

# **BOROUGH OF BARROW-IN-FURNESS**

## **AUDIT COMMITTEE**

Meeting, Tuesday, 9th March, 2009  
at 2.00 p.m.

### **A G E N D A**

#### **PART ONE**

1. To note any items which the Chairman considers to be of an urgent nature.
2. To receive notice from Members who may wish to move any delegated matter non-delegated and which will be decided by a majority of Members present and voting at the meeting.

3. **Admission of Public and Press**

To consider whether the public and press should be excluded from the meeting during consideration of any of the items on the agenda.

4. Disclosure of Interests.

A Member with a personal interest in a matter to be considered at this meeting must either before the matter is discussed or when the interest becomes apparent disclose

1. ***The existence of that interest to the meeting.***
2. ***The nature of the interest.***
3. ***Decide whether they have a prejudicial interest.***

A note on declaring interests at meetings, which incorporates certain other aspects of the Code of Conduct and a pro-forma for completion where interests are disclosed accompanies the agenda and reports for this meeting.

5. To confirm the Minutes of the meeting held on 16th December, 2009 (copy attached).
6. Apologies for Absence/Attendance of Substitute Members.

#### **FOR DECISION**

- (D) 7. Internal Audit – Final Reports.
- (D) 8. Internal Audit – Progress Report April to February 2010.

**NOTE (D) - Delegated**  
**(R) - For Referral to Council**

**Membership of Committee**

Councillors Heath (Chairman)  
Unwin (Vice-Chairman)  
Barlow  
Begley  
Jefferson

**For queries regarding this agenda, please contact:**

Keely Fisher  
Democratic Services Officer  
Tel: 01229 876313  
Email: [ksfisher@barrowbc.gov.uk](mailto:ksfisher@barrowbc.gov.uk)

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# **BOROUGH OF BARROW-IN-FURNESS**

## **AUDIT COMMITTEE**

Meeting: 16th December, 2009  
at 2.00 p.m.

PRESENT:- Councillors Heath (Chairman), Barlow, Jefferson, McEwan and Pemberton.

### **14 – Minutes**

The Minutes of the meeting held on 23rd September, 2009 were taken as read and confirmed.

### **15 – Apologies for Absence/Attendance of Substitute Members**

Councillors Pemberton and McEwan had replaced Councillors Unwin and Begley respectively for this meeting only.

### **16 – Audit Commission Reports**

The Borough Treasurer reported that the Audit Commission had produced the following reports for Members' consideration:-

Use of Resources 2008-2009, Good Governance and Review of Internal Audit which were all attached as appendices to the Borough Treasurer's report.

The Annual Audit Letter 2008-2009 was tabled at the meeting.

Heather Green, the Council's new Appointed Auditor attended the meeting to present the report to Members.

#### Use of Resources 2008-2009

The Use of Resources report summarised key findings from the Audit Commission's assessment of how Barrow-in-Furness Borough Council was managing and using its resources to deliver value for money and better and sustainable outcomes for local people. The Key Lines of Enquiry (KLOE) define use of resources in a broader way than previously, embracing the use of natural, physical and human resources. The KLOE focussed more on value for money achievements, outputs and outcomes rather than on processes. As a result of the changes a direct comparison could not and should not be made with the outcome of use of resources assessments in previous years.

The report set out conclusions on how well Barrow-in-Furness Borough Council was managing and using its resources to deliver value for money and better and sustainable outcomes for local people and gave scored use of resources theme judgements. The report provided a high level summary and the detailed findings were reported as an appendix.

The Borough Council's Use of Resources Theme Scores are shown in the table below:-

<b>Use of Resource Theme</b>	<b>Scored Judgement</b>
<b>Managing Finances</b> How effectively does the organisation manage its finances to deliver value for money?	Level 2 – performs adequately
<b>Governing the Business</b> How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?	Level 2 – performs adequately
<b>Managing Resources</b> How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?	Level 2 – performs adequately

It was also noted that the Council's theme score for financial reporting was Level 3 which meant that the Council were exceeding minimum requirements and performing well.

#### Good Governance Standard Review

The Council's Appointed Auditor reported that to complete this audit they had undertaken an electronic survey of Members and Officers, a document review of governance policies and procedures and interviews with Members and Senior Managers.

The survey, document review and interviews were carried out in July and August 2008 and a workshop had been run with Members and Senior Officers in October 2009 to explore the results of the diagnostic and to agree an action plan. The workshop outputs were reflected in the Auditor's report. The facilitated workshop to Members and Senior Staff was structured to consider the principles of good governance, the results from the diagnostic and to produce a governance development action plan. This Action Plan was attached as an appendix to the Audit Commission's report.

Heather Green reported that overall the results were positive and consistent between Members and Officers responses with the latter in line with the national database of responses.

The Action Plan outlined the actions that were agreed at the workshop to strengthen the Council's governance arrangements. The workshop slides had been shared with the Monitoring Officer to enable wider distribution to all Members and staff as required. The Leader of the Council and Monitoring Officer had agreed to oversee the implementation of the agreed actions.

The survey results demonstrated that the Council had a clear focus on purpose and outcomes including positive responses on how it considered diverse community needs.

There was scope to improve on achieving desired outcomes moving forward with limited human and financial resources. There were some mixed results on staff being clear on how well the Council was achieving outcomes and on how information was used to improve value for money. Some Members perceived other Members as not being clear on understanding the outcomes the Council was trying to achieve.

The diagnostic identified that there were clearly defined functions and roles through a number of governance policies and procedures including the Constitution. The survey results showed that the Council was clear on functions, roles and responsibilities. The relationships between Members and Officers were positive but there was scope to improve the constructive nature of the relationships further, as one in four Members were uncertain.

Over 35% of Officers were not aware of Members having clearly set roles and responsibilities which were not as positive as the national comparator response.

Members promoted high ethical standards when they were representing the Council on their local partnerships. The values of good governance were implicit within a number of governance documents. The Council did not effectively promote its value or monitor compliance with them. A value statement linked to corporate objectives would bring together the values that drove the Council and link them in a meaningful way to what the Council was trying to achieve.

There was a transparency in decision making for both Members and Officers to follow the survey and diagnostic review supported the existence of reasonably clear and understood delegation arrangements.

Risk Management was still to be fully embedded and cascaded through the organisation. Risk Management should be a key element of decision making which involved Members in the process.

The scrutiny function could also be strengthened through the adoption of a more focused prioritised approach. This was vitally important in the context of potentially new ways of service delivery through partnerships.

Overall, Members were positive on the opportunity of becoming a Member. Skills, training and development of Members was structured and regular as evident in the comprehensive Member Development Programme. Member performance and development would be assessed through the recently introduced Personal Development Plans.

The Officers survey did highlight mixed views on Members having appropriate skills and knowledge. Officers also had mixed views on the selection and election of Members.

The Council was involved in a number of partnerships and overall engagement with users, public and stakeholders was positive. Internal and external consultation could be improved as not all Members were clear on staff, stakeholders and partners involvement in the review of outcomes. In addition Officers had mixed views on systems in place to act on staff views which had an impact. There was scope to improve communication and consultation with staff and consultation arrangements with external bodies.

### Review of Internal Audit

Heather Green reported that each year as part of the Audit Commission's assessment of the Council's control environment they reviewed whether Internal Audit was an effective management control. They also sought to place reliance on relevant pieces of Internal Audit work as required by the Audit Commission's Code of Practice.

Every three years they undertook a more detailed review of Internal Audit. The last detailed review took place in 2005/06. For the audit year 2008/09 they were required to undertake a more detailed review of Internal Audit to:-

- Assess the performance and effectiveness of Internal Audit;
- Review the role of Internal Audit as part of the Authority's arrangements for internal control; and
- Ensure that the Audit Commission could continue to place reliance on Internal Audit's work.

In order to meet their responsibilities under the Code of Audit Practice they had assessed the Council's Internal Audit arrangements by comparing the current practices of the Council and Furness Audit to the CIPFA Code of Practice for Internal Audit in Local Government.

They had reviewed appropriate documentation supplied by the Head of Internal Audit and discussed relevant matters with him.

Their main conclusions were that in line with the Council's own assessment of Internal Audit they had concluded that the Internal Audit arrangements at Barrow-in-Furness Council complied with standards set out in the CIPFA Code of Practice for Internal Audit in Local Government. The review had also identified some areas where arrangements could be strengthened.

An Action Plan had been agreed with the Borough Treasurer and Head of Internal Audit which was attached as an appendix to the report.

### Annual Audit Letter

The report summarised the findings from the Audit Commission's 2008/09 audit. It included messages arising from the audit of the Council's financial statements and the results of the work they had undertaken to assess the Council's arrangements to secure value for money in its use of resources.

The key messages of the report were as follows:-

1. At the Governance Committee meeting on 23<sup>rd</sup> September, 2009 we discussed the detailed findings from my Annual Governance Report. The accounts were well prepared and were supported by good working papers.
2. I issued an unqualified opinion on the accounts on 30<sup>th</sup> September, 2009.
3. I issued an unqualified value for money (VFM) conclusion in respect of your arrangements for securing value for money from the use of resources on 30<sup>th</sup> September, 2009.
4. My assessment of your arrangements to secure value for money is based on the work we have completed covering all the key lines of enquiry (KLOE) set out by the Audit Commission for District Councils. We assessed the strength of governance arrangements at Barrow using the good governance standard and an ethical governance survey, and we undertook a survey to assess levels of awareness of your counter fraud and corruption arrangements. A review of risk management arrangements within the Cumbria Strategic Partnership has also been undertaken across Cumbria.
5. The key issues arising from my review of your arrangements to secure value for money include:
  - The Council has set key priorities for the Borough and has redesigned services and made investments to support priorities.
  - The Council is aware of the issues that it has to deal with because of geographical isolation and deprivation in parts of the Borough.
  - The Council works in partnership with Liberata in the delivery of services and there is a partnership board which monitors performance.
  - The Council has an understanding of likely workforce issues arising out of major projects and has produced a human resource strategy.
6. The key areas for improvement include:
  - It is important that the Council reviews and updates the medium term financial strategy to support the delivery of priorities.
  - Cost and performance information should be used more frequently on a routine basis to inform decision making.
  - The benefits inspection identified that the Council needs to provide more challenge and improve the quality of services provided by Liberata.
  - The actions identified following the risk management workshop need to be fully implemented to embed risk management arrangements at the Council.
  - Risk management across the Cumbria Strategic Partnership (CSP) needs to improve.
  - The Council needs to update the work force plans to fully reflect future staffing needs.

7. The findings from my Annual Governance Report, my Use of Resources report, the Review of Governance Arrangements, Ethical Governance and Fraud Awareness surveys and the Cumbria Strategic Partnership review was summarised in the report. The individual reports have been agreed with the Council and the CSP report and action plan is being discussed within the CSP.

