only the high-level controls and specified 'key stream' areas is completed for two years within the three-year cycle. Appendix 1(A) provides an example of the approach taken in respect of interim audits. It is only in the third year that a full audit, applying the CIPFA matrices, is undertaken of all the controls, including the high level controls.

It should be noted that the following is not a complete record of the work undertaken by Internal Audit during 2003/04, only planned work of a purely audit nature and resulting in production of an audit report for the attention of management. The remaining work, constituting about one-fifth of Internal Audit's time, was spent on unplanned, responsive work, comprising fraud/irregularity and other types of investigations, responding to numerous requests for advice on a range of matters, particularly those concerning financial controls, and assisting various project teams, the second and third areas of work which, although highly beneficial to the Council, do not result in production of an Internal Audit report.

Recycling – 15 April 2003

The purpose of the audit was to review the administration of the Recycling Service.

Specifically, the audit focused on the following areas:

- The contribution of recycling to Corporate Strategies
- The extent of Warwick District Council recycling strategies for waste management
- The extent of Public Service Agreements which are concerned with waste management
- Performance against national and local recycling targets
- The extent of publicity given to recycling
- Control of recycling equipment, inventories etc.

- The procedures for claiming recycling credits from Warwickshire County Council, raising of invoices etc.
- The kerbside recycling contract, including the specification and the logging and responding to complaints
- Budgetary control aspects
- Verification of performance indicators

The audit found that:

- (a) although the Council has a Recycling Strategy the County-wide Integrated Waste Strategy which is being drawn together by the County Council has still not been finalised.
- (b) although it is expected that the Council will meet its target to recycle 18% of household waste by 2003/2004, the target of 27% by 2005/2006 is a greater challenge.
- (c) there has been a problem in the past in obtaining the necessary information to calculate the recycling credits, resulting in long delays in invoicing the County Council. This situation should not arise now that there is a specific contract for kerbside recycling.

Royal Pump Rooms and Art Gallery – 6 May 2003

The audit was concerned with the facilities operated by the Heritage and Arts Section of Leisure and Amenities, i.e. Art Gallery, Museum and Assembly Rooms.

The objectives of the audit were:

- (a) To ensure that the recharges for the non WDC areas, i.e. the Library area operated by Warwickshire County Council, the Tourist Information area operated by South Warwickshire Tourism Limited and the Cafeteria area are in accordance with the agreements and that the invoices were raised promptly in respect of recharges.
- (b) To ensure that there is regular banking of any cash and cheques taken.
- (c) To ensure that the hiring charges for the Assembly Rooms and Annexe were in accordance with set charges and that invoices were raised promptly.
- (d) To check that the petty cash records were adequate and that the actual cash agreed with the imprest and vouchers issued.
- (e) To ensure that there are sufficient checks on goods received and orders raised prior to the authorisation of invoices

- (f) To ensure that there is an up to date and sufficiently detailed inventory of furniture and equipment.
- (g) To ascertain the satisfaction levels with the cleaning contract.
- (h) To ascertain whether there are problems with the general security of the building.
- (i) To ensure that insurance cover is adequate and that cover is taken out in relation to temporary exhibitions.
- (j) To ensure that there are suitable conditions within the Art storeroom to prevent deterioration of paintings etc.
- (k) To ensure that there are proper back up procedures in respect of pc data.
- (l) To ascertain visitor trends for the Royal Pump Rooms and Art Gallery/Museum.
- (m) To verify the performance indicators in relation to the Royal Pump Rooms and Art Gallery/Museum.

This review found that the systems and controls within the Royal Pump Rooms were operating satisfactorily with the exception of the points below:

- The inventory of furniture and equipment should be more detailed and should include basic information such as date of purchase, approximate value and condition.
- In order to ensure that any temporary exhibitions have the appropriate insurance cover it is necessary to give adequate notice to the Insurance Officer.
- It is essential to ensure that the conditions within the Gallery and Store Room are not detrimental to the art works, as there could be a deterioration in condition and therefore in value. The arts collection is estimated to be worth in the region of £6.5m and, at any one time, there can be works on loan up to the value of £2m. It is essential to safeguard the Council's assets and therefore the problems outlined require urgent attention.

Housing Incentive Schemes – 13 May 2003

The purpose of the audit was to review the administration of the incentive schemes operated by Housing.

Specifically, the audit focused on the following areas:

- The contribution of the incentive schemes to corporate strategies
- The effectiveness of the schemes
- A review of the Lettings Incentive Scheme for Tenants (LIST)

- A sample check of LIST payments to ensure that:
 - a) They were in accordance with the scheme
 - b) Eligibility had been checked and there were effective procedures in place to inspect vacating properties for general condition prior to any payment being made
 - c) That appropriate deductions had been made from the LIST payment if there were rent arrears or the condition of the property was not satisfactory
 - d) That there are appropriate controls over the stationery used for approval of LIST payments
- Assess publicity given to the scheme
- Review budgetary control aspects
- Establish the interest in other incentive schemes e.g. the Buyback Scheme

The audit found that:

- (a) The administration of the main Incentive Scheme (LIST) was satisfactory, based on the sample of payments examined.
- (b) Improvements had been made in internal control relating to the administration of the LIST payments by having a second officer check the transaction and by having pre numbered controlled stationery for applications.
- (c) Revisions to the LIST scheme to coincide with the operation of Choice Based Lettings should make the scheme more attractive and provide more of an incentive to tenants to vacate particular types of properties.

Homelessness and Housing Advice – 15 May 2003

The audit examination was undertaken for the purpose of evaluating the adequacy and operation of management, financial and operational controls in place to ensure that:

1. The Homelessness and Housing Advice functions are discharged in accordance with the relevant statutory and regulatory provisions;
2. The Homelessness and Housing Advice functions are discharged in a professional and bona fide manner;
3. All decisions on homelessness issues are authorised under the Constitution and adhere to relevant policies/strategies;

4. An effective framework is in place to deliver continuous improvement and contribute as required to achieving corporate strategic objectives;
5. Funding and resources are deployed economically, efficiently and effectively in executing Homelessness and Housing Advice to achieve appropriate specified performance standards;
6. Achievement against performance/improvement objectives and targets is monitored effectively with reporting of relevant, accurate and timely performance measures in accordance with statutory, regulatory and policy requirements.
7. All income arising is correctly calculated, promptly collected and properly accounted for.
8. Adequate control and security arrangements are in place to preserve confidentiality, integrity and availability of systems and data in a manner appropriate to their business criticality and obligations under relevant legislation.

The audit concluded that:

- A formal procedural review mechanism should be instituted to Ensure that relevant documentation is updated to reflect system changes and risk management implications.
- Procedures should be reviewed at least annually and documentation amended as required.
- The review of the procedure documentation should incorporate a comprehensive evaluation of scope and structure with due regard to good practice examples as referred to in the Audit Commission report.
- The effective delegation of decision powers on homelessness matters should be clearly mandated in writing, either within the Constitution or separate mandate signed by the relevant senior manager.
- The access permissions for application system users should be checked for consistency with current duties.

Refuse Collection – 4 June 2003

Refuse collection is carried out by Serviceteam under a 10 year contract which began on 1st April 1998. Serviceteam also provided the service prior to this date. The contract price for the collection of domestic waste for 2002/2003, excluding clinical waste (£15,897), special collections (£32,520), recycling (£96,734) and green waste (£24,000), is £1,123,176. The service is a “back door collection” service and collections are made every week from approximately 56,000 properties giving a total of 2.9 million collections a year. Client side management of the contract is performed by the Waste Management Section in Environmental Health under the control of the Community Services Manager.

The audit was undertaken to establish and test the financial and management controls in place over the contract.

The control objectives that were examined were as follows:-

- (a) A comprehensive database exists that identifies all properties covered by the contract.
- (b) The service is provided in accordance with the specification.
- (c) Standards are defined and default mechanisms are in place.
- (d) Payments are valid, accurate and in accordance with contract conditions.
- (e) Contract specification ensures minimum variation and extra cost.
- (f) Budgetary control mechanisms are in place.
- (g) Fees and charges are properly dealt with.
- (h) Contingency arrangements are in place to provide the service if necessary.
- (i) The contractor understands and complies with the Council's strategies, issues and policies.
- (j) Customer information on all aspects of the service is provided.

In addition the most recently reported Performance Indicators, 2001/2002, were validated.

