

Internal Audit Report

To: Corporate Director – Children, Families and Cultural Services
Subject: National Water Sports Centre: follow-up
Report reference: COM 1120
Date: June 2011

1 Introduction

- 1.1 The previous audit report on National Water Sports Centre, report reference COM 1103, contained an unsatisfactory audit opinion. In line with our follow-up procedures, we have undertaken a further review to assess the progress made with implementing the recommendations agreed.

2 Objectives and scope of the audit

- 2.1 Objective: To ascertain the extent to which the audit recommendations made in the previous audit report have been implemented.
- 2.2 Scope: Review of the actions taken since the previous audit, which was a review of the arrangements to ensure that:
- Financial Regulations provide the framework of financial control and standards necessary to achieve the proper administration of the Authority's financial affairs;
 - An accurate budget is prepared, and expenditure and income are monitored and controlled against budget;
 - Accounting systems provide information that is useful for both stewardship and management responsibilities;
 - Salaries are approved and individuals paid only through the payroll system;
 - Procurement ensures probity and openness, best value, equal treatment of suppliers and officer protection;
 - Payments are authorised only for services that have been received;
 - Income due is identified and collected; and
 - Portable and desirable assets and items of equipment are recorded and held securely.

3 Audit Findings

- 3.1 Of 25 recommendations agreed in the previous audit report, 12 have been implemented, four have been partially implemented, and nine have still to be implemented.
- 3.2 The main findings of the follow-up audit are set out below. Where we have concluded that controls still need to be improved we have reported our detailed current findings in the attached Action Plan, together with the associated risk and a further recommendation.
- 3.3 The following key areas are among the recommendations that have been implemented:

- Correct budget allocations are recorded on the corporate accounting system;
- Set-up costs involved with the transfer of the Centre to the Authority in April 2009 have been resolved;
- The centre's banking personal code is being recorded on pay-in slips, thus providing for an effective audit trail;
- Daily cash reconciliation sheets are being signed off by supervisory staff;
- Fees and charges for activities at the Centre have been formally agreed;
- Personal passwords are no longer shared for access to non-networked computers. Options for networking the centre's computers have been explored, but this has not proven possible to date with the current budget restrictions; and
- There was an improved process at the latest year-end for the identification of accounting accruals.

3.4 Recommendations still requiring action cover the following key areas:

- There remains scope for budgets to be more effectively split across the Centre's range of cost centres (**see Action Plan para. 1b**). Spreadsheets remain the primary means of providing budget monitoring reports, and we did not identify a clear trail from the spreadsheets back to the Authority's accounts (**see Action Plan para. 1d**);
- There remains an inadequate separation of duties relating to the areas of income analysis, banking preparations and holding account reconciliations (**see Action Plan para. 2a**);
- Amounts held in one of the Centre's safes regularly exceed the specified insurance limit (**see Action Plan para. 5c**), and the limits for the Centre's safes have still to be confirmed in writing by the risk and insurance section (**see Action Plan 5b**);
- With regard to payroll, our testing identified a leaver who had not been taken off the payroll (**see Action Plan para 6a**). We also noted high incidences of timesheets not being authorised prior to processing (**see Action Plan para. 6b**), and the completion and submission of sickness returns has lapsed (**see Action Plan para. 6c**);
- The Centre's inventory, introduced at the time of transition to the Council, has not been updated (**see Action Plan para. 7**); and
- The delegation of budgets to managers requires formalising and financial limits of authority have not been formally set (**see Action Plan paras. 9a and 9b**).

Three lower risk recommendations are also made in the Action Plan.

4 Audit opinion

- 4.1 Our opinion is selected from the following – sound, satisfactory, unsatisfactory or unsound.
- 4.2 In our opinion, the arrangements for financial management remain unsatisfactory in some significant areas of activity, resulting in unacceptable levels of risk. We have made a number of recommendations which should be implemented promptly in order to ensure that the financial controls meet the requirements of Financial Regulations.