The letter had been agreed with the Chief Executive and the Borough Treasurer. Further detailed findings, conclusions and recommendations in the areas covered by the audit were included in the reports issued by the Council during the year.

Heather Green commented on the Council's response to the economic downturn and concluded that the Council was prudent and had implemented steps to increase its reserves.

The Auditor also acknowledged that the Council had taken a positive and constructive approach to its audit and wished to thank the Council staff for their support and co-operation during the audit.

The Chairman announced that she was pleased to receive the letter and thanked Officers for their work.

RESOLVED:- That Members receive the report and approve the recommendations and the Action Plans contained within the report.

### **17 – Internal Audit – Progress Report April to December 2009**

The Borough Treasurer submitted a report stating that the Committee would receive regular progress reports on the programme of work carried out by the Internal Audit Service. A copy of the Internal Audit Progress Report from April to December 2009 had been appended to his report.

The Council's Internal Audit Manager attended the meeting to present the report to Members.

The report contained a statistical summary of the number of audit recommendations (102). It was noted that 96 had been fully accepted, 6 partly accepted and 0 had not been accepted. Each of the recommendations had been assigned a priority graded 1-3; one being major issues and three being minor issues.

A breakdown down of restricted assurance audits had been appended to the report.

The Internal Audit Manager reported at the meeting that reports CR50 – Alterations and Refurbishment of 77-79 Duke Street and CR54 – Units 1-7 James Freel Close had now been received.

RESOLVED:- That the report be received.

### **18 – Internal Audit – Final Reports**

The Borough Treasurer reported that the Internal Audit had completed a number of audits in accordance with the approved annual programme. On completion, final reports were presented to this Committee for consideration. There were five final reports for consideration attached to his report. The reports and the assurance levels for the reports were as follows:-

1. Risk Management – Restricted Assurance;
2. IT General Controls – Restricted Assurance;
3. Performance Management – Substantial Assurance;
4. Income Collection – Substantial Assurance; and
5. Housing and Council Tax Benefits – Substantial Assurance.

The Council's Internal Audit Manager attended the meeting to present the reports to Members.

Referring to the IT General Controls report, the Internal Audit Manager suggested that the IT Manager give periodic feedback reports to this Committee on how he was working through the recommendations.

RESOLVED:- (i) That the IT Manager give periodic feedback reports to the Committee on progress; and

(ii) That the reports be received.

### **19 – Benefit Inspection Improvements Plan – Progress Report**

The Borough Treasurer reported that the Audit Commission had carried out an inspection of the Council's Benefits Service in July 2008. As a result, the Council had agreed to implement an action plan designed to deliver significant improvements to deliver a better benefits service in the Borough. The Council in partnership with Liberata had been working towards implementing the improvements in the plan and significant progress had been made to date. The report provided the latest position on the progress made.

The re-inspection of the service would be undertaken by the Audit Commission in January 2010.

RESOLVED:- That the progress made to date be noted.

The meeting closed at 3.10 p.m.

<b>AUDIT COMMITTEE</b>	<b>(D) Agenda Item 7</b>
<b>Date of Meeting: 9th March, 2009</b>	
<b>Reporting Officer: Borough Treasurer</b>	
<b>Title: Internal Audit – Final Reports</b>	
<b>Summary and Conclusions:</b>	
Internal Audit have completed a number audits in accordance with the approved annual programme. On completion, final reports are presented to this Committee for consideration.	
The Council's Internal Audit Manager will attend the meeting to present the reports to members.	
<b>Recommendations:</b>	
Members are recommended to:-	
1. Receive and consider the reports; and	
2. Raise any questions or concerns with the Internal Audit Manager.	

**Report**

There are 6 final reports for consideration, attached to this report. The following table sets out the assurance level assigned to each report and the number of issues identified.

The assurance levels are:

**None** – control is weak, causing the system to be vulnerable to error and abuse.

**Restricted** – significant weaknesses have been identified in the system of control, which put the system objectives at risk.

**Substantial** – while there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.

**Unqualified** – there is an adequate system of control designed to achieve the system objectives.

The recommendation levels assigned to issues identified are:

Priority 1 – **major issues** that Internal Audit considers need to be brought to the attention of senior management.

Priority 2 – **important issues** which should be addressed by management in their areas of responsibility.

Priority 3 – **minor issues** which provide scope for operational improvement.

**Previous issues** – are issues identified in a previous audit report that have not been entirely implemented at the time of this latest audit.

No.	Report	Assurance level	Major issues	Important issues	Minor issues	Previous issues
1	Asset Management	Restricted	0	9	1	7
2	Capital Programme	Substantial	0	3	0	0
3	Budgetary Control	Substantial	0	0	1	2
4	77-79 Duke Street	Substantial	0	5	1	0
5	1-7 James Freel Close	Substantial	0	4	0	0
6	Treasury Management	Unqualified	0	0	0	0

(i) Legal Implications

Statutory requirements under section 151 and the Accounts and Audit Regulations 2006.

(ii) Financial Implications

Not Applicable.

(iii) Health and Safety Implications

Not Applicable.

(iv) Key Priorities or Corporate Aims

Not Applicable.

(v) Risk Assessment

Not Applicable.

(vi) Equal Opportunities

Not Applicable.

Background Papers

Nil

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT 09-23**  
**ASSET MANAGEMENT**

## **Executive Summary**

### **Introduction**

The Council has designated the Director of Corporate Services as its Corporate Property Officer. Recently the routine management of the Council's land and buildings falls within the responsibility of the appropriate Service Manager. The Estates Section is responsible for managing Council commercial, industrial and agricultural properties; monitoring and reviewing rent, lease and licence income due to the Council. Whilst Management Team have responsibility for strategic sales and purchases of property, to provide land for future development.

The Estates Section is responsible for the maintenance of the Technology Forge (TF) asset register system; which has been in place for approximately five years. Early in 2009 the Borough Treasurer's Department introduced a stand-alone asset register, Logotech, in order to deal with the increasingly complex accounting treatment of assets.

A full valuation of land and buildings was carried out within the past twelve months; total assets of the Council were valued at approximately £140 million at 31 March 2009.

The Council has a formal Asset Management Plan and Capital Programme, both of which were approved in early 2008.

### **Audit Objectives**

An audit of this system forms part of the agreed 2009/10 programme. The audit objectives were to evaluate and test the internal controls over the asset management function. The scope and objectives of the audit were discussed and agreed in advance with Susan Roberts, Deputy Borough Treasurer and David Joyce, Projects and Property Manager.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

<b>Key Points</b>
<b>Restricted Assurance</b>
<b>Nine important issues</b>
<b>One minor issue</b>
<b>Seven previous recommendations</b>

### **Audit Conclusion – *Restricted Assurance***

As a result of the audit we have concluded that there are a number of weaknesses which put some of the system objectives at risk. Where weaknesses or recommendations have been raised previously by the Audit Commission, these have not been repeated within this report. We have made nine Priority 2 recommendations concerning:

- considering the development of an overarching capital strategy to determine the Council's approach to capital investment;
- reviewing the Asset Management Plan in accordance with planned review dates;
- carrying out an annual property review;
- reporting property performance indicators to the Corporate Property Group periodically;
- introducing procedures to ensure a record is made of all discussions, negotiations agreements reached and instructions issued, prior to formally acquiring or disposing of assets and leasing out Council properties;
- clarifying the role of the Estates Section and requiring it to be involved in all property transactions requiring asset management expertise;
- reviewing procedures for signalling the review and expiry dates for property leases and introducing robust methods of prompting the appropriate actions;
- formally recording, and notifying tenants and Departments of leases which are allowed to continue beyond review or expiry dates; and
- defining the purposes of its two asset registers and introducing procedures for their control.

In addition, Internal Audit identified one Priority 3 recommendation relating to reviewing the contents of the Asset Management Plan to ensure it fully reflects all aspects of asset management.

Internal Audit also reviewed the implementation of recommendations made following previous audit reviews:

- a) The three outstanding recommendations made in Report 211, dated November 2002, remain outstanding and concern:
  - ensuring the inventory is maintained and reviewed on an annual basis;
  - following up outstanding inventory responses on a timely basis; and
  - reviewing documented procedures for the control of the asset register and inventory on a regular basis.
- b) For the ten recommendations made in Audit Report 06-08, dated March 2008, three had been implemented and seven remain outstanding. Five of these have been incorporated in, and replaced by, substantive recommendations within this report. The remaining two outstanding recommendations concern:
  - reviewing the timescale for the full implementation of the Technology Forge system; and
  - ensuring that the Technology Forge system is updated on a timely basis.

- c) Three of the six recommendations from Audit report 06-14, dated March 2008, had been implemented and one replaced by a substantive recommendation within this report. The remaining two recommendations remain outstanding and concern:
- reporting void properties to management, specifically detailing the period unoccupied; and
  - completing periodic condition reviews of industrial and commercial property.

### **Management Response**

Since this audit was carried out there have been several changes that affect the relevance of the recommendations it contains. The specific changes are:

- The function of the Estates Department has been rationalised and the key responsibility is now solely commercial property letting. Operational property matters have been devolved to venue and departmental managers.
- Asset acquisition and disposal records are held by the Borough Treasurer's Department; these are all part of the capital programme and each project has a responsible manager.
- Technical Services are now an established team and perform some of the functions that used to fall to the Estates Department.
- The Technology Forge asset management system has been abandoned.
- The Corporate Property Group membership and purpose has been reviewed.

It is Management Team's view that the affected recommendations should be revisited in the next financial year.

In summary seven recommendations have been accepted, two partially accepted and one rejected, which related to introducing procedures to ensure a record is made of all discussions, negotiations agreements reached and instructions issued, prior to formally acquiring or disposing of assets and leasing out Council properties.