Overall, the audit drew the conclusion that the Refuse Collection Contract is subject to sound financial management and control. The only recommendations arising were as follows:

- At the next Fees and Charges deliberations the V.A.T. position for special collections needs to be clarified and, possibly, the published information amended accordingly.
- A specific Risk Plan should be drawn up to deal with the question of continuing to provide the refuse collection service in the event of Serviceteam ceasing to provide it.
- As refuse collection is one of the highest profile and most visible of the District's services, efforts should be made to provide an appropriate level of customer information on the website.

The Performance Indicators for 2001/2002, the most recent full year available, were validated. No customer satisfaction data was compiled. Of the remaining four PIs, three were validated as correct. There was, however, an error in the cost per

household indicator as a result of using the incorrect net cost for the service which brings the cost per household down from £25.50 to £23.73.

Food Safety – 13 June 2003

The Food Safety Division is staffed by a team of 6 full-time and 3 part-time officers and has a budget for 2003/2004 of £362,800. The Division is responsible for enforcing food hygiene legislation in approximately 1,500 premises of which around 10% are categorised as high risk i.e. they have an A or B risk rating and require inspection at least every 6 months or 12 months. The Division has an accredited Quality Management System and the Division's formal food law enforcement activities were recently subject to audit by the Food Standards Agency (FSA). At the time of the audit, the Food Safety team were the current holders of the Warwick District Council Team of the Year Award.

The audit was undertaken to establish and test the financial and management controls over the provision of the Food Safety service.

The control objectives that were examined were as follows:

- (a) A comprehensive database exists that identifies all properties, people and activities that are subject to Food Safety legislation;
- (b) A method of risk assessment is employed in order to formulate an inspection programme and frequency of visits;
- (c) Enforcement is exercised through inspections and monitoring and there is a consistent approach which is based on Food Safety legislation;
- (d) There are arrangements in place to assess the competency of officers and to maintain that competency at current, professional standards;
- (e) Requests for service are recorded, responded to within target, monitored and reported on;
- (f) Documented procedures are in place covering the Division's main operations;
- (g) Compliance with Food Safety legislation within the Council's workplaces is monitored;
- (h) Achievement against performance/improvement objectives and targets is monitored effectively with relevant, accurate and timely performance measures in accordance with requirements;
- (i) Adequate control and security arrangements are in place to preserve the confidentiality, reliability and availability of systems and data;
- (j) Appropriate financial and budgetary control procedures and reporting measures are in place to ensure that the cost of providing the service remains within budget.

In addition the most recently reported Performance Indicator was validated.

Overall the audit drew the conclusion that the activities of the Food Safety Division are well managed and controlled, a view shared by the FSA, and based on the records and evidence presented and examined there were no matters requiring attention.

Recruitment and selection – 24 June 2003

The objectives of the audit were:

- (a) To ascertain what policies and procedures exist relating to the Recruitment and Selection of staff.
- (b) To ensure that any procedures are compliant with the relevant legislation.
- (c) To ensure that, at the job application stage, issues such as ethnicity, gender and disability are dealt with properly and that there are systems in place to monitor equal opportunities.
- (d) To compliance test a sample of recent recruitments, with particular emphasis on:
 - i) References taken up, sufficiently probing questions asked and any areas of uncertainty resolved with the referee
 - ii) Verification of any qualifications which the successful applicant claims to have
 - iii) Medical questionnaire completed and follow up made if necessary
 - iv) The working time directive brought to the attention of the successful applicant
- (e) To ensure that the organisation is suitably marketed to potential employees and that the advertising of jobs in newspapers and professional magazines is monitored for effectiveness and cost.
- (f) To verify the performance indicators in relation to recruitment and selection

The audit review found that the procedures in place for the recruitment and selection of staff were in accordance with the relevant legislation and there were sufficiently detailed checks made on successful applicants prior to the job being offered.

The comprehensive new Recruitment and Selection, Policy and Procedures which is now available provides guidance on all aspects of recruitment and selection and should therefore ensure that a uniform approach is adopted throughout the Authority.

Council House Sales – 16 July 2003

The system is administered in accordance with the Housing Act 1985 (as amended). In 2002/2003 there were completions on 96 houses and 32 flats. This compares with the peak in 1988/89 when 310 houses and 65 flats were sold. In 2002/2003 the average valuation for a house was £81,234 and for a flat £59,453.

The audit was undertaken to establish and test the financial and management controls over the Right to Buy process.

The control objectives that were examined were as follows:

- (a) Systems identify properties to be excluded from the process;
- (b) Responsibility for dealing with the system and processing applications is designated to specific officers in Housing and Legal;
- (c) Applicants and other relevant parties have access to appeals and complaints procedures;
- (d) Properties are only sold to eligible tenants;
- (e) Discount is awarded in relation to length of tenancy;
- (f) The correct amount of discount is awarded and the maximum is not exceeded;
- (g) Discount is recovered if the property is sold within three years;
- (h) Relevant notices are accurate and served within time limits;
- (i) Access to the RTB system is controlled and recorded;
- (j) Rent accounts are clear on completion;
- (k) Properties are removed from the Rent Accounting and Job Costing systems on completion;
- (l) Property valuations are realistic in relation to the current, local market;
- (m) Property valuations are carried out under contract.

The audit found that the processing of applications was, on the basis of the sample of completions examined, accurate and prompt. Any delays tended to be caused by the applicants.

There was, however, some evidence of prolonged completion periods where the Council could have adopted a harder line and withdrawn the original offer. This was said to be due to staffing problems in Legal in 2000. Completion deadlines as far as applicants are concerned are now strictly enforced.

Public conveniences – 17 July 2003

The cleaning of public conveniences is carried out by Superclean under a five year contract which began on 1st April 2003. The contract, which has a total value of £150,815, also includes the cleaning and securing of car parks and the release of vehicles from car parks. The bill for cleaning of public conveniences is £93,184. Superclean's tender was almost £85,000 below the next lowest tender.

The contract covers those public conveniences which are accessible by external means and not those situated inside other buildings e.g. the Royal Pump Rooms or the Leisure Centres. There are 22 sites included in the contract; 11 in Leamington, 5 in Warwick, 5 in Kenilworth and 1 in Lapworth.

Estimated expenditure on public conveniences for 2003/2004 is £205,000 of which £110,300 relates to cleaning and repair and maintenance.

The audit was undertaken to establish and test the controls in place over the management of public conveniences.

The control objectives examined were as follows:-

- (a) There are procedures in place for ensuring that the service is provided in accordance with the contract specification.
- (b) Adequate provision is made for the possibility that the contractor does not perform to the required standard.
- (c) Systems are in place to ensure that payments are valid and accurate and processed in accordance with the appropriate conditions of contract.
- (d) The specification is sufficiently detailed and precise to ensure that variations are kept to minimum and operating requirements are beyond doubt.
- (e) Budgetary control procedures, with reporting arrangements are in place.
- (f) Any income is charged at the approved rate, regularly reviewed and properly accounted for.
- (g) Contingency arrangements are in place to provide the service in the event of a dispute or the contractor ceasing to trade.
- (h) The contractor understands and complies with the Council's Strategies, Issues and Policies.
- (i) Customers are aware of what is covered by the service, location of public conveniences, facilities at each site, opening times, how to complain etc.

In addition, the most recently reported Performance Indicators were validated.

At the time that sites visits were carried out as part of the audit it was evident that Superclean were not complying with the contract specification in terms of standards and frequencies of cleaning as the site visits revealed a very poor standard of cleaning. Anecdotal evidence obtained during the visits was that Superclean rarely attended some of the sites.

St Nicholas Park Leisure Centre – 25 July 2003

The audit examination was undertaken for the purpose of appraising the adequacy of operational, management and financial controls in place in respect of St Nicholas Park Leisure Centre facilities.

The audit findings show generally robust systems to be in place giving substantial assurance towards meeting the defined control objectives.

Control tests revealed two areas of weakness that qualify to a minor extent the assurance in terms of salaries/wages payments and general risk management. These were:-

- supporting information proved unreliable for verifying casual wages, overtime and other additional non-contracted pay;
- site inventory records were found to be out of date.

Corporate Training – 20 August 2003

The scope of the audit comprised an overview of the management and delivery of Corporate Training.

The objectives of the audit were:

- (a) To establish how Corporate Training fits in with the strategic framework of the Council,
- (b) To evaluate the policies and procedures which govern Corporate Training,
- (c) To ascertain the extent of the Corporate Training Programme in terms of courses provided and the level of support,
- (d) To evaluate the method by which trainers are selected for the delivery of the corporate training programme,
- (e) To assess how training and development needs are identified within the departments.
- (f) To ascertain what links there are between individual training and service planning/managing performance,
- (g) To ascertain the contribution which Corporate Training makes to Investors In People requirements.