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Audit supervised by:
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Original Recommendation and Management Response	Current Findings	Further Audit Recommendation and Management Response
<p>1(b) Budget allocations should be adequately split over all the cost centres. (Medium Risk).</p> <p><u>Response of the Corporate Director, Communities</u></p> <p><i>For 10-11 we now have a full year to compare to help set starting budget. The permanent £115K contingency is now added, and new codes for better analysis are being used. Methods of better control and management information agreed.</i></p> <p><u>Date for implementation</u></p> <p><i>Complete May 2010</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>A&B team together with General Manager NWSC & Finance Manager NWSC.</i></p>	<p>Recommendation partially implemented.</p> <p>Budget allocations for 2010/11 have to some extent been split between the various costs centres of the Centre.</p> <p>A few anomalies appear on the budget monitoring report with expenditure or income being allocated to cost centres with little or no budget allocation, e.g.:</p> <ul style="list-style-type: none"> • LD71527 re 'Recreation Wet' includes allocations relating to LD71532 to LD71534 re various water income; • LD74021 to LD74022 re 'COMPROP' has no allocation although more than £80,000 income has been coded there; • LD71536 re 'Maintenance Gang' includes allocations for depreciation but not salary costs; and • LD71537 re 'Vending Machine Supplies' has no allocation although more than £16,000 costs had been incurred. <p>However, examination of a report detailing all cost centres and account codes at pd.10, 2010/11 showed there are many more cost centres where there are budgets that have not been adequately split out, particularly in relation to staff salaries. A more detailed and accurate allocation of the budget for salaries would enable budget monitoring to alert management to potential problems with the payroll for the centre.</p> <p>Nonetheless, it should be noted that net expenditure was well within the budget allocations overall at the time of audit.</p>	<p>The split of budget allocations over all cost centres should be completed.</p> <p>(Medium Risk)</p> <p><u>Response of the Corporate Director – CFCS</u></p> <p><i>The monitoring records for the centre are in the process of being brought into line with the CFCS department's existing systems and as such this issue will be resolved alongside developments for the new BMS corporate programme.</i></p> <p><u>Date for implementation</u></p> <p><i>October 2011</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Centre General manager / CFCS finance team</i></p>

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<p>1(d) The Authority's budget monitoring facility should be used as opposed to other in-house systems. Re-profiling of the budget allocations may be required. (Medium Risk).</p> <p><u>Response of the Corporate Director, Communities</u></p> <p><i>10-11 budget will use the profile of spend pattern of 09-10. There needs to be a report that would show the commitment log.</i></p> <p><u>Date for implementation</u></p> <p><i>July 2010</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Accountant to investigate Oracle reporting to provide to General Manager NWSC & Finance Manager NWSC.</i></p>	<p>Recommendation still to be implemented.</p> <p>Budget monitoring reports produced on the Management Information System (MIS) are referred to by the Finance Manager. The Centre was within budget at the time of audit.</p> <p>Separate spreadsheets are maintained for management purposes and these incorporate more timely information, particularly in respect of the various income streams. Furthermore, the spreadsheets' budget profiles reflect the seasonal nature of trading activities which, we understand, are not reflected on the corporate facility due to the resources required to adjust them. We also understand that current year approved budget adjustments have not been included in the spreadsheet. However, the budget monthly profiles are overwritten with actuals and there is no record of the budget allocations for the financial year showing on the record.</p> <p>We obtained the spreadsheet monitoring statement at period 10, 2010/11, and compared this to the budget monitoring statement drawn from the accounting system, as supplied by the accountant. The spreadsheet statement showed a forecast net profit of approximately £114,000 for the year, whilst the statement drawn from the general ledger showed a budgeted deficit of approximately £2.5m and an actual deficit position of approximately £667,000. It is likely that the spreadsheet statement only includes those budget lines which the Centre management are able to control directly, but we did not identify intermediate documentation to demonstrate how the two statements relate to each other.</p>	<p>a) The spreadsheet monitoring record should be updated to include current budget allocations. (Medium Risk)</p> <p><u>Response of the Corporate Director – CFCS</u></p> <p><i>The monitoring records for the centre are in the process of being brought into line with the CFCS department's existing systems and as such this issue will be resolved alongside developments for the new BMS corporate programme.</i></p> <p><u>Date for implementation</u></p> <p><i>September 2011</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Centre General manager / CFCS finance team.</i></p> <p>b) There should be a clear trail between the Authority's accounts and those presented to management. (Medium Risk)</p> <p><u>Response of the Corporate Director – CFCS</u></p> <p><i>As above.</i></p> <p><u>Date for implementation</u></p> <p><i>As above.</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>As above.</i></p>