### **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review.

<b>Recommendation 1</b>	<b>Responsibility: Management Team/Deputy Borough Treasurer</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should consider developing an overarching corporate capital strategy to determine its approach to capital investment.</p>			
<p><b>Rationale</b></p>			
<p>The Council's Community Plan, Capital Programme and Asset Management Plan all contribute to the management of its capital investment. Introducing a formal capital strategy would bring these together and enable the Council to set out its approach to meeting community and service needs through its capital investment programme.</p>			
<p><b>Management Response</b></p>			
<p>Capital Strategy document agreed by Management Team 3/2/10. Going to Executive Committee 3/3/10. This document is a composite of elements already included in the Asset Management Plan, Medium Term Financial Plan, Corporate Business Plan and Capital Programme.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>Implemented</b>

<b>Recommendation 2</b>	<b>Responsibility: Management Team/Deputy Borough Treasurer</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should undertake reviews of its Asset Management Plan in accordance with planned review dates.</p>			
<p><b>Rationale</b></p>			
<p>The Council's Asset Management Plan was last approved in April 2008 and refers to the next review date of February 2009. However, at the time of the audit review, the Plan had not been updated, or subject to the required formal review.</p>			
<p><b>Management Response</b></p>			
<p>The Asset Management Plan covers 2008-2013. The review date of a year was applied to all corporate documents when the Corporate Documents section was created on the Internet and does not indicate that a review has been missed. The review of the Plan will be determined by Management Team (likely to be a mid-term review).</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>September 2010</b>

<b>Recommendation 3</b>	<b>Responsibility: Management Team/Deputy Borough Treasurer</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should introduce arrangements for an annual property review, including the reporting of surplus assets to Members.</p>			
<p><b>Rationale</b></p>			
<p>The previous Internal Audit review recommended the Council should ensure that an annual report of surplus land and property is submitted to Members for approval. In response, the Projects and Property Manager indicated that a property review procedure was to be drawn up which would identify potentially surplus assets. That procedure has not been developed but would further assist the Council in effective management of its asset holdings.</p>			
<p><b>Management Response</b></p>			
<p>The annual property review will be undertaken by Management Board.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>March 2010</b>

<b>Recommendation 4</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should introduce procedures for its property performance indicators to be reported periodically to the Corporate Property Group.</p>			
<p><b>Rationale</b></p>			
<p>The Council's Asset Management Plan identifies eight property performance indicators that "will be used to monitor and improve the suitability, fitness and sustainability of our property assets". However, reports of performance against these indicators were not made during 2008/09.</p> <p>Formal monitoring and reporting of performance would enable the Council to identify problem areas and recognise improvements in its property stock.</p>			
<p><b>Management Response</b></p>			
<p>The property performance indicators will be reported to Management Board.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>March 2010</b>

Recommendation 5	Responsibility: Management Team/Deputy Borough Treasure	Priority:	2
<p>The Council should introduce procedures to ensure that a record is made and retained of all discussions, negotiations, agreements reached and instructions issued prior to formally:</p> <p>a) acquiring or disposing of assets; and</p> <p>b) leasing out its properties.</p>			
<p><b>Rationale</b></p>			
<p>The Internal Audit review highlighted a lack of formal documentation in a number of areas, regarding the management and control of Council assets.</p> <p>a) Acquisitions and Disposals</p> <p>The previous audit review noted that discussions on potential acquisitions and disposals had not been documented comprehensively; and an outstanding recommendation (No 6 from Audit Report 06-14) is incorporated in this recommendation.</p> <p>Internal Audit testing of a sample of 6 property acquisitions demonstrated that the Estates Section held no documentation for the purchase of land at Brady's Warehouse for the Link Road Phase 2, at a total cost of £1,036,126.</p> <p>Further testing of Estates files for a sample of 10 property disposals identified that supporting documentation was not produced for the sale of a piece of land at Bessemer Way, to Furness College for £126,101 (a valuation of the land, instruction to an external solicitor to act for the Council in respect of this transaction and confirmation of legal completion of the sale).</p> <p>b) Property Leases</p> <p>Internal Audit examined a sample of files for 10 new lease agreements. Six files contained no relevant correspondence or notes relating to the process which resulted in the lease being agreed. Two files contained proposed heads of terms, while a further two files contained some correspondence with the prospective tenants.</p> <p>Internal Audit acknowledge that, in the current economic climate, the Council's main concern will be to secure tenants for empty properties, with the level of rent being a secondary issue. However, this should not prevent the reasoning for setting a particular rent level being recorded to demonstrate that it represents good value for the Council.</p> <p>For the same sample of 10 agreements, documentation did not exist on three files to support the engagement of an external solicitor to draw up the resulting lease.</p> <p>To demonstrate transparency, evidence the authority given to solicitors to act for the Council and reduce the risk of subsequent disputes or disagreement, details should be retained of all relevant negotiations, instructions, valuations and agreed heads of terms. These records should be maintained whichever section of the Council deals with the transaction.</p>			

**Management Response**

Asset acquisitions and disposals are governed by the Council's Financial Regulations and Standing Orders. All of this business goes to Management Team and Executive Committee.

Asset acquisition and disposal records are held by the Borough Treasurer's Department; these are all part of the capital programme and each project has a responsible manager.

**Rejected****Implementation Deadline:****N/a**

<b>Recommendation 6</b>	<b>Responsibility: Management Team</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should:</p> <ul style="list-style-type: none"> <li>a) clarify the role of the Estates function; and</li> <li>b) consider introducing procedures to require the Estates Section to be involved in all transactions requiring asset management expertise.</li> </ul>			
<p><b>Rationale</b></p>			
<p>The findings of specific testing by Internal Audit identified that the Estates Section had not been involved in several major property transactions, notably the Brady's Warehouse land purchase and the Bessemer Way disposal.</p> <p>Discussion during the audit review suggested that, since the departure of a previous Director, the role of the Estates function has not been well understood. Clarification of that role would assist in defining responsibilities: a key decision for the Council is whether it wishes the Estates Section to act as an agent which responds to and complies with instructions from senior management, in which case formal arrangements would be appropriate.</p> <p>A greater involvement by the Estates Section in all acquisitions and disposals should enhance internal control arrangements, ensure that consistent procedures were followed and avoid the possibility of omissions of key steps in the function.</p>			
<p><b>Management Response</b></p>			
<p>The function of the Estates Department has been rationalised since the audit and the key responsibility is now solely commercial property letting. Operational property matters have been devolved to venue and departmental managers.</p> <p>This has been clarified with the Commercial Estates Manager.</p>			
<b>Partially Accepted</b>	<b>Implementation Deadline:</b>		<b>Implemented</b>

<b>Recommendation 7</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority:</b>	<b>2</b>
<p>Management should review its procedures for signalling the review and expiry dates for property leases and introduce robust methods of prompting the appropriate actions.</p>			
<p><b>Rationale</b></p>			
<p>Internal Audit tested a sample of 10 leases reaching their review or expiry dates; which were selected from a manual reminder diary maintained by the Asset Registrar. Reminder dates for reviews or expiries had been input to the TF system, although Internal Audit were informed that the TF diary has only been functional since a recent upgrade of the software, therefore only review/expiry dates input after that time would be included on a reminder report.</p> <p>Testing identified that one apparent review date, relating to 112 Mill Lane, referred to an earlier lease which had been superseded, suggesting that the manual reminder system was not operating fully.</p> <p>Unless rent reviews and expiries are identified and proper notice is given to tenants, there is a risk of a loss of income to the Council.</p>			
<p><b>Management Response</b></p>			
<p>A separate calendar within Outlook will be implemented</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>September 2010</b>

<b>Recommendation 8</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority:</b>	<b>2</b>
<p>Management should ensure that, where property leases are allowed to continue on the same terms, beyond review or expiry dates:</p> <p>a) formal agreements are in place and notified to the tenants; and</p> <p>b) the Departments raising the income are notified that the rent/charges should continue on the same basis.</p>			
<b>Rationale</b>			
<p>Testing of a sample of ten leases reaching review or expiry identified that eight, including three estates shops being negotiated by the Housing Department, were explained as being “held over”, with the tenants remaining in the properties, but no documentation was held on the Estates Section file to show that they had been notified of the expiry/review nor to confirm the continuation of the existing lease.</p> <p>Similarly notification had not been provided to either Borough Treasurer’s or Housing Departments to notify that the leases were being carried over and that rent/charges should continue on the same basis until the future of the tenancy was determined.</p> <p>Notifying tenants formally that a tenancy is being “held over” on the same terms would reduce the risk of subsequent disputes or disagreement. Confirming these actions to the Departments raising the income would ensure that there is no misunderstanding or potential loss of income on the continuation of a lease.</p>			
<b>Management Response</b>			
<p>See the response to recommendation 9. Billing after the review date will be subject to the Commercial Estates Manager’s written confirmation.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>September 2010</b>

Recommendation 9	Responsibility: Management Team	Priority:	2
<p>The Council should:</p> <ul style="list-style-type: none"> <li>a) define the purposes of its two asset register systems;</li> <li>b) decide which constitutes the prime corporate record of assets, which provides supporting information and how the two systems should be synchronised and reconciled;</li> <li>c) allocate responsibility for maintaining that prime record; and</li> <li>d) produce documented procedures for the control of the asset registers.</li> </ul>			
<p><b>Rationale</b></p>			
<p>Previous audit report no. 06-08 made two recommendations relating to this issue:  <i>No. 4: The Council should:</i></p> <ul style="list-style-type: none"> <li><i>a) review the method of classification of assets; and</i></li> <li><i>b) compare the classification of assets on the Estates Asset Register and the Financial Services record of assets.</i></li> </ul> <p><i>No.6: The Council should ensure that details held on the Estates Asset Register are correctly reflected on the Financial Services record of assets.</i></p> <p>An earlier report, number 211, also recommended that: <i>The Council should consider reviewing the documented procedures for the control of the Asset Register and Inventory on a regular, for example annual basis; any review undertaken should be recorded in the procedures.</i></p> <p>At that time, in 2006, the issues related to the sub-categories defined by CIPFA and a number of specific assets respectively. Testing during the audit review identified that these issues are still relevant but they have been merged into a new recommendation.</p> <p>In early 2009 the Borough Treasurer implemented a new computerised asset register, Logotech, for accounting purposes, to cope with the increasingly complex requirements of CIPFA's SORP and IFRS. The Council thus has two registers which record differing aspects of asset management. Audit testing during the review identified differences between the two registers, both at summary and detailed level.</p> <p>The TF asset register categorises assets as either operational or non-operational. The Council's accounting policies require further sub-division of these categories, which is embodied in the accounting asset register. Although this means that the two systems are not directly comparable, the Deputy Borough Treasurer confirmed that this is not a problem for her as she does not use the analysis from the Estates asset register.</p> <p>Additionally, other than queries or discrepancies relating to specific assets, an attempt has not been made to reconcile the two ledgers, either in terms of values or in coverage of assets; the latter task would be made more difficult because the registers do not use common property references.</p>			

An inability to demonstrate that the assets recorded in the two systems can be matched leads to inconsistencies and increases the risk of assets not being accounted for or not managed effectively.

### **Management Response**

The Corporate Asset Register continues to be held by the Borough Treasurer's Department. The Asset Register has been audited by the Audit Commission.

The Technology Forge asset management system has been stripped to the basic data and an alternative store for the data it contains is being investigated as this system is being abandoned.