The audit recommended that:

- The Training and Development Policy be updated to reflect changes brought about by the restructure.
- The Directorates should carry out a review of training and development needs and the budgetary requirements prior to the start of the Performance Management Scheme.
- Managers be reminded of the need to arrange Induction Training as soon as possible after commencement of duties.

Outdoor Recreation Facilities - 21 August 2003

The audit examination was undertaken for the purpose of evaluating controls in place to ensure that:

1. All income due from use of outdoor recreation facilities is collected and properly accounted for.
2. Effective maintenance is undertaken on the relevant facilities to ensure fitness for purpose.
3. Risks to public health and safety arising from use of the relevant facilities are effectively managed.

The audit recommended that:

- (a) The adequacy of briefing for newly appointed attendants at outdoor recreation sites should be raised with the grounds maintenance contractor and issue of written procedures considered where appropriate.
- (b) A system of spot checks on tickets by Parks staff as part of existing site inspections should be considered.
- (c) Staff should ensure that VAT is correctly applied to sundry debtor invoices with due reference to relevant guidance.
- (d) Coding structures for sundry debtor invoices should be clarified in consultation with Finance and a suitable code list drawn up.

Corporate Property Portfolio and Management - 15 September 2003

The Council has a varied Corporate Property Portfolio which can be classified under the following categories:

- (a) Operational land and buildings, for example, the Town Hall, Riverside House, Leisure Centres, the Spa Centre, Car Parks, the Crematorium.

- (b) Non-operational properties and land, i.e. those not used by the Local Authority in the delivery of its services. The non-operational properties range from Regency buildings on Hamilton Terrace to a boating hut at St. Nicholas Park. Commercial properties form the largest category of non-operational properties of which there are 158. There are 104 General Fund properties and 54 Housing properties. The Housing properties are mainly retail units on housing estates. For example there are 16 shops on Crown Way in this category.

Based on the Asset Valuation of 1999 the estimated value of the non-operational properties is £8.34m. The Council also owns several small parcels of land which are let on licence.

The overall purpose of the audit was to review the management of the non-operational property portfolio within the Council.

The audit recommended that:

- (a) A one-off check should be undertaken to ensure that for every holding per the master record there is a deed.
- (b) Any ambiguities contained in the older leases, e.g. lack of clarity concerning the lessees' responsibility regarding liability for an insurance policy excess should be removed when the lease comes up for renewal.
- (c) A basic system be instituted to record leases removed from storage.
- (d) Checks be made periodically to ensure that leases which have been booked out are returned.
- (e) Guidelines be produced on the circumstances under which a temporary license may be issued.
- (f) A record should be kept of keys signed back in on the surrender of a lease.

Grants to Voluntary Organisations including Grant Support and Service Level Agreements – 16 September 2003

Prior to the start of 2002/2003 the Grants to Voluntary Organisations budget was at a level of around £122,000. This budget was the responsibility of Finance. Early in 2002/2003 the major grants, e.g. to organisations such as the Citizens Advice Bureau, Racial Equality Council, Relate were transferred to the Community Development budget, which is the responsibility of Policy Services. The remainder of some £21,000 under the Finance budget is for financing small grants to mainly local organisations who provide services of a social or welfare nature. Approximately 40 bodies are assisted in this way.

The specific objectives of the audit were:

(a) Grants to Voluntary Organisations

- i) To ascertain the perceived contribution which these grants make to the Corporate Strategy, Community Plan etc.
- ii) To establish the extent of the guidelines and their criteria as to which organisations would be eligible for a grant.
- iii) To sample check some grant applications to ensure that the organisation falls within the eligibility criteria, there is approval of the application, provision in the budget and a grant has been approved by the Executive.

(b) Grant Support and Service Level Agreements

- i) To ascertain the perceived contribution which this type of grant support makes to the Corporate Strategy and Community Plan.
- ii) To ensure that there is a contractual agreement in place which covers the extent of the SLA.
- iii) To ensure that the agreement defines the aims of the partnership and that there is a detailed statement covering the level of the commitment from the Council and the organisation which receives the funding.
- iv) To ensure that the agreement includes the amount of grant support, the duration and the arrangements for payment.
- v) To check, on a sample basis, some grant payments to ensure that they are in accordance with the agreements.
- vi) To check that there are monitoring procedures in place which ensure that the organisation is performing in accordance with the SLA.
- vii) To ascertain whether there are regular reviews of the extent of grant funding made to organisations via SLAs.

The audit found that:

(a) Grants to Voluntary Organisations

The Council continues to support Voluntary Organisations by way of grants of relatively small amounts and the administration of these grants is satisfactory.

(b) Grant Support and Service Level Agreements

It is necessary to ensure that Corporate Objective 7, “target resources to the areas of greatest need,” is satisfied. The target is that by 2004/2005 outcome based Service Level Agreements will be agreed with all partners to whom the Council provides significant levels of funding. It is therefore important that

Partnership SLAs are put into place for the agreements which expired in March 2003.

Leaseholder Service Charges – 26 September 2003

There are currently in the order of 440 leaseholders paying service charges ranging from £60 to £745 a year. Estimated income from service charges for 2003/2004 is £95,800.

The control objectives examined were as follows:

- (a) A database exists that identifies all properties where a service charge applies;
- (b) Responsibility for calculating, reviewing and billing service charges is designated to specific officers;
- (c) Leaseholders and any relevant parties have access to appeals and complaints procedures;
- (d) All appropriate costs in the right proportion are included in the charge;
- (e) Costs are reviewed on a regular basis and charges amended as appropriate;
- (f) Leaseholders are aware of what is and what is not covered by the charges and what their rights and responsibilities are;
- (g) Potential leaseholders are made aware of the service charge before they proceed with the purchase of the property;
- (h) All leaseholders receive an account on completion of the sale and annually thereafter;
- (i) Payment of accounts is monitored and reported and steps are taken in cases of non-payment.

The audit found that the systems in place to manage all aspects of service charges have improved significantly since the last audit now that the function forms part of one of the Council's main systems as opposed to being spreadsheet based. The problems that existed in 1996, particularly those concerning the anomalies evident in the charges made to flats in the same block, have been eliminated. In overall terms, the systems in place to manage the computation, recording and collection of service charges are satisfactory and provide adequate control.

Local Land Charges – 21 October 2003

The audit examination was undertaken for the purpose of evaluating controls in place to ensure that:

- (1) The Local Land Charges functions are discharged in accordance with the relevant statutory and regulatory provisions.

- (2) The Local Land Charges functions are discharged in a professional and bona fide manner.
- (3) Funding and resources are deployed economically, efficiently and effectively in executing Local Land Charges functions to achieve appropriate specified performance standards.
- (4) Achievement against performance/improvement objectives and targets is monitored effectively with reporting of relevant, accurate and timely performance measures in accordance with statutory, regulatory and policy requirements.
- (5) All income arising is correctly calculated, promptly collected and properly accounted for.
- (6) Adequate control and security arrangements are in place to preserve confidentiality, integrity and availability of systems and data in a manner appropriate to their business criticality and obligations under relevant legislation.

The audit was conducted in the context of major system replacement and e-government development in progress that will impact substantially on the Local Land Charges service with major changes anticipated within the next 12 months.

The overall results from the review show robust controls in place that give substantial assurance towards meeting the aforesaid objectives. Certain potential exposures have been identified as follows:

- no recorded management stance on risk of fire damage to the Local Land Charges Register;
- incomplete documentation on Local Land Charges procedures;
- income not routinely reconciled to local information source.

Abbey Fields and Castle Farm Leisure Centres - 23 October 2003

The audit comprised a spot check of cash on site at the time of a visit. The spot check approach was recently introduced into the audit planning process as a result of past problems with cash collection.

The following method was adopted:

- (a) Unannounced visits were made to the two sites.
- (b) Details of the day's takings were established.
- (c) Cash in the till drawer was compared with the day's takings and the float.
- (d) Reserve change floats were counted.
- (e) Takings on site since the last Securicor collection were examined and checked against shift sheets and paying in books.

In addition, a limited assessment of security measures was carried out.

The audit found that, although there are proper cash handling and accounting procedures, security measures at Castle Farm are not being fully complied with.

It was therefore recommended that:

- (a) Staff at Castle Farm should be reminded of the need to keep the door to reception locked during all times that it is not in use.
- (b) Staff at Castle Farm should be reminded of the need to obtain proof of identity from all visitors to the centre who are not known to them.