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<p>2(a) A division of duties should be introduced for the roles of income analysis, banking preparation and holding account reconciliations. (High Risk).</p> <p><u>Response of the Corporate Director, Communities</u></p> <p><i>Division of duties does exist. Duty manager and till operative count and sign. A reminder note about float sheets issued. Cash variance investigation report sheet has been redesigned April 10. Duty manager takes the cash in a secured bag, to the safe. Cashier checks totals and cash for banking.</i></p> <p><u>Date for implementation</u></p> <p><i>April 2010</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>General Manager NWSC.</i></p>	<p>Recommendation still to be implemented.</p> <p>The division of duties identified does not address the lack of separation regarding the areas of income analysis, banking preparation and holding account reconciliations.</p> <p>The following roles are currently in place:</p> <p>Analysis of income .. Assistant Finance Manager</p> <p>Custody of unbanked income .. Assistant Finance Manager</p> <p>Banking preparation including bank pay-in slip completion and handover to security company .. Assistant Finance Manager</p> <p>Accounting journal initiation .. Finance Manager</p> <p>Verification of holding account entries on General Ledger .. Assistant Finance Manager.</p> <p>Although accounting journals are initiated and budget monitoring is undertaken by the Finance Manager, an insufficient segregation of duties is considered to be in place.</p> <p>A flow chart of income collection and banking roles is included in the report's appendix for both the current process and our suggested one.</p>	<p>A division of duties should be introduced for the roles of income analysis, banking preparation and holding account verifications.</p> <p>(High Risk)</p> <p><u>Response of the Corporate Director – CFCS</u></p> <p><i>It is clear that this recommendation requires a significant reallocation of duties plus additional resources to remove the risk. Further analysis is required in partnership with audit to assess the impact of the introduction of the new corporate BMS system and the proposed introduction of a new integrated till system.</i></p> <p><u>Date for implementation</u></p> <p><i>January 2012</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Centre General manager</i></p>

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<p>5(b) The Authority's risk and insurance section should be consulted and the safes' limits identified. (Medium Risk)</p>	<p>Recommendation partially implemented. Centre management has obtained overnight safe limit details from a private contractor. The limit for the office safe has been obtained from the risk and insurance section but no recorded details were identified at the audit.</p>	<p>The cash held limits for both the reception and office safes should be confirmed with the risk and insurance section and details recorded in writing. (Medium Risk) <u>Response of the Corporate Director – CFCS</u> <i>The limits have been confirmed and on some occasions the centre is above the stated limits. The solution is linked to 5c.</i> <u>Date for implementation</u> August 2011 <u>Officer responsible for implementation</u> Service Director Youth, Families and Cultural Services</p>
<p>5(c) Amounts held overnight in the safes should be monitored against the identified insurance limits. (Medium Risk) <u>Response of the Corporate Director, Communities</u> As above. <u>Date for implementation</u> With immediate effect. <u>Officer responsible for implementation</u> Finance Manager NWSC.</p>	<p>Recommendation still to be implemented. Since the previous audit, the Finance Section has made progress with identifying the insurance limits for the holding of monies overnight. Monies held in the main safe are well within the likely insurance limit, even at peak times. However, excess amounts held in the subsidiary safe equate to between £1,100 and £3,300. A decision has not been taken on whether to purchase a new safe or to accept the risk of loss.</p>	<p>A decision should be taken on alternative arrangements for the holding of monies or the risk concerned should be formally signed off. (Medium Risk) <u>Response of the Corporate Director – CFCS</u> <i>There is a balance to be struck between the costs of the purchase of a new safe and the levels of risk under the existing operating system given that the site has 24 hour security in place.</i> <u>Date for implementation</u> 11/7/11 <u>Officer responsible for implementation</u> Service Director Youth, Families and Cultural Services</p>

