

This report may be of interest to: Members of the Scrutiny Commission

INTERNAL AUDIT REPORTS

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1. Purpose

- 1.1 This report provides a quarterly summary of Resources Directorate Internal Audit Reports to Committee, in accordance with a resolution of the Contracts Committee.

2. Summary

- 2.1 The following Internal Audit reports for the Resources Directorate have been received since the last report of 10 November 1999, and are summarised in this paper.

- (a) Council Tax – External Bailiff
- (b) Central Payments
- (c) Bank Reconciliation
- (d) Financial Management
- (e) Resources Payments
- (f) Commercial Rental Income and Rent Bonds
- (g) Asset Register
- (h) Contractor Selection and Evaluation (Resources Directorate)
- (i) Performance Bonds and Insurance
- (j) Vertical Contract Audit – Messenger Distribution

3. **Background**

3.1 At a meeting of the Contracts Committee of the Policy Committee on Thursday 20 November 1997, it was resolved that the following approach be adopted for dealing with the Internal Audit Reports to Members:

- (a) Executive summaries will be circulated to relevant Chairs of Committees and Group Spokesperson,
- (b) the Treasurer be given direct access to the Policy or Resources Committee at any time, to report on areas of concern; and
- (c) summary reports be made on a quarterly basis to the relevant Strategic Committee.

4. **Issues Arising**

4.1 Council Tax – External Bailiff

Many of the recommendations made in the audit report refer to the automating and monitoring of liability orders. It is anticipated that the new FIRST software system, which is now to be introduced in May 2000, will assist in these processes.

Following an external tender our existing contractors have been re-appointed for a period of three years, the contracts having been written to ensure that Milton Keynes Council receives the necessary performance management figures and that attachment of earnings orders are given a high priority.

Both bailiff companies are and will continue, in accordance with the audit recommendation, accounting weekly for all monies collected.

The recommendation that we should perhaps get better value from just one service provider, has not been taken on board, as although there is certainly a saving in our administration, the overall feeling is that the competition element drives the two contractors along.

Arrangements are in hand for quarterly meetings to be held at which a sample of cases will be reviewed for effectiveness.

4.2 Central Payments

Of the five recommendations contained in the report, three were already in place, (Nos 1,2 and 5) but clerical errors were found by the Auditors which made it worthwhile re-emphasising the recommendations.

No 4 – reviewing batches entered by Central Payments – is now in place.

No 3 – investigate production of useful duplicate payments report – is still to be implemented and is planned to be started from April 2000.

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4.3 Bank Reconciliation

The report contained no recommendations and there are, therefore, no matters arising.

4.4 Financial Management

The report contained 13 recommendations all of which were agreed. These relate to improving reporting mechanisms and the processes supporting budget construction and monitoring. Five of the recommendations have already been implemented with a further seven to be implemented for the new financial year. The remaining recommendation will be implemented in full for the subsequent financial year 2001/02. Where appropriate, the updated Financial Procedures document supporting the new Financial Regulations, which appear elsewhere on this agenda, have incorporated the recommendations in the report. The other recommendations will be delivered by improving the use of software, for example, the new Human Resources system, and by implementing more consistent standards of documentation.

4.5 Resources Payments

The audit confirmed that a methodical approach has been adopted by the Accounts Payable (Resources) team. There were however, a few controls that need to be tightened and these areas are highlighted in the recommendations. All five recommendations have been implemented.

4.6 Commercial Rental Income and Rent Bonds

All recommendations have been implemented.

4.7 Asset Register

Three of the five recommendations are to be implemented as part of the three year rolling programme of valuations commencing in August 2000.

The responsibility to implement the remaining two recommendations is split between Neighbourhood Services for the Residential Asset Register and Resources for the Commercial Asset Register.

The residential estate management database software is to be amended by Neighbourhood Services to enable reliable, updated valuation figures to be produced.

Property Services in Resources have undertaken enquiries into the Council's legal ownership of Church of England Schools. Generally these will be removed from the Register but there are some minor interests held. Legal and valuation work is targeted for completion in March 2000.

4.8 Contractor Selection and Evaluation (Resources Directorate)

An Internal Audit Report has been completed to ensure that there is an adequate system in place over the tendering process for Council Contracts. This report was separate from that reported to the last meeting of the Policy and Resources Committee, and included two Contracts selected from the Resources Directorate, namely the Electoral Registration and Management System, and the NNDR System.

In both cases, the system of controls governing tendering procedures was found to be operating satisfactorily. A number of recommendations arose from the Internal Audit Report, which are generally consistent with the overall review of contracting procedures. However, two recommendations are being reviewed, on the basis that they could add unnecessary bureaucratic procedures.

4.9 Performance Bonds and Insurance

An Internal Audit Report into the use of Performance Bonds and Insurance required from Contractors to cover the Council against any risks in the performance of Contracts has been completed. The report examined the Council's policy on the level of insurance required to be provided by Contractors, the adequacy of Contractors' Insurance, the policy on the use and acceptance of Performance Bonds and Company Guarantees, the release of Performance Bonds and claims made on Performance Bonds.

The report concluded that the Council has a formalised policy on the use and acceptance of Performance Bonds and Parent Company Guarantees, and on the minimum requirement for insurance cover. These policies were found to be consistent with the approach taken by other unitary authorities and county councils surveyed. However, the survey identified the need for greater emphasis to be placed on the use of 'risk assessment' to ensure a balance between the additional cost of obtaining a Performance Bond and the potential benefit and assurance received if it was exercised.

The Council's Contracts, Quotations and Tenders Handbook will be enhanced to communicate the details of the Council's policies and current procedures on Insurance and Performance Bonds.

The review also found that procedures were in place to ensure that Performance Bonds and Parent Company Guarantees and Insurance cover were requested from Contractors. However, a lack of co-ordination between Directorates and the Contracts Unit was identified which exposed the Council to an increased level of risk, as it was possible for work to be authorised without relevant Insurance cover and Performance Bonds having been obtained.

The report contains a number of recommendations which will address the weaknesses identified, and work has already commenced to put the recommendations into effect. A review of the work will be included in the report to the Scrutiny Commission on the work of the Contracts Unit.

4.10 Vertical Contract Audit – Messenger Distribution

The Policy and Resources Committee has agreed the recommendation to continue with Royal Mail as the contracted distributor (in the absence of any other tenderer).

As a result of the Internal Audit we will:

- (a) Continue to monitor costs;
- (b) Continue to develop our monitoring of distribution effectiveness by establishing quarterly meetings with Royal Mail, and notifying them on a regular basis of any distribution weaknesses found;
- (c) Continue to obtain financial compensation for any proven failures in distribution; and
- (d) Conduct ongoing public research into the timely receipt of Messenger by means of timed reply mechanisms in the magazine and the use of the Citizen's Panel.

5 **Implications**

5.1 Environmental

None arising from this.

5.2 Equalities

None arising from this report.

5.3 Financial

Where weaknesses on financial controls are identified by Audit these are strengthened in line with any recommendations from Audit.

5.4 Legal

None arising from this report.

5.5 Staff and Accommodation

None arising from this report.

6. **Conclusions**

- 6.1 Ten Internal Audit reports for the Resources Directorate have been received in the last four months. Where weaknesses were identified, recommendations to improve systems are being implemented. No major problems have been identified.

Background Papers: Internal Audit Reports