**Partially Accepted**

**Implementation Deadline:**

**No further  
action**

<b>Recommendation 10</b>	<b>Responsibility: Management Team</b>	<b>Priority:</b>	<b>3</b>
<p>The Council should consider reporting to Members the market value of affordable housing sites sold at a lower value to housing associations in return for nomination rights.</p>			
<b>Rationale</b>			
<p>A sample of 10 disposals reviewed by Internal Audit included the sale of two affordable housing sites to Accent Housing Association at substantially below market value. The District Valuer had valued land at Exmouth Street at £100,000 which was subsequently sold for £30,000. For this sale, and a similar disposal at Holker Street, the sale price was established by reference to Housing Corporation funding guidelines.</p> <p>Although the Committee report made it clear that the Council would require nomination rights to compensate for the disposal of the sites at less than “best value”, the information provided to Members could have been improved by recognising the amount of income foregone and hence the cost of this component within its housing policies. It would also assist the Council in demonstrating the level of resources deployed in achieving its corporate priorities.</p>			
<b>Management Response</b>			
<p>The latest valuation information for any affordable housing sites will be included in future reports for consideration by the Executive Committee.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>Immediate</b>

<b>Previous Recommendations</b>	<b>Responsibility: Deputy Borough Treasurer</b>	
<p>The Council should implement the three outstanding agreed recommendations from Audit Report 211, dated November 2002:</p> <ol style="list-style-type: none"> <li>1) The Council should ensure that the inventory is maintained and reviewed on an annual basis, ensuring a response is received from all department heads. (Priority 2)</li> <li>2) Outstanding inventory responses should be followed up on a timely basis by the individual officer responsible, to ensure the Council inventory is up to date and accurate. (Priority 2)</li> <li>3) The Council should consider reviewing the documented procedures for the control of the Inventory on a regular, for example annual basis; any review undertaken should be recorded on the procedures. (Priority 3)</li> </ol>		
<b>Rationale</b>		
<p>The response to the original recommendations was that <i>cost centre managers would be issued with inventory requirements, ensuring they were responsible for maintaining their inventories. Responses to central requests would not therefore be needed, although there would be an annual reminder process.</i></p> <p>Internal Audit were informed that these procedures have not yet been introduced.</p>		
<b>Management Response</b>		
<p>Inventory will be held centrally by the Borough Treasurer's Department. Departments will complete annual returns along with the year end data that is already collected.</p>		
	<b>Implementation Deadline:</b>	<b>April 2010</b>

<b>Previous Recommendations</b>	<b>Responsibility: Director of Corporate Services and Projects &amp; Property Manager</b>	
<p>The Council should implement the two outstanding agreed recommendations from Audit Report 06-08, dated March 2008:</p> <ol style="list-style-type: none"> <li>1) Management should review the timescale for the full implementation of the Technology Forge (TF) Asset Management system. (Priority 2)</li> <li>2) The Council should ensure that the Technology Forge asset management system is updated on a timely basis. (Priority 2)</li> </ol>		
<b>Rationale</b>		
<ol style="list-style-type: none"> <li>1) The response to the original recommendation was that: <i>Management recognise that the TF system is continuing to be implemented gradually. The asset base and asset values will be complete and agreed with the Borough Treasurers Department by the 31st March 2008. The staggered implementation of the full system is necessary as each stage needs to be properly controlled and involves the assimilation of paper records and the capture of survey data that has not yet been commissioned.</i> <p>Currently, maximum use is not being made of the TF system and, as noted above, the Council has acquired a second software system to deal with the accounting aspects of asset management. If accepted, implementation of the new recommendation 14 to define the purpose of the TF system should be followed by a review of its full potential and the implementation timescale.</p> </li> <li>2) Testing of a sample of six property acquisitions identified that full documentation and details had been recorded on the system for two properties. Title documents had not been input for two properties (69 Sutherland Street and Ward's Carpets site, acquired in July 2008 and January 2009 respectively). In addition the purchase price of the Ward's site had not been input to the system. Estates did not have details relating to the purchase of land at Brady's Warehouse in March 2009. Title documents had not been received from the external solicitors for the final property, 56 Arthur Street as this had been acquired shortly before the audit review.</li> </ol>		
<b>Management Response</b>		
Overtaken by events, the Technology Forge system is being abandoned.		
	<b>Implementation Deadline:</b>	<b>N/a</b>

<p><b>Previous Recommendations 3</b></p>	<p><b>Responsibility: Deputy Borough Treasurer</b></p>	
<p>The Council should implement the two outstanding agreed recommendations from Audit Report 06-14, dated March 2008:</p> <ol style="list-style-type: none"> <li>1) The Council should ensure that management reports provided by the Estates Department include an analysis of voids, specifically detailing the period unoccupied. (Priority 2)</li> <li>2) The Council should complete periodic condition reviews of the Authority’s industrial and commercial property. (Priority 2)</li> </ol>		
<p><b>Rationale</b></p>		
<ol style="list-style-type: none"> <li>1) During 2008/09, detailed reports on void properties were made to the Community Services Scrutiny Committee. These reports show the NNDR payable for each property but not details of “lost” rental income.</li> <li>2) The response to the original recommendation was that condition surveys of all main property assets were then underway. Once complete the information/report was to be entered into the Asset Register (TF) and reviewed annually. It was intended that all other property assets would be surveyed throughout 2008. Evidence of periodic condition reviews was not produced at the audit review. Further, testing of individual void properties indicated that a record was not maintained of when such properties were inspected.</li> </ol>		
<p><b>Management Response</b></p>		
<p>Void reporting will be included as a property performance indicator when the Asset Management Plan is reviewed.</p> <p>Condition reviews are reported as property performance indicator 1.</p>		
	<p><b>Implementation Deadline:</b></p>	<p><b>September 2010</b></p>

**APPENDIX 1****AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- asset management planning and policy
- property acquisitions and disposals
- property leases, licences and rent reviews
- void non-Housing stock properties
- valuation of assets
- maintenance and reconciliation of asset registers
- asset charges to revenue accounts.

**Methodology**

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review
- identify the risk applicable to each area
- document existing procedures
- evaluate controls against each of the key risks
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

**Performance**

Auditors: Claire Jackson and Jack Jones

The fieldwork was performed in July and August 2009.

***All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.***

**APPENDIX 2****CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

**Audit Recommendations and Follow-up**

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT 09-20**  
**CAPITAL PROGRAMME**

## **Executive Summary**

### **Introduction**

A multi-disciplinary officer group is responsible for formulating an affordable Capital Programme based on the level of funding available to the Council. New bids for capital resources are subject to an appraisal process before being considered for inclusion in the Programme. The group maintains a rolling Programme which is submitted periodically to the Executive Committee for approval.

The same officer group monitors expenditure and progress on the Programme, identifies problem areas and proposes amendments to the Committee.

The revenue budget and the medium term financial plan contain provision for the revenue implications of capital expenditure. Legislation requires the Council to determine a set of prudential indicators which indicate whether its capital investment is both prudent and affordable.

In 2008/09, the Council spent £15.7m on capital, of which £10.8m was funded by grant aid. The opening Programme for 2009/10 incorporates for expenditure of £12.6m, which will require new borrowing of £2m. The Council has set a limit of £36m on its cumulative borrowings during 2009/10.

### **Audit Objectives**

An audit of this system forms part of the agreed 2009/10 programme. The audit objectives were to document, evaluate and test the internal controls over the Capital Programme process. The scope and objectives of the audit were discussed and agreed in advance with Sue Roberts, Deputy Borough Treasurer and Gill Punton, Projects Accountant.

Audit work included a control evaluation of the system design and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

#### **Key Points**

**Substantial Assurance**  
**Three important issues**

### **Audit Conclusion – Substantial Assurance**

As a result of the audit we have concluded that while there is a basically sound system of control, there are weaknesses which put some of the system objectives at risk. We have made three Priority 2 recommendations, which concern:

- reviewing the Constitution to confirm that it accurately describes the procedure for approving amendments to the Capital Programme;
- demonstrating closer links between capital investment and the delivery of the Council's corporate priorities; and

- profiling capital budgets, including income in monitoring reports and making the capital and treasury monitoring information available to all Councillors.

### **Management Response**

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, accepting one recommendation and partially accepting two recommendations.

### **Acknowledgement**

Internal Audit would like to thank Council staff for their co-operation and assistance during the review.

<b>Recommendation 1</b>	<b>Responsibility: Director of Corporate Services</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should review its Constitution to satisfy itself that the document accurately describes the correct procedure for approving amendments to the Capital Programme.</p>			
<b>Rationale</b>			
<p>The Capital Programme is approved by Council each February as part of the annual budget process. Subsequently, periodic revisions to the Programme are proposed by officers and amendments approved by the Executive Committee.</p> <p>The Council's Constitution sets out the Terms of Reference for the Executive Committee, which include "to consult on, recommend and monitor the annual budgets".</p> <p>Certain functions are reserved for the full Council, including "approving or adopting the policy framework and the budget". In this context, the budget is defined to include "the allocation of financial resources to different services and projects .... and the control of capital expenditure".</p> <p>Although the responsibility for setting the annual capital budget is clear, the in-year revisions currently made by the Executive Committee would appear to fall within those areas which can only be exercised by Council.</p>			
<b>Management Response</b>			
Agreed			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>July 2010</b>	

<b>Recommendation 2</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority: 2</b>
<p>The Council should consider further demonstrating the links between its capital investment and the delivery of its corporate priorities by:</p> <p>a) introducing pre-defined objective criteria into its project appraisal process so that the strategic fit of competing capital bids can be assessed; and</p> <p>b) reviewing whether the grouping of schemes in the Capital Programme could be aligned more closely to corporate priority headings.</p>		
<b>Rationale</b>		
<p>a) Internal Audit reviewed the process by which the Capital Programme Group evaluated new bids for inclusion in the 2009/12 Programme. Bids are prepared by managers (sponsors) on standard appraisal forms before being summarised for the Group's consideration. Following which, the Group draws up a proposed Programme for submission to the Executive Committee.</p> <p>However, the schedule of bids presented to the Group did not include the bid sponsor's assessment of the contribution to key corporate priorities (strategic fit), nor was there evidence in the agenda papers or the minutes that the Group used pre-defined objective criteria on which to judge bids.</p> <p>Development of an objective assessment of capital bids, possibly using a scoring system, would improve transparency and assist the Council in demonstrating that its capital expenditure is delivering appropriate corporate priorities.</p> <p>b) Following the bidding round for resources, Council approved a 2009/12 Capital Programme in February 2009. This Programme groups individual schemes in a largely functional basis. As such it does not best demonstrate a clear link to the Council's strategic aims or its key priorities. For example, although several schemes contribute to the Council's priority of supporting economic regeneration, this is not immediately apparent from the Programme, where they fall under the heading "Other public assets".</p>		
<b>Management Response</b>		
<p>This is now covered through the Capital Strategy 2010 – 2013.</p>		
<b>Partially Accepted</b>	<b>Implementation Deadline:</b>	<b>Implemented</b>