Lift Maintenance – 7 November 2003

An audit was undertaken of the systems and procedures in place to manage the maintenance of lifts in corporate properties and Council flats and Very Sheltered Housing sites.

The control objectives that were examined were as follows:-

- (a) Responsibility for lift maintenance has been clearly defined and assigned to specified officers,
- (b) All lifts to be maintained are defined and identified,
- (c) Lifts are maintained both responsively and in a programmed/preventive manner,
- (d) Expenditure on lift maintenance is approved and controlled,
- (e) Exceptional or emergency expenditure is subject to approval,
- (f) Works of a responsive nature are based on a schedule of rates,
- (g) Out of hours work is subject to control in respect of attendance and hours claimed and is monitored,
- (h) Systems are in place to ensure that payments to the contractor are valid and accurate,
- (i) The service is provided in accordance with the contract specification,
- (j) Measures are in place to deal with emergencies.

The audit recommended that:

- The current arrangement for deducting tax from the contractor needs to be investigated and if it is to continue then evidence should be obtained to support it. Specifically the Inland Revenue should be contacted and asked to give their views on the acceptability of the arrangement and why it is necessary.

- Formal minutes agreed by both sides should be produced for all client/contractor meetings.

Review of EMAS Project – 13 November 2003

The Council has had a long standing commitment to improving its own environmental performance through participation in the Eco-Management and Audit Scheme (EMAS), with the aim of obtaining EMAS accreditation.

The purpose of the review was to ascertain where the Authority currently stands in relation to implementing an Environmental Management System given that this has been a long term aim of the Council.

The review noted that a considerable amount of officer and Member time has been expended on the pursuit of EMAS accreditation over a period of more than 7 years. This period has been characterised by peaks and troughs, the peaks coming in 1997 and 1998 when the scoping reviews were carried out and the Register of Significant Effects was produced. The other peak was in 2001 and early 2002 when a revised Environmental Policy was adopted, Environmental Improvement Programmes were agreed and implemented and approximately one third of the operational control and monitoring procedures were developed.

There have been many changes in key personnel up to and including the Strategic level, which have proved to be detrimental to progress. There has also been changes in priorities where EMAS has effectively been put on to the “back burner.” The new approach to EMAS was formulated at a time when other priorities had overtaken EMAS. However it was ill conceived timing to introduce a new approach to EMAS during such a time where changes to the responsibilities of key personnel meant there was no one to drive the project.

The report included the following recommendations:

- (1) In view of the lack of progress made in implementing an environmental management system to date and the current difficulties in contracting effectively a company to assist in that objective, one of the following options should be actioned to avoid further wastage of resources:
 - a. Terminate arrangements with current contractor and attempt to make progress unilaterally.
 - b. Terminate arrangements with current contractor and engage another consultant.
 - c. Negotiate with current contractor to provide better and more effective assistance.
 - d. Terminate arrangements with the current contractor and, furthermore, no longer pursue the objective of achievement of implementation of an environmental management system.

- (2) Regardless of whichever course of action is decided upon above, the invoices submitted by the current contractor should not be paid until the contractor has provided adequate and sufficient evidence of work done.
- (3) A report should be issued to CMT and Executive advising the events above and the course of action decided upon together with the reasons.

Improvement Grants – 18 November 2003

The improvement grants awarded by the Council are:

- Renovation Grants (within this category are owner occupier or landlord renovation grants, empty property grant and energy efficiency grants)
- Houses in Multiple Occupation (HMO) Grants.
- Common Parts Grants
- Home Repair Assistance
- Disabled Facilities Grant

The report contained the following recommendations:

- (a) A policy governing the Authority's provision of improvement grants be approved by 1st April 2004.
- (b) An appropriate record be devised for logging the details of inspections carried out and that this be held on the grants files
- (c) Consideration be given to finding a more secure area for the grants files.

Indoor Leisure Facilities - 12 December 2003

An audit was completed of the systems and procedures in place to manage and control the Council's indoor leisure facilities, namely Meadow Community Sports Centre and Sydenham Sports Centre which are both situated within local schools. The two sites operate on a 'Dual Use' basis. The facilities are available to the schools during normal school hours, with only limited weekend use, and to WDC the rest of the time. The budgets for the two sites are not separately identified at the moment but are included in the Sports, Leisure and Community budget. Payments for use of the facilities are £20,400 for Sydenham and £21,100 for Meadow (2003/04 estimates). Income in 2002/03 was around £15,500 for Sydenham and £40,000 for Meadow.

The control objectives that were examined were as follows:

- (a) All income due from users of indoor leisure facilities is properly collected and accounted for,

- (b) All cash, property and users' belongings are protected from loss or theft,
- (c) Staff are paid accurately and in accordance with hours worked,
- (d) Budgets are managed and monitored effectively,
- (e) Operation of the two sites and relevant financial considerations are governed by formal agreements.

Based on the evidence examined and discussions with staff it was considered that in overall terms the systems and controls in place to manage the two sites, given the nature and scale of the activities, are adequate. The following recommendations, however, were made:

- When invoices are raised for bookings that do not meet the criteria for VAT exemption, VAT must be identified on the invoice and allocated to the VAT code.
- In all cases where VAT exemption is granted to a club or society as a result of a block booking an application must be obtained to evidence the arrangement.
- The Sports and Leisure Officer should familiarise himself with the criteria for VAT exemption specified in Customs and Excise Notice 742 and ensure that all current block bookings that are not charged VAT meet the exemption criteria.
- The Insurance Officer should be approached in order to arrange a more suitable limit for the safe at Meadow Community Sports Centre.
- Inventories of sports and office equipment should be produced for both sites and copies forwarded to the Council's Insurance Officer.
- The agreement governing the Council's use of the Meadow Community Sports Centre should be finalised and signed as soon as possible.

Treasury Management – 14 January 2004

The objective of the audit was to ensure that adequate accounting and budgetary control processes are in place. The appraisal was performed with reference to the Schedule of High Level Controls and Key Streams provided by the Council's external auditors.

The High Level Controls reviewed were:

- 1) Reporting to committee of the Treasury Management policy statement and adherence to the policy;
- 2) Annual reporting of treasury management activities;
- 3) Periodic reconciliations of investment/borrowings system/records to the nominal ledger;
- 4) Bank reconciliations; and

- 5) Independent management review of cash position, debt profile, performance, i.e. compared to cash flow monitoring LIBOR/LIBID rates.

The audit, based on the Schedule of High Level Controls, confirmed that Treasury Management is well managed and there is assurance of no undue exposure to risks.

Accounting and Budgetary Control – 14 January 2004

The objective of the audit was to ensure that adequate accounting and budgetary control processes are in place.

The High Level Controls reviewed were:

- 1) periodic reconciliations between feeder systems and nominal ledger;
- 2) management monitoring of closedown procedures in accordance with predetermined timescales;
- 3) independent review of exceptions based on predetermined parameters;
- 4) independent review of suspense account and holding accounts;
- 5) budgetary control (adequate explanation of variances);
- 6) adequate budget setting and in-year control procedures; and
- 7) monitoring balances and reserves.

The audit confirmed that internal accounting and budgetary management is generally adequate and there is assurance of no undue exposure to risks. Improvements were in the process of being introduced which should improve budgetary control still further and help to avoid some of the budget overspend problems recently encountered.

Arts and Heritage Development – 14 January 2004

The objectives of the audit were:

- (a) To ascertain the contribution which Arts and Heritage Development makes to the Cultural Portfolio;
- (b) To ensure that there is a cultural strategy and action plan which addresses Arts and Heritage matters;
- (c) To ensure that the Key Arts Organisations which are given assistance in the form of grants are subject to Service Level Agreements with the Council;
- (d) To ensure that the agreements clearly define the aims of the partnership and the level of funding;
- (e) To ensure that grants awarded are in accordance with the agreements;
- (f) To examine cultural grants awarded and in particular the criteria for the award of grants and publicity given;
- (g) To examine other expenditure on arts and heritage;

- (h) To examine the statistics available regarding the attendances at arts events within the District and establish how the Council compares in this respect;
- (i) To ensure that all external funding has been received for the Kenilworth Abbey Interpretation Scheme;
- (j) To verify the performance indicators relevant to this area.

The audit concluded that, although Arts and Heritage development is an important area in terms of the Corporate Strategy, it is a low key area in terms of resources or funds and the current budget would appear to be insufficient to implement improvements identified in the Arts Strategy.

The audit also noted that, as the criteria for application for Cultural Grants had not been reviewed for some time, they may not be in line with corporate objectives and without effective monitoring of the allocation of grants this may lead to unequal distribution.