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<p>5(d) Advances made to staff should be separately recorded on imprest claims for reimbursement. (Low Risk)</p> <p><u>Response of the Corporate Director, Communities</u></p> <p><i>This procedure is in place.</i></p> <p><u>Date for implementation</u></p> <p><i>n/a</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Finance Manager NWSC to maintain the existing process.</i></p>	<p>Recommendation still to be implemented.</p> <p>The Centre uses an imprest reconciliation format from before its transfer to the Authority in April 2009. The reconciliation was tested at the previous audit and the accounting for such monies is satisfactory.</p> <p>However, when expenditure is claimed for reimbursement, certain figures are not transferred to the corporate format correctly:</p> <ul style="list-style-type: none"> • Cash not counted, such as floats at outlets and monies held by staff for required purchases, is not recorded as 'Advances'; and • Amounts due for reimbursement are not included as part of the 'Balance at Bank'. 	<p>Imprest claim forms should be completed in line with the 'Notes on Account Administration' which form part of the claim book.</p> <p>(Low Risk)</p> <p><u>Response of the Corporate Director – CFCS</u></p> <p><i>Agreed and implemented.</i></p> <p><u>Date for implementation</u></p> <p><i>Already completed.</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Finance Manager</i></p>
<p>6(a) Adjustments to a leaver's final salary must be processed in line with employees' terms and conditions. (Medium Risk)</p> <p><u>Response of the Corporate Director, Communities</u></p> <p><i>An error was made on the initial calculation, complicated by TUPE conditions for NWSC not being fully understood across the Authority.</i></p> <p><u>Date for implementation</u></p> <p><i>With immediate effect.</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Finance Manager NWSC.</i></p>	<p>Recommendation partially implemented.</p> <p>The final pay of four leavers in the current financial year was agreed to hours/leave records and resignation details (where these were available) with the exception of employee ref. 3526126. Although having left at 31 Dec 2010, checks at the centre did not identify the former employee still being paid in January 2011. The overpayment was identified during the audit tests undertaken in February 2011, and Centre managers advised that they also identified the issue at this time. Arrangements were made during the audit for the pay to be ceased and for contact to be made with the individual as regards reimbursement of the amount overpaid in January 2011 (approximately £1,000).</p> <p>We understand the relevant payroll notification form was completed at the Centre but was not received or actioned by the Employee Services Section.</p>	<p>Payroll notifications should be checked to latest pay data to ensure that the recorded details have been actioned.</p> <p>(Medium Risk)</p> <p><u>Response of the Corporate Director – CFCS</u></p> <p><i>Agreed and already actioned.</i></p> <p><u>Date for implementation</u></p> <p><i>Already completed</i></p> <p><u>Officer responsible for implementation</u></p>

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<p>6(b) All timesheets should be authorised before processing for pay purposes is undertaken. (Medium Risk)</p> <p><u>Response of the Corporate Director, Communities</u></p> <p><i>Recognised, reminded and re-education complete. 2 signatures are required before payment.</i></p> <p><u>Date for implementation</u></p> <p><i>April 2010.</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Finance Manager NWSC.</i></p>	<p>Recommendation still to be implemented.</p> <p>All timesheets for two selected weeks were examined, namely:</p> <ul style="list-style-type: none"> • w/e 11 Jul 10; and • w/e 19 Dec 10. <p>For w/e 11 Jul 10, 10 out of 65 had not been signed by employees (15%) and 20 out of 65 (31%) not authorised by line managers.</p> <p>For w/e 19 Dec 10, 8 out of 48 (17%) had not been signed by employees and 20 out of 48 (42%) not authorised by line managers.</p> <p>A high incidence of non-signing still exists.</p>	<p>Finance Manager</p> <p>All timesheets should be authorised before processing for pay purposes is undertaken. (Medium Risk)</p> <p><u>Response of the Corporate Director – CFCS</u></p> <p><i>An internal review of processes in this area has been completed and new systems introduced to ensure compliance. All departmental managers and supervisors have been made clear of their individual responsibilities in relation to time sheet authorisation.</i></p> <p><u>Date for implementation</u></p> <p><i>Completed.</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Departmental managers, for their own staff. Finance Manager for checking before submission.</i></p>
<p>6(c) Sickness returns should be submitted promptly for pay and attendance management purposes. (Medium Risk).</p> <p><u>Response of the Corporate Director, Communities</u></p> <p><i>Sickness returns are completed for ESC, again though the TUPE means the attendance management does not apply.</i></p> <p><u>Date for implementation</u></p> <p><i>Regular returns now in place April 2010.</i></p> <p><u>Officer responsible for implementation</u></p>	<p>Recommendation still to be implemented.</p> <p>Weekly sickness returns for June 2010 were examined and it was confirmed that these had been completed and submitted for each week. However, no returns have been submitted since 14 Aug 10.</p>	<p>Sickness returns should be submitted promptly for pay and attendance management purposes. (Medium Risk).</p> <p><u>Response of the Corporate Director – CFCS</u></p> <p><i>An internal review of processes in this area has been completed and new systems introduced to ensure compliance. All departmental managers and supervisors have been made clear of their individual responsibilities in relation to sickness reporting.</i></p>