<b>Recommendation 3</b>	<b>Responsibility: Borough Treasurer</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should consider:</p> <ul style="list-style-type: none"> <li>a) profiling capital budgets in the Oracle financial system;</li> <li>b) including income details in its capital monitoring reports; and</li> <li>c) making the capital and prudential indicator monitoring information available to all Councillors on a formal basis.</li> </ul>			
<b>Rationale</b>			
<ul style="list-style-type: none"> <li>a) For 2009/10, capital budgets have been input to the Oracle accounting system as single annual amounts, without any profiling across accounting periods. Although the timing of capital transactions is more difficult to forecast than revenue items, profiled budgets could assist in improving the effectiveness of the monitoring process.</li> <li>b) Monitoring reports to the Executive Committee provide details of current actual expenditure against budget but not income. The inclusion of income could further improve the monitoring process.</li> <li>c) All Councillors have an interest in, and a role to play in, financial monitoring. Although monitoring reports on capital and treasury presented to Executive Committee are accessible to all Councillors, the process could be made more inclusive by formally providing non-Executive Members with this information.</li> </ul>			
<b>Management Response</b>			
<ul style="list-style-type: none"> <li>a) Time and effort profiling capital projects is not considered to be value for money. This has been tried previously and did not prove useful.</li> <li>b) Funding is shown when the Capital Programme is reported to Executive Committee, this is considered sufficient.</li> <li>c) Although not all Members receive Executive papers, the information is contained in Council papers which are available to all, plus the information is held on the intranet.</li> </ul>			
<b>Partially Accepted</b>	<b>Implementation Deadline:</b>	<b>No Further Action</b>	

## APPENDIX 1

### AUDIT FRAMEWORK

#### Coverage

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- preparation and approval of the Capital Programme;
- appraisal of new bids for capital resources;
- monitoring and reporting on the Programme;
- revenue implications of capital investment; and
- preparation, approval and monitoring of prudential indicators.

#### Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- document the processes and the controls in place;
- review controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

#### Performance

Auditors: Keith Jackson and Jack Jones

The fieldwork was performed: September to December 2009

***All final Internal Audit reports are presented to the Council's Audit Committee.***

**APPENDIX 2****CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

**Audit Recommendations and Follow-up**

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT 09-11**  
**BUDGETARY CONTROL**

## **Executive Summary**

### **Introduction**

The Council's Budgetary Control function is co-ordinated by the Borough Treasurer's department, with responsibility for individual budgets being allocated to the budget holders. Each Accountant is assigned responsibility for a number of specified cost centres, and liaises with the relevant budget holders to ensure the efficient and effective management of Council funds. A detailed timetable and written procedures exist to assist with the management of the Budgetary Control process. The financial details for each cost centre are recorded and controlled through the Oracle System. For the financial year 2009/10, the General Fund budget for the Council is approximately £13.7 million.

### **Audit Objectives**

An audit of this system forms part of the agreed 2009/10 programme. The audit objectives were to evaluate and test the internal controls over the Budgetary Control function. The scope and objectives of the audit were discussed and agreed in advance with Susan Roberts, Deputy Borough Treasurer.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

<b>Key Points</b>
<b>Substantial Assurance</b>
<b>One minor issue</b>
<b>Two Previous Recommendations</b>

### **Audit Conclusion – *Substantial Assurance***

As a result of the audit we have concluded that while there is a basically sound system, there are weaknesses, which put some of the system objectives at risk. We have made one Priority 3 recommendation which concerns ensuring that budget monitoring information is reported to Management Board on a quarterly basis.

Internal Audit also reviewed the two outstanding recommendations from Audit report 07-14, dated March 2008. The recommendations remain outstanding and relate to:

- ensuring a budget preparation sheet, authorised by the cost centre manager is retained for each budget; and
- documenting all budget setting/monitoring meetings held between the Borough Treasurer's Department and cost centre managers.

### **Management Response**

A constructive management response has been received from Susan Roberts, Deputy Borough Treasurer, accepting the recommendation.

### **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review.

<b>Recommendation 1</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority: 3</b>
<p>The Council should ensure that budget information is reported to Management Board on a quarterly basis.</p>		
<p><b>Rationale</b></p>		
<p>Internal Audit obtained the Management Board minutes and confirmed that since the previous audit, budget information had been reported to Management Board on 12<sup>th</sup> November 2008 and 11<sup>th</sup> March 2009.</p> <p>Some budget monitoring information – relating to ‘an analysis of Suppliers and Services; Actual 2008/09 and Budget 2009/10’ had been reported at the 13<sup>th</sup> May 2009 meeting; however monitoring information had not been reported at the 9<sup>th</sup> September 2009 meeting.</p> <p>Consistently reporting to senior officers on a quarterly basis may assist in ensuring the Authority achieves a robust and transparent budgetary control function.</p>		
<p><b>Management Response</b></p>		
<p>The meetings for June and August were all cancelled. The papers were submitted, but the meetings not held. In September the information was out of date. The Council finances were reported in December and January to Management Board.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>No further action</b>

<b>Previous Recommendations</b>	<b>Responsibility: Deputy Borough Treasurer</b>
<p>The Council should implement the agreed outstanding recommendations from Audit Report 07-14, dated March 2008, namely:</p> <ol style="list-style-type: none"> <li>1. The Council should ensure that budget preparation sheets, authorised by the appropriate cost centre manager are retained for each budget. (Priority 3)</li> <li>2. The Council should ensure that all budget setting/monitoring meetings held between the Borough Treasurer's Department and cost centre managers are formally documented. (Priority 3)</li> </ol>	
<b>Rationale</b>	
<ol style="list-style-type: none"> <li>1. During the annual budget setting process, each accountant sets the budget for the following year, in consultation with the relevant budget holder, based on the previous year's figures and any known or planned income and expenditure. Internal Audit obtained a sample of fifteen cost centres and identified the Budget Preparation Sheet had not been signed/authorised by the Budget Holder for three of the sample.  Each individual budget is the responsibility of the budget holder; and completion and retention of the budget preparation sheet would provide evidence of discussion, agreement and authorisation.</li> <li>2. Accountants continually monitor the budgets for each cost centre within their responsibility and check for any possible anomalies, variances, etc. It was agreed in the previous audit that formalising the monitoring process by introducing regular meetings with cost centre managers, may assist in providing assurance that the process occurs and any proposed amendments are agreed.  Internal Audit selected a random sample of fifteen cost centres; on nine occasions there was no record of any meetings being held. On six occasions there were records of meetings being held between the accountant and the budget holder, however, these were not held on a regular basis.</li> </ol>	
<b>Management Response</b>	
<p>The 2010/11 budget papers have been checked by the Deputy Borough Treasurer and these are all present and signed off where necessary.</p>	
<b>Revised Implementation Deadline:</b>	<b>Implemented</b>

**APPENDIX 1****AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- Budget Preparation and Approval;
- Communicating the Budget;
- Budget Monitoring;
- Management Information; and
- Virements and Supplements.

**Methodology**

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

**Performance**

Auditor: Sarah Williams

The fieldwork was performed: September – December 2009

***All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.***

**APPENDIX 2****CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

**Audit Recommendations and Follow-up**

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

**BARROW BOROUGH COUNCIL**

**INTERNAL AUDIT FINAL REPORT CR 50**

**ALTERATIONS AND REFURBISHMENT OF 77-79 DUKE STREET, BARROW IN FURNESS**

**Executive Summary**

**Introduction**

Internal Audit are required under the Council's Financial Regulations to consider for review all contracts issued prior to the Final Account being paid to the Contractor. The Borough Treasurer through the Head of Internal Audit will select a sample of contracts for higher scrutiny and reconciliation with the Final Account.

The contract for the refurbishment of 77-79 Duke Street, Barrow in Furness is part of the strategy to bring back into life retail and office accommodation within the conservation area.

The work was valued at pre-tender stage at £450,000 when consultancy firms were asked to submit fees for consideration. The Council's appointed consultant Architect, Chris Bugler, selected five contractors to be invited to tender for the work. The lowest tender submitted at £482,549 was appraised along with the second lowest; a report was completed which awarded the contract to Team Northern Construction Ltd. Negotiations with the successful contractor and a revision in the work to be delivered reduced the Contract Sum to £440,000.

**Audit Objectives**

The audit objectives were to perform an examination of the interim and final account and associated documentation. Details of the audit methodology are provided in Appendix 1.

<b>Key Points</b>
<b>Substantial Assurance</b>
<b>Five important issues</b>
<b>One minor issue</b>

**Audit Conclusion – Substantial Assurance**

As a result of the audit we have concluded that weaknesses have been identified in the system of control, which may put the system objectives at risk. We have made five Priority 2 recommendations, which concern ensuring:

- each contractor invited to tender is included on the Approved List of Contractors and registered with Constructionline;
- all members of the tender opening panel sign both the Tender Opening Register and the Tender Documents;
- Architect's Instructions are signed and retained;
- the calculation of Liquidated and Ascertained damages included in the Contract Document is retained; and

- the legitimacy for any addition to the Contract Sum for an extension of time is established.

In addition, we have made one priority 3 recommendation which concerns ensuring all interim payments to contractors are supported by signed Interim Payment Certificates certifying the value of work completed.

### **Management Response**

We have received a constructive management response from Steve Solsby, Assistant Director Regeneration, accepting each of the recommendations.

### **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review.

<b>Recommendation 1</b>	<b>Responsibility: Assistant Director Regeneration</b>	<b>Priority: 2</b>
<p>The Council should ensure staff and consultants managing tender processes on its behalf are aware of and adhere to Contract Standing Orders; specifically relating to ensuring each contractor invited to tender is included on the Approved List of Contractors and registered with Constructionline.</p>		
<p><b>Rationale</b></p>		
<p>The Council have produced a Standing Approved List to ensure all contractors providing medium to large scale services attain certain standards of technical and financial attributes. Provision is also made for contractors to be added to the list, provided they meet these standards. Registration with Constructionline is used as a standard to be attained by such contractors. This registration assures the Council that the contractor is properly insured, is financially stable and has sufficient manpower to deliver contracts at varying values.</p> <p>Internal Audit compared the contractors invited to tender for the refurbishment of 77-79 Duke Street against the Council's Standing Approved List and identified that two contractors were not included. The Council's Contract Standing Order 8.1 states that "...selected from amongst those included in the approved list as appropriate for a contract of that amount, value or category".</p>		
<p><b>Management Response</b></p>		
<p>When Director of Regeneration approval to the list is obtained, I will endeavour to record approval in the project file.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

