

APPENDIX A

Annual Report of the Internal Audit Service for 2004/05

1. Corporate Services Committee received and approved the Internal Audit Plan for 2004/05 on 18 November 2004. The Plan showed the range of projects across departments and the anticipated resource to complete the work.
2. The summary of time spent within each service area as at the end of March 2005 is:

Service Area	Target Days	Actual Days
Customer Focus	100	153
Environment & Conservation	150	169
Finance & Property Services	260	305
Homes for Islington	180	193
Housing & Performance	110	133
Law & Public Services	70	68
Regeneration & Education	275	234
Social Services	265	222
Computer Audit	195	206
Investigations	<u>350</u>	<u>243</u>
	1955	1926

- 2.1 The reasons for the variance between target days and actual days for each service area is:

Customer Focus – increased work in areas relating to Cashiers
Environment and Conservation – requests to review areas relating to tennis income and parking refunds
Finance and Property Services – request to review process relating to sale of property at auctions and Health and safety compliance
Homes for Islington – request to increase coverage to look at payment routines in Lift Maintenance and Tenant Management Organisations
Regeneration and Education – projects deferred to 2005/6
Social Services – projects deferred to 2005/06
Investigations – retirement of full time investigator proved difficult to replace. Investigative work forms part of the new contract with PricewaterhouseCoopers (PWC).

- 2.2 The Internal Audit Service is provided by an in-house team of eight full-time permanent staff, which is supplemented by external providers. From January 2005, PWC have provided this service. Through efforts made in the final year by both parts of the service, we have been able to achieve

over 90% of the planned work within the year with the remainder of projects at finalisation stage.

2.3 As part of the audit process, each report contains a rating concerning Audit's opinion of the control environment. The definition of the Audit Assurance Ratings is contained in Appendix C.

3. Summary of main control issues arising in service areas from Internal Audit Work carried out in 2004/05, with an indication of the control issues in those areas with a Limited or No Assurance rating. Assurance has been received from departmental management that the audit recommendations have been implemented to address the control issues raised below:

3.1 Customer Focus

Nine areas were audited

3 were rated as providing Reasonable Assurance

5 were rated as providing Limited Assurance

1 was rated as providing No Assurance

- Comensura Contract – no overall reconciliation of invoice payments to service approved by budget holders. As this project was given a rating of no assurance, Audit made contact with departmental management to discuss progress to date and be assured that the situation was being dealt with in line with recommendations made. The area will be subject to a follow-up review in 2005/06.
- Criminal Records Bureau Vetting – Audit recommended improvement in processes to comply with best practice
- Communication Expenditure – an improvement in segregation of duties was required
- Head office petty cash reimbursement – security arrangements required improvement
- Cashiers' Operations – audit trails and balancing routines required improvement
- Strategic Partnership Management – recommendations were made to improve project control and monitoring

3.2 Environment and Conservation

Twelve areas were audited

1 was rated as providing Substantial Assurance

6 were rated as providing Reasonable Assurance

5 were rated as providing Limited Assurance

- Aquaterra Business Plan – improvements to the client monitoring role would enhance assurance
- Purchase cards – inconsistent transaction processing routines

- Parking Refunds – recommended improvements to the system for processing refunds
- Highways IT system – project management and access controls required improvement
- Licensing Income – reconciliation between local records and the main system require improvement

3.3 Finance and Property Services

Fifteen areas were audited

11 were rated as providing Reasonable Assurance

3 were rated as providing Limited Assurance

1 was rated as providing No Assurance

- Commercial Rent Income – database validation had not yet taken place.
- Revenue Control Reconciliations – delays being experienced in reconciling main account
- Auction Sale – banking routines required improvement
- Asset Disposal – file maintenance was inconsistent and did not clearly support actions taken. As this project was given a rating of no assurance, Audit made contact with departmental management to discuss progress to date and be assured that the situation was being dealt with in line with recommendations made. The area will be subject to a follow-up review in 2005/06.