Housing and Public Health Functions – 15 January 2003

The objectives of the audit were:

- (a) To ascertain the contribution that the functions of the Division make to the Corporate Strategy and Community Plan;
- (b) To ensure that the issue of improving standards in the private rented sector has been addressed in appropriate plans and strategies, for example the Housing Strategy;
- (c) To check the progress made towards the identification of houses in multiple occupation (HIMOs);
- (d) Verify that there is a programme of inspection of HIMOs and that this is based on a risk assessment process.
- (e) Ensure that there is a programme of inspection in place in order to check compliance with the Housing (Fire Safety in HIMOs) Order 1997;
- (f) Ascertain progress made towards implementation of an accreditation scheme for landlords of properties let to students;
- (g) Ensure that information on the private rented sector is available to the public in a variety of ethnic languages;
- (h) Check progress in meeting energy conservation targets under the Home Energy Conservation Act 1995 and the Energy Conservation Act 1996;
- (i) Ensure that response and completion targets for areas of work covered by the Requests for Service System are being met;

- (j) Verify the performance indicators that are applicable to the Housing Division.

The review found that:

- The promotion and enforcement of good housing standards throughout the private housing sector is an important area, both in relation to the Council's Corporate Strategy and the Community Plan.
- Houses in multiple occupation are the biggest potential source of poor housing within the District. Consequently the identification and regulation of HIMO's has been a major part of the Housing Division's work plan.
- There is a robust risk assessment methodology in place together with a programme of HIMO inspections.
- It is unlikely that the target of bringing 12 of the properties subject to a Fire Safety Order up to standard a year will be achievable. The implementation of an accreditation scheme for landlords of student properties has been time consuming and has taken resources away from HIMO inspection work.
- At present the Council is on target to meet the HECA target for a 30% reduction of CO² emissions over a 15 year period.

The audit also noted that Members had been informed that, without more staff resources, the Indicator BVPI 64 will continue to be zero, that is the number of empty properties returned into occupation as a direct result of action by a local authority.

Value Added Tax – 4 February 2004

The significance of V.A.T. is demonstrated by the statistics for 2002/2003. The Input Tax and Output Tax were £3.8m and £1.1m respectively and there were over 35,000 transactions including V.A.T.

The objectives of the audit were:

- (a) to ensure that there is guidance available which raises employee awareness of V.A.T. and provides advice on the correct accounting for V.A.T.;
- (b) to ensure that the V.A.T. returns to Customs and Excise are submitted promptly each month;
- (c) to ensure that the amounts shown in the V.A.T. returns as being due to the Council are regularly reconciled to the Customs and Excise accounts in the General Ledger and that payment has been received;
- (d) to ensure that the correct V.A.T. ratings are applied to the Council's Fees and Charges;

- (e) to check a sample of invoices and ensure that V.A.T. had been properly calculated and accounted for and that proper tax invoices had been submitted;
- (f) to check a sample of invoice requisitions, invoices and cash receipts to ensure that V.A.T. was dealt with properly;
- (g) to ascertain by enquiry and testing the level of understanding of excluded categories of V.A.T. i.e. the difference between exempt, zero rated and outside of the scope.
- (h) to ensure that there are procedures in place to ensure that the 5% threshold for input tax attributable to the Council's exempt activities is not exceeded;
- (i) to ascertain the outcome of recent inspections by the Council's V.A.T. Inspector;

The audit concluded that because of the number of people who use the Creditors System and enter V.A.T. codes to the system it is inevitable that there will be some errors particularly in distinguishing between exempt, zero rated and outside of the scope, although this was not considered to be a serious problem. It was noted, however, that there was a very real possibility that the Council's input tax attributable to its exempt activities would exceed 5% of the total input tax. This would result in the Council becoming partially exempt and it would not be able to recover any of the input tax attributable to its exempt activities for the financial year. Based on the 2002/2003 figures this would have cost the Council £194,143. It was recommended, therefore, that it would be prudent to waive V.A.T. exemption for a capital scheme which produces rental income in order that any input tax reclaimed on goods/services will not be included in the partial exemption calculation.

Committee Services - 6 February 2004

A risk-based audit examination was undertaken for the purpose of evaluating and reporting on the Democratic Representation and Management function with regard to:

- (a) arrangements to secure proper, economic and efficient use of resources within the function;
- (b) the role of the function in meeting the requirements of the Council's overall control environment.

For the most part, the findings showed robust processes within the Democratic Representation and Management function which give substantial assurance on achieving the objectives identified with any risk exposures within acceptable bounds. On one key objective, however, the function is seen as let down seriously by lack of a coherent corporate framework for dealing with safety issues inherent in public meetings.

The likely repercussions of any incident resulting in fatality or serious injury, including potential for criminal liability under proposed legislation, was seen as warranting special consideration under corporate risk management processes.

Sundry Debtors – 19 February 2003

In 2003/2004 to date around 13,000 invoices have been raised to collect in excess of £4.5m. The balance currently outstanding is £1m of which £200,000 relates to accounts raised prior to 1st April 2003.

The purpose of the audit was to review and evaluate the controls in place over the management of the Sundry Debtors system.

Controls were examined in the following sub systems:

- raising of accounts
- collection, non-payment and write offs
- payment, and
- computer

No problems were revealed.

Housing Rents – 27 February 2004

A new integrated Housing Management System was due to be phased-in from the beginning of December 2003 but this had been delayed until early in 2004. This system includes the property database, rent accounting, and rent arrears. During the first half of 2004 housing repairs, choice-based lettings, estate management, leasehold management and planned maintenance are expected to follow.

It had been decided not to ballot housing tenants on transferring housing stock to a housing association. This will not be reviewed for at least four years. The Council is trying to persuade Central Government to look into alternative ways of managing Council housing. Until then, the Housing Revenue budget will remain stretched. This is being more closely reviewed through the delegation of monthly budget monitoring to Service Area Managers.

The High Level Controls reviewed were:

- (a) Income to date is monitored against budget and variances are followed up and explanations recorded.
- (b)** Periodic reconciliations of rents system to the nominal ledger.
- (c) Rents system reconciled to feeder systems - i.e. cash and benefits.
- (d) Arrears reports showing arrears by age, type and location are reviewed for action taken.
- (e) Reporting to committee of financial and non-financial information - e.g. write-offs, voids.
- (f) Rent roll is produced annually and reconciled to independent area housing office records.

(g) Void properties are identified and monitored by management.

The audit confirmed that the controls and processes for Housing Rents are generally good and there is assurance of no undue exposure to risks. This was confirmed through the review of Key Streams, which highlighted a small number of exceptions that are discussed in the paragraphs below.

One of the main recommendations was that regular value analysis of contractors be carried out, to ensure that the Council is obtaining best value for money, and to help prevent potential accusations of favouritism.

Local Elections - 27 February 2003

Expenditure in 2003/2004 will be in the order of £174k of which £76k will relate to Election Fees. Income from recharges to Town and Parish Councils will be around £46k. On Election day itself 116 polling stations were open for voting. In order to achieve this and to count the votes that night and the following morning, over 500 staff had to be recruited, appointed and paid.

The audit concentrated on the financial considerations and the controls relating to them and also the identification and management of the risks relating to the running of elections.

The audit concluded that the systems and controls in place to manage Local Elections are mainly satisfactory but control could be improved in the following areas:

- reviewing the scale of election fees and the basis for their payment
- adopting a formal approval process for election fees
- reviewing the payments made for “Administrative Duties”
- seeking formal tenders for printing work or Executive approval not to do so
- identifying and managing the potential major risks relating to elections

Newbold Comyn Leisure Centre – 1 March 2003

The audit was undertaken for the purpose of appraising the adequacy of the operational, management and financial controls in place at the Newbold Comyn Leisure Centre.

The audit findings show that there are, in general, robust systems in place which provide substantial assurance that the defined control objectives have been met.

Control tests revealed two areas of weakness that qualify to a minor extent the audit assurance. These relate to Salaries/Wages payments and Income and are as follows:

- The attendance records proved unreliable for verifying that staff were actually on duty
- There was no comprehensive guidance available to staff covering the areas of collection, counting and banking of cash

The first matter has been the subject of previous audit recommendations and it was acknowledged that it is difficult to instil this discipline within a service where there are large numbers of casual staff employed.

With regard to the second matter, it is accepted that there is guidance available on certain aspects of cash collection, for example dealing with discrepancies and checking the main cash float on a daily basis but it was considered that control would be enhanced by the existence of a comprehensive document covering all aspects of collection and banking, particularly in view of the high turnover of staff at the Centre.