<b>Recommendation 2</b>	<b>Responsibility: Assistant Director Regeneration</b>	<b>Priority: 2</b>
<p>The Council should ensure that each member of the tender opening panel signs both the Tender Opening Register and the Tender Documents to confirm both completeness and their attendance.</p>		
<p><b>Rationale</b></p>		
<p>Invitations to tender include a date and time for their return and a pre-addressed envelope for the tender document. These procedures are in place to allow each tenderer an equal opportunity to win the work and ensure tender sums cannot be influenced by a tender already received by the Council. Following the date of return, a tender opening panel is assembled; the received envelopes are collected from their place of secure storage and each envelope is opened in turn, with the submitted tender sum, recorded in the Tender Opening Register. The Panel should ensure that each tender received is entered in the register and that it has been received prior to the closing time/date. Each Panel member should sign the register and also each Form of Tender document recorded in the register. Signing the tender document is a control to prevent alterations after the tenders have been opened.</p> <p>Internal Audit reviewed the Tender Opening Register and the five Forms of Tender received from contractors regarding the refurbishment at 77/79 Duke Street, Barrow.</p> <p>Internal Audit identified that one of the officers present had not signed the Register or signed the Form of Tender for each tenderer. This officer had however, confirmed his custody of the Forms of Tender for appraisal by signing the appropriate section of the document. The Council's Contract Standing Orders section 11.3 states "all persons present shall immediately sign against the relevant particulars, the register and shall also sign the tender as evidence of such tenders having been opened by them or in their presence".</p>		
<p><b>Management Response</b></p>		
<p>Agreed. We will ensure this happens on future contracts.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

<b>Recommendation 3</b>	<b>Responsibility: Assistant Director Regeneration</b>	<b>Priority: 2</b>
<p>The Council should ensure that Architect's Instructions are signed, priced and retained.</p>		
<p><b>Rationale</b></p>		
<p>The Council will expect contractors to deliver prescribed work at the agreed contract sum. However, in the majority of cases any Provisional Sums and Contingencies will be omitted and replaced with the actual cost of specific items. Additionally, as work progresses adjustments are necessary due to changes in the original specification or problems encountered during the progress of the work. Any variation to the Contract Sum requires the consent of the Architect or other professional named in the Contract Document. These variations are contained in Architect's Instructions which document the work to be replaced and the required or additional work to be completed. Prior to the issue of the Final Account these Instructions should be priced, checked for completeness and signed by the Architect; and finally verified to entries in the Final Account.</p> <p>Internal Audit identified that 21 Architect's Instructions had been issued for this contract. A request for documentation by Internal Audit resulted in 21 Architect's Instructions being provided; 12 of the Architects Instructions had not been appropriately signed. A further request for documentation resulted in 21 Architects 's Instructions being provided of which each was signed; however, only three had been priced.</p> <p>Unless the above documentation is complete and properly retained, it is not possible to confirm the accuracy of the Final Account. In addition, in the event of dispute with the contractor regarding the costings relating to additional or omitted work, the acceptance of un-signed Instructions may weaken the Council's position.</p>		
<p><b>Management Response</b></p>		
<p>Agreed and I will ensure externally appointed Architects are made aware of the requirement for signature on Architects Instructions.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

<b>Recommendation 4</b>	<b>Responsibility: Assistant Director Regeneration</b>	<b>Priority: 2</b>
<p>The Council should ensure that the calculation of any Liquidated and Ascertained damages included in the Contract Document is retained and presented for audit.</p>		
<p><b>Rationale</b></p>		
<p>The Contract Document agreed between the Council and the Contractor records Liquidated damages of £500 per week payable by either party found to have delayed the agreed date for completion of the works.</p> <p>The damages amount for this contract should reflect the possible loss of income to the Council in the event of the date of late handover of possession of the site to the Client. No record of the calculation of the £500.00 per week penalty was available so it was not possible to confirm that the damages are realistic and transparent.</p>		
<p><b>Management Response</b></p>		
<p>The calculation was performed correctly. However, for future projects we will endeavour to retain the original calculation on file.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

<b>Recommendation 5</b>	<b>Responsibility: Assistant Director Regeneration</b>	<b>Priority: 2</b>
<p>The Council should establish the legitimacy of any addition to the contract sum for an extension of time; and ensure appropriate supporting documentation is produced, i.e. Architect's Instructions and Confirmation of Extension to Time Certificates.</p>		
<p><b>Rationale</b></p>		
<p>Internal Audit identified an addition within the Predicted Final Account presented for audit of £2,163.28 relating to an extension of time.</p> <p>Architect's Instruction No 2.1 and Notification of an Extension of Time Notification 1 confirmed an agreed extension to the contract completion date of two weeks. The Architect's Instruction also confirmed that there would be no cost to either the Council or contractor.</p> <p>Should the payment be in response to a claim made by the contractor for retaining plant/equipment on site, a detailed statement of additional costs should be provided for review, or if due to additional work an authorised Architect's Instruction should be issued.</p>		
<p><b>Management Response</b></p>		
<p>Additional plastering was agreed, but could not be performed until January 2009. This additional work item was to improve the finish on the ground floor.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

<b>Recommendation 6</b>	<b>Responsibility: Assistant Director Regeneration</b>	<b>Priority: 3</b>
<p>The Council should ensure that all interim payments made to contractors are signed by the person authorised in the Contract Documents.</p>		
<p><b>Rationale</b></p>		
<p>The Architect is responsible for assessing and valuing the work completed and materials on site at intervals specified in the Contract Document. The Interim Payment Certificates are sequentially numbered and contain the dates of valuation and issue, gross valuation, retention to be made and the net amount for payment. To validate the document the person issuing the certificate is required to add their signature. These certificates support the payment of invoices from the contractor for the work completed.</p> <p>Internal Audit were provided with eleven Interim Payment Certificates and one Final Certificate; and confirmed their accuracy. However, the review identified three additional payments had been made to the contractor. Two of the contractor invoices had been authorised for payment by the Director of Regeneration &amp; Community Services, however one had been authorised by the Policy and Strategy Officer without the necessary financial delegation. Each of the three contractor invoices had been certified by the Assistant Director Regeneration.</p>		
<p><b>Management Response</b></p>		
<p>Financial delegation/authorisation has now been tightened up and is enforced by the Borough Treasurer's Department.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

## APPENDIX 1

### AUDIT FRAMEWORK

#### Audit Coverage

The review covered the following areas:

- contract / tender process;
- bill of quantities;
- insurance and bond provision;
- additions & omissions, including architects instructions;
- contract meetings;
- extension and completion certification;
- payments, including interim and final certificates; and
- final account.

#### Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation;
- spot checks on arithmetical calculations;
- verify final account with the cumulative paid; and
- report findings, with relevant and practical recommendations for improvement.

#### Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed: November 2008 to April 2009

***All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.***

## APPENDIX 2

## CONTRACT PARTICULARS

Contract Title:	Alterations and Refurbishment of 77-79 Duke Street, Barrow in Furness.
Contract Form:	JCT Intermediate Building Contract with contractor's design.
Contractor:	Team Northern Construction Ltd
Architect:	Chris Bugler – Chartered Architect
Quantity Surveyor:	Bob Hodge
Tender Sum:	£482,548.80
Contract Sum:	£440,000.00
Date for Possession:	25 <sup>th</sup> March 2008
Date for Completion:	25 <sup>th</sup> November 2008
Date of Practical Completion:	Not available at time of audit
Delay in Completion:	Extension of Time Awarded
Extension of Time Granted:	9 <sup>th</sup> December 2008
Liquidated and Ascertained Damages provision/paid/received:	Provision: £500 per week
Minimum Insurance Cover	£5,000,000
Minimum Bond	Not stated. However Bond valued at £48,254.00 which is equivalent to 10% of the original Tender Sum.
Retention Amount	Retention 95% to Practical Completion Retention 97.5% During Defects Period Released prior to the above being achieved.
Submitted Final Account Sum:	£437,157.46
Audited Final Account Sum:	£437,157.46
Percentage increase / Submitted Final Account against Contract Sum.	Under spend 0.65%

**APPENDIX 3****CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

**Audit Recommendations and Follow-up**

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT CR 54**  
**UNITS 1-7 JAMES FREEL CLOSE**

## **Executive Summary**

### **Introduction**

Internal Audit are required under the Council's Financial Regulations, to consider for review all contracts issued prior to the Final Account being paid to the Contractor. The Borough Treasurer through the Head of Internal Audit will select a sample of contracts for higher scrutiny and reconciliation with the Final Account.

The contract for Units 1-7 James Freel Close, was part of the strategy to develop workspace units as an alternative site if private sector development on land adjacent to Waterside House proceeds.

The work was valued at pre-tender stage at £1,123,000 at which point consultancy firms were asked to submit fees for consideration. The Council appointed consultant Chartered Quantity Surveyors Burnley Wilson Fish as its Agent, together with Craig & Green Architects who selected five contractors to be invited to tender for the work. The lowest tender submitted at £1,224,293 was appraised along with the second lowest; and a report was completed which awarded the contract to the contractor submitting the lowest tender; Thomas Armstrong (Construction) Ltd.

### **Audit Objectives**

The audit objectives were to perform an examination of the interim and final account and associated documentation. Details of the audit methodology are provided in Appendix 1.

<b>Key Points</b>
<b>Substantial Assurance</b>
<b>Four important issues</b>

### **Audit Conclusion – *Substantial Assurance***

As a result of the audit we have concluded that there are weaknesses, which may put the system objectives at risk. We have made four Priority 2 recommendations which concern ensuring:

- contractors are selected for tendering from the Council's Approved List;
- the Tender Opening Register is revised to accommodate the names and signatures of each of the Opening Panel;
- each member of the tender opening panel sign both the Tender Opening Register and the Tender Documents; and
- appointed consultants, responsible for the issue of formal contract documents, provide the responsible officer for the project with original signed copies of all appropriate contractual documentation

### **Management Response**

We have received a constructive management response from Steve Solsby, Assistant Director Regeneration, accepting each of our recommendations.