3.4 Homes for Islington (HFI)

Nineteen areas were audited

4 were rated as providing Substantial Assurance

10 were rated as providing Reasonable Assurance

5 were rated as providing Limited Assurance

- Garage Income – recommendations made to improve database reconciliation
- Lift Maintenance – inspection process required improvement to support payment process
- Tenant Management Organisation Payments – lack of formal reconciliation of local stock records
- Blackstock Road TMO – unclear budgetary control procedures
- Decorations and Maintenance Allowances – inconsistent application of allowance scheme

3.5 Housing and Performance

Eight areas were audited

6 were rated as providing Reasonable Assurance

2 were rated as providing Limited Assurance

- Housing Benefits Reconciliations – recommended improvement in dealing with un-presented cheques
- Accommodation Provider Payments – inconsistent documentation to support decision making

3.6 Law and Public Services

Six areas were audited

5 were rated as providing Reasonable Assurance

1 was rated as providing Limited Assurance

- Election Management – certification process for expenditure needs improving

3.7 Regeneration and Education

Fifty-two areas were audited

6 were rated as providing Substantial Assurance

34 were rated as providing Reasonable Assurance

12 were rated as providing Limited Assurance

- School Catering contract – insufficient monitoring data to gauge performance
- 11 educational establishments – improvements recommended in areas concerning governance, budget monitoring and purchasing routines

3.8 Social Services

Twenty-nine areas audited

4 were rated as providing Substantial Assurance

17 were rated as providing Reasonable Assurance

8 were rated as providing Limited Assurance

- Home Care Block contracts – monitoring needs to be evidenced
- Income Systems – reconciliation routines need to be undertaken regularly
- Pooled budgets – progress needs to be made on drafting operational and governance protocols
- Client Bank Accounts – procedure notes need to be developed to improve reconciliations and controls
- Highbury Grove Resource Centre – local monitoring of expenditure required improvement
- ICS Pooled budgets – financial processes and arrangements with the PCT required formalising

- Childrens Asylum Services – the database needed cleansing/updating
- SWIFT database – user access levels not always adjusted on change of role

3.9 Computer Audit

Fifteen areas were audited

7 were rated as providing Reasonable Assurance

8 were rated as providing Limited Assurance

- Housing Benefits – improved segregation over client and contractor functions was recommended
- Payroll – various control recommendations made that have been incorporated into the selection criteria for the new system
- Wide Area Network – recommendations made to counter potential external threat to the network
- IPAY – monitoring of administration access requires improvement
- Electronic Cashbook reconciliation – insufficient segregation of duties for staff who have access to the system
- E-mail/Internet content – filtering and monitoring controls require improvement
- NNDR/Tax migration – further work needed to be done on reconciling the transfer of accounts to the system

4. Conclusions

- 4.1 All of the above areas have been the subject of reports to management where action plans have been agreed to meet the recommendations made. In accordance with Members' comments at the last Corporate Services Committee, where departments have not confirmed implementation of their action plans, the issue has been escalated for action at Assistant Director/ Director level.
- 4.2 One of the main issues arising from this years work is the inconsistent application of procedures and processes across departments. There are signs that the position is beginning to improve and it is essential that managers ensure that their staff are fully conversant with and understand and adhere to the full range of procedures and protocols that are laid down by the Council. The forthcoming publication of "The Islington Financial Information Manual" on the Council's Intranet will assist this.
- 4.3 During the course of the year, delays were experienced in the provision of responses to draft reports and the completion of "self certificates" indicating the implementation of recommendations. It is recognised that officers are under many pressures, but it is essential that audit matters be dealt with promptly in order to ensure that the Council is able to demonstrate that it benefits from an effective system of internal control.

- 4.4 As previously stated, 69% of the areas audited were rated as reasonable assurance or better and as management have given assurances on action plans to address weaker control areas throughout the year, this will lead to further improvements on this figure.
- 4.5 On the basis of the 2004/05 Internal Audit work, Islington is making significant progress in sustaining and improving its control environment and needs to ensure that this is maintained to further continuous improvement.

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18 May 2005