Corporate IT Issues: Information Governance - 2 March 2004

An annual allocation is incorporated in the Audit Plan for review of selected information governance areas from the following:-

- ICT Strategy/IEG Statement;
- Data Protection/Freedom of Information Acts;
- information security management;
- project management.

The Freedom of Information Act 2000 was selected on this occasion given that significant management attention had been focused on preparing for compliance with the Act. The Data Protection Act 1998 and information security management issues were also considered, in particular where they cross-cut with Freedom of Information.

The primary objective was to appraise the management systems in place to secure compliance with the Freedom of Information Act while preventing conflict with the management frameworks for data protection compliance and information security management. This has been expanded to incorporate a brief review of the wider corporate framework for information governance.

Although conceived as a normal audit review, the assignment also involved some consultancy at the request of the former Director of Environment. This included attendance at meetings of the working group (now Information Agenda Steering Group) and a consultation exercise to track progress toward completion of departmental record retention policies and discuss problems encountered.

Information governance has emerged as a key theme for public sector corporate governance with a level of importance on a par with risk management, ethical standards and counter-fraud. It is generally about the Council being able to demonstrate its commitment to the Modernisation Agenda's principles of openness and accountability in its handling of information. The Freedom of Information Act is

effectively setting the pace by introducing a general right of access to information held by public bodies which come into force from January 2005.

The audit concluded that fundamental weaknesses in evidence seriously impair the level of assurance on information governance that can be derived from the review. These are summarised as:

- i) fragmented corporate framework;
- ii) structures and processes not formally defined for key elements;
- iii) failure to secure senior management ownership or to foster an appropriate corporate culture;
- iv) failure of pro-active compliance management
- v) implications for Members not fully addressed.

The following recommendations were made:

- (a) The corporate framework should be reviewed with a view to integrating all key elements of information governance. As part of this, clear terms of reference should be established for the Information Agenda Steering Group and officer 'group' responsibilities defined for Freedom of Information and Data Protection issues.
- (b) A report should be submitted to Corporate Management Team by the Information Agenda Steering Group with a view to:
 - establishing Freedom of Information as an ongoing Core Brief item;
 - re-designating a corporate champion from CMT;
 - securing clear direction to Service Area Managers;
 - considering implications for Members and agreeing appropriate action
- (c) The Data Protection Policy and Staff Guidelines should be reviewed and the former submitted for Member approval.
- (d) A cyclical programme of training on Data Protection should be reintroduced and extended to include Members.
- (e) A formal mechanism should be established for tracking the release of Information Commissioner papers on Data Protection, considering their implications and instituting appropriate action.
- (f) The commissioning of an independent Data Protection audit should be considered subject to availability of requisite resources.

Cleansing of the Environment - 3 March 2004

Cleansing of the Environment is carried out by Verdant Limited under a five and half year contract that began on 1st October 2002. The current annual value of the

contract is £636,000. The present contract differs from the previous contract in a number of ways mainly by the introduction of continuous cleaning in the town centres, improved cleansing in hot spot areas and the provision of a rapid response unit to deal with one off problems. The contractor's performance has been poor so far and this has attracted considerable criticism. Measures to rectify the situation have been introduced which have seen some improvement in standards.

The audit was undertaken to establish and test the financial and management controls in place over the contract for the Cleansing of the Environment, commonly understood as "Street Cleansing".

The control objectives that were examined were as follows:-

- (a) A comprehensive database exists that identifies all areas covered by the contract.
- (b) There are procedures in place for ensuring that the service is provided in accordance with the contract specification.
- (c) Adequate provision is made for the possibility that the contractor does not perform to the required standard.
- (d) Systems are in place to ensure that payments are valid and accurate and processed in accordance with the appropriate contract conditions.
- (e) The specification is sufficiently detailed and precise to ensure that variations are kept to a minimum and operating requirements are beyond doubt.
- (f) Budgetary control procedures with reporting arrangements are in place.
- (g) Contingency arrangements are in place to provide the service in the event of a dispute or the contractor ceasing to trade.
- (h) The contractor understands and complies with the Council's Strategies, Issues and Policies.
- (i) Customers are aware of what is covered by the service, variations to the service, contact points, complaints procedure etc.

The following recommendations were made:

- The Contract Administrator should ensure that the contractor supplies evidence of current insurance cover for all of the categories specified in the contract conditions.
- The Contractor Administrator should contact the contractor and request proof of the execution of a Bond appropriate to the current annual contract sum.
- An information leaflet should be produced giving customers basic information about the service and the contacts for comments and complaints.

- Similar but more detailed information should be provided on the WDC website.

Payroll and Staff Expenses - 3 March 2004

The high level controls which were reviewed were as followed:

- spend to date is monitored against budgets and variances investigated and explanations recorded by budget holders;
- periodic reconciliations of payroll system to the nominal ledger;
- bank reconciliation;
- reconciliation of payroll systems to personnel records;
- establishment lists are regularly circularised to chief officers; and
- independent review of exceptions based on predetermined parameters – e.g. net pay > £2,000, net pay > 20% of previous period.

The audit arrived at the following recommendations:

- (a) Periodic exception tests on the Council personnel system to identify salary data on personnel records incompatible with official establishment records should be explored in consultation with ICT Services.
- (b) The scope of pay calculation exception reports being sought for the new payroll system should be reviewed to ensure that exceptionally high payments of car allowances and other expenses can be identified.
- (c) Staff should be reminded to submit car allowance claims monthly in accordance with the Personnel Handbook and avoid storing up backlogs of claims.
- (d) The position regarding standing data amendment logging should be clarified with the County Council's Computer and Management Services Department and arrangements for making log data available for future audits pursued.
- (e) The authorised signatories records should be reviewed and brought up to date.

Council Tax – 16 March 2004

The High Level Controls reviewed were:

- the gross council tax debit is reconciled to the number of properties multiplied by council tax rates;
- periodic reconciliations are undertaken of the council tax system to the nominal ledger;
- the Valuation Office property listing reconciles to the Council Tax system;
- arrears reports showing arrears by age, type and location are reviewed for action taken;
- reports are passed to committee of financial and non-financial information - e.g. write-offs, relief, arrears, collection rate achieved, etc.; and

- an independent review of exceptions based on predetermined parameters is undertaken - e.g. rateable value changes, new relief, banding change, etc

The audit, based on the Schedule of High Level Controls, confirmed that the systems in place to control and manage Council Tax are generally strong and there is assurance of no undue exposure to risks.

National Non-Domestic Rates – 16 March 2004

The objective of the audit was to review and evaluate the controls in place over all aspects of accounting for NNDR. The appraisal was performed with reference to the Schedule of High Level Controls and Key Streams provided by the Council's external auditors. The High Level Controls reviewed were:

- The gross NNDR debit is reconciled to the number of properties multiplied by specified rates;
- Periodic reconciliations are undertaken of the NNDR system to the nominal ledger;
- The Valuation Office property listing reconciles to the NNDR system;
- The NNDR system is reconciled to relevant feeder systems - i.e. cash;
- Arrears reports showing arrears by age, type and location are reviewed for action taken;
- Reports are passed to committee of financial and non-financial information - e.g. write-offs, relief etc.; and
- An independent review of exceptions based on predetermined parameters is undertaken - e.g. rateable value changes, new relief, banding changes etc.

The audit confirmed that the systems in place to control and manage NNDR are generally strong and there is assurance of no undue exposure to risks.

Housing and Council Tax Benefits – 16 March 2004

The High Level Controls reviewed were:

- Data matching exercises are performed between the master file and other sources of information;
- Monitoring of expenditure to date is undertaken with variances being investigated;
- Monthly reconciliations are performed between the benefits system and the nominal ledger, the rents and council tax systems and any other subsidiary systems;
- Reports are passed to committee of financial and non-financial information - e.g. fraud issues, appeals, write-offs etc.; and
- A review of unrepresented cheques is periodically undertaken.

The audit confirmed that the systems in place to control and manage Housing and Council Tax Benefits are generally strong and there is assurance of no undue exposure to risks.

Benefit Fraud Investigation Performance and Procedures – 17 March 2004

The audit reviewed the following areas:

- Current performance
- Performance for last 5 years
- Monitoring arrangements
- Internal control
- Consultation/benchmarking
- Processes
- Strategies/Policies

The audit concluded that the Benefit Fraud Investigation Section has a track record of high level of performance. The Section operates within a well controlled environment providing accountability for its performance.