### **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review.

<b>Recommendation 1</b>	<b>Responsibility: Director of Regeneration &amp; Community Services</b>	<b>Priority: 2</b>	
<p>The Council should ensure that contractors are selected for tendering from the Council's Approved List.</p>			
<p><b>Rationale</b></p>			
<p>The Council's Contract Standing Orders section 8.1 states "Invitations to tender in accordance with Order 6 or Order 7 shall be sent to at least four persons selected from amongst those included in the approved list as appropriate for a contract of that amount value or category".</p> <p>The Council's Consultant Craig &amp; Green Architects recommended the five contractors previously invited to tender for similar work at Forge Close, Barrow.</p> <p>The review identified that one of the contractors selected to be invited to tender (Team Northern Construction Ltd) was not included on the Council's approved list. However, the contractor was confirmed as being registered with Constructionline.</p> <p>It appears that either the Approved List should be updated or the Contract Standing Orders revised to allow selection from Constructionline Registration, rather than the approved list. Specifically as Team Northern have won and completed a number of Council contracts.</p>			
<p><b>Management Response</b></p>			
<p>Agree that the Approved List should be updated. Started to review procedures for updating list, this was subsequently 'passed' to the Technical Support Unit Manager to review under e-procurement procedure to review Financial Procedures/Standing Orders/Constitution. Awaiting the Director of Corporate Services report to Executive Committee and Full Council to implement new updated procedures.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 June 2010</b>	

<b>Recommendation 2</b>	<b>Responsibility: Director of Regeneration &amp; Community Services</b>	<b>Priority: 2</b>	<b>2</b>
<p>The Council should consider revising the current Tender Opening Register to accommodate the names and signatures of each of the Opening Panel.</p>			
<p><b>Rationale</b></p>			
<p>The Council's Contract Standing Orders 11.3 states "all persons required by Order 11.1 (Opening Panel Establishment) to be present at the opening of the tenders shall immediately sign against the relevant particulars in the register and shall also sign the tender as evidence of such tenders having being opened by them or in their presence".</p> <p>During the review Internal Audit identified that the Tender Opening Register only provided for two of the Opening Panel to record their signatures. Council Standing Order 11.1.2 indicates the persons to be present at the tendering opening, where the estimated cost exceeds £100,000. i.e. one Member and two Senior officers should record their signatures. The Register only records that two persons were present at the opening of the tenders; however, from other documentation it appears more persons were present.</p> <p>In order to aid compliance the Council should consider amending appropriate documentation to include the relevant areas for full signatures etc.</p>			
<p><b>Management Response</b></p>			
<p>Agree.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>	

<b>Recommendation 3</b>	<b>Responsibility: Director of Regeneration &amp; Community Services</b>	<b>Priority: 2</b>
<p>The Council should ensure that each member of the tender opening panel sign both the Tender Opening Register and the Tender Documents to confirm both completeness and their attendance, as required by Contract Standing Orders.</p>		
<p><b>Rationale</b></p>		
<p>Invitations to tender include a date and a time for their return and a pre-addressed envelope for the tender document. These procedures are in place to allow each tenderer an equal opportunity to win the work and ensure tender sums cannot be influenced by tenders already received by the Council. Following the date of return, a tender opening panel is assembled; the received envelopes are collected from their place of secure storage and each envelope is opened in turn, with the submitted tender sum recorded in the Tender Opening Register. The panel should ensure that each tender received is recorded in the register and that it has been received prior to the closing date/time. Each panel member should sign the register and also each tender document recorded in the register. Signing the tender document is a control to prevent alterations after the tenders have been opened.</p> <p>Internal Audit obtained each of the tender documents received for the project in order to ascertain whether all members of the panel had signed in accordance with procedure. Internal Audit identified that the Forms of Tender had only been signed by the Councillor present and not by the remaining panel members.</p> <p>The Council's Contract Standing Orders section 11.3 states that all persons present "shall immediately sign against the relevant particulars in the register and shall also sign the tender as evidence of such tenders having been opened by them or in their presence."</p>		
<p><b>Management Response</b></p>		
<p>Agree.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

<b>Recommendation 4</b>	<b>Responsibility: Director of Regeneration &amp; Community Services</b>	<b>Priority: 2</b>
<p>The Council should ensure that appointed consultants, responsible for the issue of formal contract documents, provide the responsible officer for the project with original signed copies of all appropriate contractual documentation.</p>		
<p><b>Rationale</b></p>		
<p>The Contract Document states the name of the person or professional practice responsible for issuing instructions and progress valuations relating to the works.</p> <p>For the works under review Burnley Wilson Fish, Chartered Quantity Surveyors, have been recorded as the Employer's Agent in Article 3 of the Design and Build Contract.</p> <p>Internal Audit identified that four "Employer's Instructions Requiring a Change" had been issued by the Agent; however two of the documents had not been signed by the Agent. The two unsigned documents (Nos 3 and 4) were not included in the project files presented for audit; however, these were reproduced electronically.</p>		
<p><b>Management Response</b></p>		
<p>Agree. Will ensure signatures are obtained by externally appointed professionals and ensure file records are maintained.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

## APPENDIX 1

### AUDIT FRAMEWORK

#### Audit Coverage

The review covered the following areas:

- contract / tender process;
- bill of quantities;
- insurance and bond provision;
- additions & omissions, including architects instructions;
- contract meetings;
- extension and completion certification;
- payments, including interim and final certificates; and
- final account.

#### Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation;
- spot checks on arithmetical calculations;
- verify final account with the cumulative paid; and
- report findings, with relevant and practical recommendations for improvement.

#### Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed: July 2009

***All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.***

## APPENDIX 2

## CONTRACT PARTICULARS

Contract Title:	Units 1-7 James Freel Close, Barrow in Furness.
Contract Form:	JCT
Contractor:	Thomas Armstrong (Construction) Ltd
Architect:	Design & Build Contract Council' s Consultant Architect – Craig & Green Architects IIP
Quantity Surveyor:	Burnley Wilson Fish, Chartered Quantity Surveyors.
Tender Sum:	£1,238,462.64
Contract Sum:	£1,238,462.64
Date for Possession:	6 <sup>th</sup> May 2008
Date for Completion:	3 <sup>rd</sup> November 2008
Date of Practical Completion:	30 <sup>th</sup> September 2008
Delay in Completion:	N/A
Extension of Time Granted:	N/A
Liquidated and Ascertained Damages provision/paid/received:	Provision: £2,500.00 per week
Minimum Insurance Cover	£5m Public Liability £5m Employer's Liability
Minimum Bond	£123,846.00 Performance Bond Confirmed.
Retention Amount	Retention 5% to Practical Completion Retention 2.5% During Defects Period Released prior to the above being achieved.
Submitted Final Account Sum:	£1,285,242.20
Audited Final Account Sum:	£1,285,242.20
Percentage increase / Submitted Final Account against Contract Sum.	3.78%

## APPENDIX 3

### CLASSIFICATIONS

#### Assurance Level

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

#### Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT 09-12**  
**TREASURY MANAGEMENT**

## **Executive Summary**

### **Introduction**

The Council defines Treasury Management as “the management of the Council’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”. The performance of treasury transactions is delegated to the Borough Treasurer and Deputy Borough Treasurer.

The Council’s Treasury Management Strategy 2009-10 was approved by Executive Committee on 28<sup>th</sup> January 2009 and by Council on 23<sup>rd</sup> February 2009. The principal loan amount is currently £22,389,734 which relates to 5 loans with the Public Works Loan Board, with maturity dates between 2031 and 2053. During 2009/10 one loan had been repaid and another loan has been partially repaid. There have been no short term loans since the previous audit.

There have been no fixed term investments during the year; it was reported to Executive Committee on 10<sup>th</sup> June 2009 that surplus funds would continue to be deposited into an interest bearing account with the Council’s own bank, HSBC plc.

### **Audit Objectives**

An audit of this system forms part of the agreed 2009/10 programme. The audit objectives were to evaluate and test the internal controls over the Treasury Management process. The scope and objectives of the audit were discussed and agreed in advance with Sue Roberts, Deputy Borough Treasurer.

Audit work included a control evaluation of the system design, and testing the operation of key controls. Details of the audit methodology are provided in Appendix 1.

<b>Key Points</b>
<b>Unqualified Assurance</b>
<b>No recommendations</b>

### **Audit Conclusion – *Unqualified Assurance***

As a result of the audit we have concluded that there is a basically sound system of control, and as such we have not raised any new recommendations.

### **Management Response**

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, accepting the report.

## **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review.

**APPENDIX 1****AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- Treasury Management Policy/Strategy;
- Investment of Funds;
- Long term borrowing;
- Temporary borrowing; and
- Management information and reporting.

Our audit coverage excludes any activities on the part of the Council involving the use of derivatives or complex financial instruments. We have only checked the controls and therefore, cannot express an opinion on the financial accuracy of the reported figures or the appropriateness of the investment policies.

**Methodology**

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

**Performance**

Auditors: Claire Jackson

The fieldwork was performed: January 2010

***All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.***

**APPENDIX 2****CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

**Audit Recommendations and Follow-up**

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

		<b>Part One</b>
<b>AUDIT COMMITTEE</b>		<b>(D) Agenda Item 8</b>
<b>Date of Meeting:</b>	<b>9th March, 2009</b>	
<b>Reporting Officer:</b>	<b>Borough Treasurer</b>	
<p><b>Title: Internal Audit – Progress Report April to February 2010</b></p> <p><b>Summary and Conclusions:</b></p> <p>The Committee will receive regular progress reports on the programme of work carried out by the Internal Audit Service. The attached report relates to the period April to February 2010.</p> <p>The Council's Internal Audit Manager will attend the meeting to present the report to Members.</p> <p><b>Recommendations:</b></p> <p>Members are recommended:-</p> <ol style="list-style-type: none"> <li>1. Receive and consider the report; and</li> <li>2. Raise any questions or concerns with the Internal Audit Manager.</li> </ol>		

### **Report**

The Internal Audit progress report is attached.

(i) **Legal Implications**

Statutory requirements under Section 151 and the Accounts and Audit Regulations 2006.

(ii) **Financial Implications**

Not Applicable.

(iii) **Health and Safety Implications**

Not Applicable.

(iv) **Key Priorities or Corporate Aims**

Not Applicable.

(v) Risk Assessment

Not Applicable.

(vi) Equal Opportunities

Not Applicable.

Background papers

Nil

# ***FURNESS AUDIT***

***BARROW BOROUGH COUNCIL***

**INTERNAL AUDIT PROGRESS REPORT**

**April to February**

**2009/10**

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# EXECUTIVE SUMMARY

## Purpose

The purpose of the report is to update Members of the Council's Audit Committee on:

- Internal Audit work performed up to 28<sup>th</sup> February 2010, including final reports issued relating to a previous reporting period; and
- Significant issues that have arisen during this period as a result of our work.

## Content

The information is presented in the following schedules:

1. *A Statistical Summary of Recommendations*

This schedule includes all audit recommendations to which Council management have responded between 1<sup>st</sup> April and 28<sup>th</sup> February 2010. The figures are analysed according to the 'priority' of the recommendations, and the extent to which each has been accepted by management for action.

2. *Accepted Priority 1 Recommendations*

This schedule provides details of all major recommendations which have been accepted by management.

3. *Rejected Recommendations*

This schedule provides details of major and significant (i.e. Priority 1 and Priority 2) recommendations, which have been rejected by Council Management.

4. *Audit Coverage*

Details of audit assignments carried out in the period, including any checks on external partner organisations.

5. *Classifications of Assurance and Recommendations*

An explanation of the classifications used for prioritising recommendations and assessing levels of assurance.

## 1. STATISTICAL SUMMARY OF RECOMMENDATIONS

The following table summarises the number of audit recommendations we made in our final reports issued up to 28<sup>th</sup> February 2010; analysed by their priority, including whether accepted by management.