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<p><i>Finance Manager NWSC.</i></p>		<p><i>Sickness reports (backdated to April 1st) have been completed.</i></p> <p><u><i>Date for implementation</i></u></p> <p><i>Completed.</i></p> <p><u><i>Officer responsible for implementation</i></u></p> <p><i>NWSC Finance Manager / Group Manager</i></p>
<p>7 The centre's inventory should be updated on an ongoing basis for all additions, transfers, disposals and write-offs. (Medium Risk).</p> <p><u>Response of the Corporate Director, Communities</u></p> <p><i>Handover inventory in place electronically. Requires updating with purchases and disposals through 2009-10, and maintained for audit.</i></p> <p><u>Date for implementation</u></p> <p><i>Sept 2010</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Joint working Accounting & Budgeting & NWSC.</i></p>	<p>Recommendation still to be implemented.</p> <p>The Centre's inventory has yet to be updated for movements since April 2009, the date of transfer to the Council.</p>	<p>a) The inventory record should be updated for additions, transfers, disposals and write-offs since April 2009.</p> <p>(Medium Risk)</p> <p><u>Response of the Corporate Director – CFCS</u></p> <p><i>The centre will update the inventory, backdating all items purchased from April 2009 (valued in excess of £500). Purchases since 2010 have been recorded</i></p> <p><u>Date for implementation</u></p> <p><i>September 2011</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Finance Manager</i></p> <p>b) The inventory should be updated on an ongoing basis.</p> <p>(Medium Risk)</p>

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		<p><u>Response of the Corporate Director – CFCS</u> <i>With immediate effect all purchased items will be added to the existing inventory.</i></p> <p><u>Date for implementation</u> <i>July 2011</i></p> <p><u>Officer responsible for implementation</u> <i>Finance Manager</i></p>
<p>9(a) The delegation of budgets should be formally recorded. (Medium Risk).</p> <p><u>Response of the Corporate Director, Communities</u> <i>Initially no limits were advised, Payments team need to issue a payment signature mandate.</i></p> <p><u>Date for implementation</u> <i>June 2010</i></p> <p><u>Officer responsible for implementation</u> <i>Head of Service for Sports, Arts and Tourism to request from Payments team.</i></p>	<p>Recommendation still to be implemented.</p> <p>No formalisation of the budget delegation has been identified.</p> <p>We understand that budget responsibilities are detailed in the Finance Manager's job description drawn up by Leisure Connection, the previous management organisation, and this is being worked to.</p>	<p>The delegation of budgets should be formally recorded. (Medium Risk)</p> <p><u>Response of the Corporate Director – CFCS</u> <i>There is a new scheme of delegation for the authority which the centre will fully comply with.</i></p> <p><i>The Centre will review and update financial protocols for the site to be consistent with CFCS policy.</i></p> <p><u>Date for implementation</u> <i>January 2012</i></p> <p><u>Officer responsible for implementation</u> <i>General manager / Finance Manager</i></p>

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<p>9(b) Financial limits for each manager with budget responsibility should be formally set and recorded. (Medium Risk).</p> <p><u>Response of the Corporate Director, Communities</u></p> <p><i>Initially no limits were advised, Payments team need to issue a payment signature mandate.</i></p> <p><u>Date for implementation</u></p> <p><i>June 2010</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>Head of Service for Sports, Arts and Tourism to request from Payments team.</i></p>	<p>Recommendation still to be implemented.</p> <p>Financial limits have not been set for the managers concerned, namely the General Manager and the Finance Manager.</p> <p>The relevant payments form has not been completed.</p>	<p>Financial limits for each manager with budget responsibility should be formally set and recorded. (Medium Risk).</p> <p><u>Response of the Corporate Director – CFCS</u></p> <p><i>See above.</i></p> <p><u>Date for implementation</u></p> <p><i>September 2011</i></p> <p><u>Officer responsible for implementation</u></p> <p><i>General manager / Finance Manager</i></p>