Legal Services – 17 March 2004

Legal Services is the Council's main source of corporate and specialist legal advice. They deal with all of the legal aspects of land and property management, contract issues and represent the Council in Court and at tribunals and public enquiries. There is an establishment of seven full time posts. The post of Administrative Assistant has been vacant since December 2003 as a result of the embargo on filling posts graded Band G and below. The budget for the service for 2003/2004 is £392,800. The fixed cost element of this – employee costs, support service charges and other allocations account for £370,200. A Fundamental Review of the service was completed in March 2001.

The audit was undertaken to establish and test the financial and management controls in place.

The control objectives that were examined were as follows:-

- (a) Legal Services resources are effectively and efficiently deployed in delivering the service.
- (b) Expenditure and income for the service is controlled.
- (c) Adequate security and risk management procedures are in place.
- (d) Recharges to and from the service are accurate, reasonable and documented.
- (e) Service improvement plans are implemented, monitored and reported.

Overall the audit drew the conclusion that the Legal Services function is subject to sound financial and resource management and control.

The main recommendation arising was that efforts should be made to provide the deeds storage room with a suitable fire prevention system that is appropriate for the nature and value of the documents stored.

General Fund Capital Programme – 16 March 2004

The objectives of the audit were:

- (a) to ensure that there is an up to date Capital Strategy which outlines the Council's approach to the management of Capital expenditure;
- (b) to ensure that the Strategy and the Framework for managing the Capital Programme addresses the allocation of resources in accordance with the Council's Key Priorities as established by the Community Plan, the Corporate Strategy and any Government guidance;
- (c) to ensure that there is a formal, documented and authorised project appraisal methodology which is applied prior to the inclusion of a project in the Capital Programme;
- (d) to ensure that there are systems in place for calculating the cost of financing projects and that there is a formal budget approval process;
- (e) to ensure that an appropriate project management framework has been established with clear reporting lines;
- (f) to ensure that management is provided with adequate, timely and accurate information on the progress of projects, expenditure against budget etc;
- (g) to ascertain the position regarding slippage of the programme
- (h) to ensure that there is an adequate review procedure following the completion of projects; and
- (i) to ensure that reviews are undertaken of the performance of the contractors engaged on projects.

The following recommendations were made:

1. A Project Appraisal form be completed for all potential projects.
2. Consideration be given to adopting the PRINCE 2 project management framework for all capital schemes.
3. Section 9 of the Code of Financial Practice, which covers Capital Investment, be updated to reflect recent changes in respect of financial monitoring and the limit above which post completion reviews are carried out.

Sheltered Housing and Community Care Management System - 22 March 2004

The audit approach had to take account of significant change impacting on the support operations reviewed combined with internal management difficulties prevalent at the time. For these reasons, the overall conclusions were drawn from a 'desktop' review of the relevant evidence and limited testing without the benefit of visits to sites.

Much of the change is being driven by the Supporting People framework with effects already being felt in the financial processes for support provision charging/subsidy and in the improvement agenda set by service area plans. Although applicable financial processes in place have been ascertained as part of this review, they do not form part of the evaluation at this time as they will be subject to further change from implementation of the new housing management system.

The audit was undertaken to examine, evaluate and report on support operations for the District's sheltered/very sheltered housing and community care alarm service provision with emphasis on the adequacy of systems to secure:-

- continuing proper, economic, efficient and effective use of resources;
- achievement of relevant service and corporate objectives.

The evaluation confirmed that sound operational and financial controls are in place that give substantial assurance that routine aspects of the services reviewed achieve the relevant objectives with no significant risk exposures in evidence. On a minor note of reservation, control of Community Alarm user accounts relies on a somewhat archaic manual recording process, a situation attributed to current deficiencies in IT functionality and integration that can only be fully addressed when the corporate Financial Management Systems are eventually replaced. In the meantime, application of Microsoft Office technology may be worth considering as an interim solution.

Other reservations have been noted regarding a less than ideal cohesiveness in procedural documentation and lack of formal benchmarking, both of which will have to be addressed to meet the demands of Supporting People and as such become absorbed into strategic management issues where substantially less assurance can be derived from the review. This is due to what are seen as flawed provisions for achieving key service planning objectives and absence of a clear implementation framework. There is also concern that no formal business strategy is in evidence to address opportunities recognised in the Best Value Review of Older People's Services, especially given the substantial capital resources being committed to upgrading the Community Care Management System.

In both cases, the failings are primarily attributed to additional resources being unavailable while attention is concentrated on the Decent Homes Standard for Comprehensive Performance Assessment. Management should be aware, however, that threats to existing external funding and risks of losing opportunities for future financial benefit may come from not addressing these failings.

Cash Income – 23 March 2004

The High Level Controls reviewed were:

- (a) Regular bank reconciliation to nominal ledger and cash system
- (b) Reconciliation of the cash receipting system to each subsidiary system - i.e. rents, debtors, council tax, NDR, mortgages, etc
- (c) Independent review of exceptions based on pre-determined parameters - e.g. unders and overs
- (d) Management review (budgetary control) of actual income collected against budgeted profiled income

The audit confirmed that the controls and processes for Cash Income are generally good and there is assurance of no undue exposure to risks.

Creditors - 23 March 2004

The objective of the audit was to review and evaluate the controls in place over all aspects of accounting for Creditor payments from raising orders through to the despatch of cheques to suppliers. The appraisal was performed with reference to the Schedule of High Level Controls and Key Streams provided by the Council's external auditors.

The High Level Controls reviewed were:

- Expenditure to date is monitored against budget and variances are investigated by budget holders and explanations recorded;
- Periodic reconciliation of the nominal ledger to the creditors system;
- Regular bank reconciliation - e.g. payments account;
- Management review of exceptions based on predetermined parameters - e.g. payments over £5K, payments to new supplier, etc;
- Committee approval of significant revenue and capital contracts;
- Committee review of payments - i.e. on a sample basis.

The audit confirmed that the systems in place to control and manage Creditor payments are generally strong and there is assurance of no undue exposure to risks.

Telephone Management And Billing - 24 March 2004

The estimated cost of the Council's central switchboard and reception for 2003/2004 is £345,800 of which £53,000 relates to telephone rentals and calls. The system provides around 320 extensions. There are switchboards at ten other sites – for the purpose of this audit the costs and control of those has not been examined in any detail. The Council rents a total of 130 mobile telephones at an approximate cost of £15,000. The Council pays the home telephone rental of 55 officers at a cost of over

£6,000. A best value review of telephones was completed at the end of 2000 and a report was presented to Resources Scrutiny Committee on 31st January 2001.

An audit was completed on the systems and procedures in place to manage the Council's telephone system. The audit was primarily concerned with the financial and security aspects of the system and therefore concentrated on the management of calls being made and the control and allocation of the associated costs.

The control objectives that were examined were as follows:-

- (a) Responsibility for the management of telephones has been clearly defined and assigned to a specified officer or officers.
- (b) Systems are in place to ensure that payments are valid and accurate and processed in accordance with the appropriate terms and conditions.
- (c) Budgetary control procedures are in place.
- (d) Contingency arrangements are in place to provide the service in the event of system failure.
- (e) Adequate control and security arrangements are in place to protect the system from unauthorised access.
- (f) Recharges to and from the service are accurate, reasonable and documented.
- (g) Service improvement plans are implemented, monitored and reported.
- (h) Telephone equipment is safeguarded from wilful or accidental damage and can be restored if necessary.
- (i) Call barring is in place and diversion of calls to other numbers is authorised.
- (j) Mobile telephones are sourced in the most efficient and effective manner and their use is reviewed.
- (k) Adequate information on calls made and extension use is available and provided to managers.
- (l) Staff personal calls are appropriately managed.

Although, overall, the audit drew the conclusion that the Council's telephone systems are subject to sound financial management and control, the following recommendations were made:

- (a) Staff should be made aware of the cost of making calls to mobile telephones and of the need to avoid them or to keep them to a minimum duration.

- (b) The switchboards and any other telephone equipment of value at sites other than Riverside House need to be added to the appropriate inventory and details forwarded to the Council's Insurance Officer.
- (c) A protocol should be drafted covering the use of mobile telephones and include, amongst other things, responsibility, personal use and payment for personal calls, if allowed.
- (d) Details should be established of those officers with a mobile telephone who are having a land line rental paid so that the situation can be reviewed to determine the appropriateness of the arrangement.
- (e) Managers' views should be sought as to the value of the call-logging reports in their current format and if reports containing more detail would be of use.
- (f) Clear unambiguous guidelines on making and receiving personal telephone calls should be drafted, publicised and included in the Personal Handbook.