<b>Recommendations</b>	<b>Total</b>	<b>Priority 1</b>	<b>Priority 2</b>	<b>Priority 3</b>
Made	<b>126</b>	1	89	36
Fully Accepted	<b>115</b>	1	79	35
Partly Accepted	<b>10</b>	0	9	1
Not Accepted	<b>1</b>	0	1	0

## **2. ACCEPTED PRIORITY 1 RECOMMENDATIONS**

There have been no priority one recommendations since the previous Audit Committee.

### **3. REJECTED RECOMMENDATIONS**

#### **3.1 PRIORITY ONE RECOMMENDATIONS**

There have been no rejected priority one recommendations during the reporting period.

### 3.2 PRIORITY TWO RECOMMENDATIONS

There has been one rejected priority two recommendation during the reporting period.

<b>Audit Report</b>	<b>Asset Management</b>
<b>Recommendation</b>	<p>The Council should introduce procedures to ensure that a record is made and retained of all discussions, negotiations, agreements reached and instructions issued prior to formally :</p> <ul style="list-style-type: none"> <li>a) acquiring or disposing of assets; and</li> <li>b) leasing out its properties.</li> </ul>
<b>Rationale</b>	<p>The Internal Audit review highlighted a lack of formal documentation in a number of areas, regarding the management and control of Council assets.</p> <ul style="list-style-type: none"> <li>a) Acquisitions and Disposals           <p>The previous audit review noted that discussions on potential acquisitions and disposals had not been documented comprehensively; and an outstanding recommendation (No 6 from Audit Report 06-14) is incorporated in this recommendation.</p> <p>Internal Audit testing of a sample of 6 property acquisitions demonstrated that the Estates Section held no documentation for the purchase of land at Brady’s Warehouse for the Link Road Phase 2, at a total cost of £1,036,126.</p> <p>Further testing of Estates files for a sample of 10 property disposals identified that supporting documentation was not produced for the sale of a piece of land at Bessemer Way, to Furness College for £126,101 (a valuation of the land, instruction to an external solicitor to act for the Council in respect of this transaction and confirmation of legal completion of the sale).</p> </li> <li>b) Property Leases           <p>Internal Audit examined a sample of files for 10 new lease agreements. Six files contained no relevant correspondence or notes relating to the process which resulted in the lease being agreed. Two files contained proposed heads of terms, while a further two files contained some correspondence with the prospective tenants.</p> </li> </ul>

	<p>Internal Audit acknowledge that, in the current economic climate, the Council's main concern will be to secure tenants for empty properties, with the level of rent being a secondary issue. However, this should not prevent the reasoning for setting a particular rent level being recorded to demonstrate that it represents good value for the Council.</p> <p>For the same sample of 10 agreements, documentation did not exist on three files to support the engagement of an external solicitor to draw up the resulting lease.</p> <p>To demonstrate transparency, evidence the authority given to solicitors to act for the Council and reduce the risk of subsequent disputes or disagreement, details should be retained of all relevant negotiations, instructions, valuations and agreed heads of terms. These records should be maintained whichever section of the Council deals with the transaction.</p>
<p><b>Response</b></p>	<p>Asset acquisitions and disposals are governed by the Council's Financial Regulations and Standing Orders. All of this business goes to Management Team and Executive Committee.</p> <p>Asset acquisition and disposal records are held by the Borough Treasurer's Department; these are all part of the capital programme and each project has a responsible manager.</p>

#### 4. INTERNAL AUDIT COVERAGE: APR 2009 - FEB 2010

Audit Assignment	System Significance Band	Status	Assurance
<b>ANNUAL AUDITS</b>			
Performance Management	1	Fieldwork Complete	
Risk Management	1	Final	Restricted
Income Collection	1	Final	Substantial
Financial Information System	1	Planning	
Housing and Council Tax Benefits	1	Fieldwork Complete	
Council Tax	1	Draft	Substantial
Business Rates (NNDR)	1	Draft	Substantial
Corporate Control/Governance	2	Fieldwork Commenced	
Procurement	2	Ongoing	
Standing Orders and Financial Regulations	2	Complete	-
Budgetary Control	2	Final	Substantial
Treasury Management	2	Final	Unqualified
Payroll (including expenses/allowances)	2	Fieldwork Complete	-
Sundry Debtors	2	Fieldwork commenced	
Periodic Checks (inc. VAT) plus Accounts working paper review	2	Ongoing	-
Payables	2	Fieldwork Complete	-
Car Park Meter Charges	2	Final	Substantial
Housing Rents	2		
Housing Maintenance (Day to day repairs)	2	Cancelled time used for Sodexo review	

<b>Audit Assignment</b>	<b>System Significance Band</b>	<b>Status</b>	<b>Assurance</b>
<b>VFM Reviews/Other Projects/Spot Checks</b>			
Receipt Book Checks	-	Ongoing	-
Petty Cash Spot Checks	-	Complete	-
Maternity Policy Review	-	Complete	-
Landlords Grant Investigation	-	Complete	-
Sodexo Accounts Dock Museum Café	-	Draft	Restricted
Payables Extended Testing	-	Complete	-
Flexi Time Spot Checks	-	Complete	-
NWDA Final Claim Check 77-79 Duke Street	-	Complete	-
West Lakes Renaissance Urban Design Framework Year 2 Auditors Report	-	Complete	-
<b>RISK ASSESSED SYSTEMS</b>			
Capital Programme	3	Final	Substantial
Housing Strategy	3	Postponed. Time allocated to Final Grant Claims	
Concessionary Travel	3	Cancelled. Time allocated to additional contract audits	
Property Portfolio Including Sales	3	Combined with Asset Register	
Asset Register including Capital Account	3	Final	Restricted
Licensing	3	Cancelled. Time allocated to additional funding checks	
Waste Management	4	Combined with Procurement	
Refuse Collection (including Recycling)	4	Cancelled. Time allocated to additional funding checks	
<b>COMPUTER ENVIRONMENT AUDITS</b>	1		
IT General Controls		Final	Restricted
Implementation Review PC Management Control	-	Complete	-

<b>Audit Assignment</b>	<b>System Significance Band</b>	<b>Status</b>	<b>Assurance</b>
<b>CONTRACT AUDIT</b>	1		
Refurbishment Ground Floor Male and Female Toilets		Draft	Substantial
Holker Street Car Park		Fieldwork complete	
Units 1-7 James Freel Close		Final	Substantial
Alterations to the Park Leisure Centre		Awaiting information	
Emlyn Street Car Park		Awaiting Final Account	
External fabric repairs, 104 Abbey Rd		Awaiting information	
Contract Probity		Fieldwork Complete	
<b>AGREED ADDITIONAL WORK</b>			
<b>Community Centre Accounts</b>			
Hawcoat	-	Complete	-
Askam & Ireleth	-	Complete	-
Abbotsvale	-	Complete	-
Dalton Community Association	-	Complete	-
Roosegate	-	Complete	-
Barrow Playing Fields Users Association	-	Complete	-
Mayors Account	-	Complete	-
<b>External Funding Checks</b>			
Furness Enterprise	-	Complete	-
<b>National Fraud Initiative</b>	-	Ongoing	

<b>Audit Assignment</b>	<b>System Significance Band</b>	<b>Status</b>	<b>Assurance</b>
<b>Implementation Review</b>			
Building Control	-	Complete	-
Forum 28	-	Complete	-
Right to Buy	-	Complete	-
Contract Payment Procedures/ Contract Register 06-25	-	Complete	-
Contract Payment Procedures/ Contract Register 7-28	-	Complete	-
<b>CONTINGENCY</b> <i>(Previous year draft and final reports issued during period)</i>			
Barrow Park	*	Final	Restricted
Painting & Pre Painting repairs 2007/08	-	Final	Restricted
FIS	1	Final	Substantial
Housing Rents	2	Final	Substantial
Receipt Book Checks	-	Final	Substantial
Housing and Council Tax Benefits	1	Final	Substantial
Sundry Debtors	2	Final	Substantial
Payables	2	Final	Substantial
Alterations and Refurbishment of 77- 79 Duke St, Barrow	1	Final	Restricted
IT Asset Management	1	Draft	Restricted
Barrow Public Park Heritage restoration project	1	Draft	Restricted
Performance Management	1	Final	Substantial
Hindpool Urban Park	-	Final	Restricted

# 5. CLASSIFICATIONS

## 5.1 Classification of Assurance Levels

At the conclusion of each audit, we give an overall opinion on the level of assurance, which we consider is provided by the controls in place within the system audited. The following classification of assurance levels has been adopted:

Level	Definition
1. Unqualified Assurance	The controls appear to be consistently applied.
2. Substantial Assurance	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
3. Restricted Assurance	The level of non-compliance identified places the system objectives at risk.
4. None	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

The conclusions and assurance levels specified for each audit are used to support the Council's governance review arrangements, as required by the Accounts and Audit (Amendment) (England) Regulations 2006, and the 2007 CIPFA/SOLACE Framework and Guidance notes.

## 5.2 Priority of Recommendations

Our audit recommendations are categorised by three priority levels: -

- Priority 1* Major issues that we consider need to be brought to the attention of senior management.
- Priority 2* Important issues which should be addressed by management in their area of responsibility.
- Priority 3* Detailed issues of a relatively minor nature.

## APPENDIX 1 – DRAFT REPORTS ISSUED

<b>Ref</b>	<b>Audit</b>	<b>Date issued</b>
CR 47	Barrow Public Park Heritage restoration project	14 May 2009
IT 40	IT Asset Management	30 June 2009
CR 52	Refurbishment Ground Floor Male & Female Toilets	16 October 2009
09-06	Council Tax	26 February 2010
09-07	NNDR	26 February 2010
09-34	Sodexo Accounts Dock Museum Café	26 February 2010

## Appendix 2 – Restricted Assurance Audits

Ref	Audit	Recommendations			Previous Recommendations			Total	Date Issued
		P1	P2	P3	P1	P2	P3		
CR 51	Hindpool Urban Park	0	9	1	N/a			10	14 May 2009
CR 49	Painting and Pre-painting repairs 2007/08	3	3	0	N/a			6	22 April 2009
CR 47	Barrow Public Park Heritage restoration project <i>(awaiting management response)</i>	3	2	0	N/a			5	14 May 2009
IT 40	IT Asset Management <i>(awaiting management response)</i>	0	11	2	N/a			13	3 June 2009
CR50	Alterations & Refurbishment of 77-79 Duke Street	0	8	1	N/a			9	11 January 2010
08-05	Barrow Park	0	8	5	N/a			13	29 June 2009
09-24	Asset Management	0	10	0	0	6	1	17	26 February 2010
09-02	Risk Management	0	6	5	0	0	0	11	16 November 2009
IT 42	IT General Controls	1	29	6	0	0	0	36	4 December 2009
09-34	Sodexo Accounts Dock Museum Café <i>(awaiting management response)</i>	2	8	1	N/a			11	26 February 2010