ICT Planning and Organisation - 25 March 2004

The audit comprised an overview appraisal of the planning and organisation aspects of ICT operations as a pilot exercise for a programme of reviews of ICT operations as a whole phased over the 3-year strategic audit cycle.

Internal Audit has adopted the IT governance model "CobiT" (Control Objectives for Information and Related Technology) as the primary basis for auditing ICT operations at Warwick District Council. CobiT sets out the control framework as a process cycle grouped into four 'domains':-

- Planning and Organisation
- Acquisition and Implementation
- Delivery and Support
- Monitoring.

The examination used CobiT control evaluation criteria for the first of the above domains, suitably adapted and focusing on essential high level controls.

Within its limited scope, the review has shown the essential control elements for effective IT planning and organisation to be largely in place, giving reasonable assurance for achieving the relevant control objectives. In some areas, the control elements have only recently been established and their application will be subject to further review as part of the Audit Plan from April 2004.

Contributions to Parish Councils - 25 March 2004

In terms of budget this is a low key area. However there is a wider agenda which is set out in Strong Local Leadership – Quality Public Services, a DTLR local government white paper published in December 2001. Also the joint central and local government consultation paper, Quality Parish and Town Councils includes a key proposal that, in all areas where there are parish and town councils, there should

be a charter setting out how principal authorities and local councils will work in partnership.

The purpose of the audit was to review the administration of the scheme for Contributions to Parish Councils, otherwise known as the Concurrent Services Grant Scheme.

The objectives of the audit were as follows:

- (a) To ensure that the scheme for contributions to Parish/Town Councils by way of grants has been approved by Members.
- (b) To ensure that there is a definitive list of the services which are covered by the scheme.
- (c) To ensure that details of the parish council's budgeted expenditure on the approved services have been obtained and that payments on account were made accordingly.
- (d) As the reimbursement is based on the level of service not exceeding the District's level of provision, ascertain how this is assessed.
- (e) To ensure that, in order to claim a final payment for the year, parish councils have presented their audited accounts to Warwick District Council for inspection.
- (f) To ensure that an adjustment is made in the general ledger if final payment has not been made by the end of the financial year and that adjustments are made for any overpayments.
- (g) To ensure that there are systems in place to allocate and control the budget for enabling parish councils to bring their play areas up to the required E.U. standards.
- (h) To ensure that the parishes had obtained quotations and proper invoices from contractors prior to the District Council paying grant.
- (i) To ascertain the extent to which the Quality Parish and Town Scheme, which, among other things, promotes the benefits of district and parish councils working together, has been adopted.

The audit drew the following conclusions:

- (a) From the discussions which have been held with parishes it is clear there is a need for this Council and Warwickshire County Council to produce a joint agreement for working with Parish Councils, particularly with reference to Concurrent Services and the delegation of services. The Executive has agreed that such discussions be opened.

- (b) There was a lack of documentation to show that parishes had provided audited accounts, prior to payment of the balance of the grant, and that audited accounts had been inspected by Finance.

**EXAMPLE OF INTERIM REVIEW OF HIGH LEVEL CONTROLS AND KEY
STREAMS OF FUNDAMENTAL SYSTEM**

Accounting and Budgetary Control

The High Level Controls reviewed were:

- 1) periodic reconciliations between feeder systems and nominal ledger;
- 2) management monitoring of closedown procedures in accordance with predetermined timescales;
- 3) independent review of exceptions based on predetermined parameters;
- 4) independent review of suspense account and holding accounts;
- 5) budgetary control (adequate explanation of variances);
- 6) adequate budget setting and in-year control procedures; and
- 7) monitoring balances and reserves.

The Key Streams reviewed against the defined control objectives were:

	<i>Key Stream</i>	<i>Control Objective</i>
1.	Feeder systems postings	All transactions from feeder systems are posted completely and accurately to the main accounting system and that the integrity of the financial management system is preserved through the posting processes.
2.	Journals	Journal transfers are valid, complete and executed correctly.
3.	Virements	All virements are valid, properly authorised and in accordance with the Council's code of financial practice.
4.	Opening balances	Year-end balances are brought forward and correctly into the following year's accounts.
5.	Suspense account and holding account entries	Transactions accepted with invalid codes are posted to a suspense account from which they are cleared promptly and correctly. Holding accounts are only used where appropriate and balances are monitored and correctly cleared at appropriate intervals.
6.	Management Information	Information generated from the financial management system is timely, accurate and appropriate to management needs (financial and non-financial).

7.	Year-end closedown procedures (including period 13 journals)	<p>Output from the financial management system is correctly recorded in the final accounts.</p> <p>The final accounts process is operated in accordance with relevant statutory, regulatory and internal performance management timescales.</p>
8.	Coding of transactions	<p>Ensure correct posting of source transactions to the financial management system so that the integrity of financial information is maintained and the need for journal adjustment minimised.</p>
9.	Preparing revenue and capital budgets	<p>Budgets are prepared in accordance with relevant statutory, regulatory and corporate policy/strategic requirements and approved allocations correctly recorded in the financial management system.</p>
10.	Chart of accounts - i.e. coding and structure	<p>Coding structure properly maintained in accordance with budget holder hierarchy and bona fide management needs.</p>
11.	Access control	<p>Only authorised personnel can access the financial management system database and that data entry permissions are restricted according to responsibilities for financial management system maintenance</p>

FURTHER INFORMATION ON INTERNAL AUDIT

Definition and Objective

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. (The control environment includes all authority operations, resources, services, and its responsibilities to other bodies.)

Source: CIPFA

Statutory basis for Internal Audit

The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972 which requires that authorities "make arrangements for the proper administration of their financial affairs". Regulation 6 of the Accounts and Audit Regulations 2003 more specifically requires that "a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

Structure

The Internal Audit Section is staffed by three Senior Auditors and is located within the Audit and Risk Division of Finance. The Senior Auditors report to the Audit and Risk Manager who in turn is responsible to the Head of Finance. Because of the Section 151 responsibility, the Audit and Risk Manager also reports directly to the Strategic Director (Finance) on matters of financial control. To complete the audit plan, a small proportion of audits are undertaken by an external contractor.

Status

Internal Audit is responsible to the Head of Finance for line management purposes, and helps to deliver the statutory financial responsibilities of the Strategic Director (Finance). Internal Audit is independent in its planning and operation, however, and has no responsibility for delivering or managing non-audit services. The Audit and Risk Manager shall have direct access to the Head of Paid Service, all levels of management and elected members. Internal Auditors have the authority to:

- Enter at all reasonable times any Council establishment.
- Have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary.
- Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud.

- Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination.
- Require any employee of the Council to produce cash, materials or any other Council property in their possession or under their control.
- Access records belonging to third parties, such as contractors or partners, when required and appropriate.

Standards

To achieve an effective internal audit of the activities of the Council the Internal Audit Section work to professional auditing standards determined by the Auditing Practices Board of the Consultative Committee of Accountancy Bodies as interpreted by CIPFA. This includes:

- (a) an assessment of the risks to which the Council is exposed;
- (b) the establishment of an audit plan detailing the activities to be reviewed;
- (c) the use of audit programmes detailing the checks to be carried out for each audit activity;
- (d) the maintenance of detailed working papers to record findings and conclusions in respect of the reviews;
- (e) the issue to management of reports detailing the findings from audit reviews together with recommendations to address any weaknesses found; and
- (f) adoption of the Systems Based Approach to its major audits in order to provide management with a comprehensive assessment of the state of its controls.

How Internal Audit operates

An audit plan is prepared in conjunction with management at the start of the year. This details the audits to be undertaken over a three-year timescale and the amount of time estimated to be necessary for each of those audits. It is based on a thorough assessment of risks across the Council, again undertaken in conjunction with management.

Audit programmes are prepared for each individual audit detailing the checks to be carried out. Most audits are undertaken using the systems-based auditing methodology, whereby the control objectives of the system are identified in advance and agreed with the appropriate manager. The controls identified in practice are evaluated against the expected controls within each control objective. Testing is then undertaken to determine the level of compliance with the controls that are in place.

The system evaluation and the results of compliance testing are then used as the basis on which to draw conclusions and form an opinion on the overall effectiveness and adequacy of the system. At the conclusion of the audit a report is therefore

produced for management detailing strengths and weaknesses and, in relation to the latter, recommending how controls should be improved.

Full details on how Internal Audit operates at Warwick District Council are set down in the Section's Internal Audit Manual, a copy of which is available on request or can be viewed on the Council's intranet.