

Report Title: Audit report

Report of: **David Loudfoot, General Manager**

1. Purpose

1.1 To inform the Board of the recent findings of the LBH audit report.

2. Recommendations

- 2.1 That the Board note the report and that the actions identified are cross referenced to the reform 'action plan'.
- 2.2 That the board notes the need for development and adoption of framework and strategy documents for risk management, contract management, business planning and staff review and development and tasks the General Manager with production.
- 2.3 That the Board should receive updates on the identified actions at future board meetings until such time as all actions are fully completed. These reports should be part of the governance action plan reporting process.

Report Authorised by: **David Loudfoot, General Manager** 

Contact Officer: **David Loudfoot, General Manager, Alexandra Palace & Park, Alexandra Palace Way, Wood Green N22 7AY Tel No. 020 8365 2121**

3. Executive Summary

3.1 This report informs the Board of recent audit advice provided to the Charity by the London Borough of Haringey.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 N/A

5. Local Government (Access to Information) Act 1985

5.1 Reference has been made to the 'Trustee action plan' agreed by the board on 26th September 2008 and also to the LBH audit report which is attached at appendix 1.

6. Description

- 6.1 The attached appendix 1 details the findings of the LBH Audit dept who recently undertook an exercise to provide LBH with reassurance on the financial controls in place at Alexandra Palace.
- 6.2 The report finds that some controls are operating effectively whilst others are not and as such a list of weaknesses has been identified for the General Manager to act upon.
- 6.3 The report advises the creation of formal framework and strategy documents for :

Risk Management
Contract Management
Business Planning
Staff performance review and development

The need for these formal frameworks is accepted and the General Manager will report back to the board progress on the production and implementation of these frameworks as part of the overall reporting of progress with the action plan on governance.

- 6.4 It should be noted that there is considerable overlap with the findings of the independent report by Martin Walklate and in finalising the action plan it is recommended that the 12 action points from this be adapted and placed within the context of the existing action plan which has already been developed.
- 6.5 The cross reference grid is detailed below.

Item 1 (corporate governance) overlaps and will be addressed as part of action plan point 2a

Item 2 (risk management) overlaps and will be addressed by action points 1d,2i,2j,3b,4c

Item 3 (relationship with LBH) overlaps and will be addressed by action points 3a-3c

Item 4 (Internal audit arrangements) will be addressed by AP reviewing the internal audit arrangements as part of the overall review by the AP head of Finance.

Item 5 (contract management framework) will be addressed by action point items 2i and 2j

Item 6 (business planning) will be addressed by action point item 1d

Item 7 (performance review and staff development)will be addressed by action point 1c and 4a-4d

Item 8 (contract management) will be addressed by action point 2i

Item 9 (contract management) has been completed

Item 10 (repairs and maintenance) has been partially completed but will need ongoing buildings advice.

Item 11 (performance review) has been completed and the contractor given notice.

Item 12 (asset register) will be addressed by AP reviewing the arrangements as part of the Head of Finance duties and updating the existing records.

7. Consultation

7.1 n/a

8. Recommendations

- 8.1 That the Board note the report and that the actions identified should now be cross referenced to the reform 'action plan'.
- 8.2 That the board notes the need for development and adoption of framework and strategy documents for risk management, contract management, business planning and staff review and development.
- 8.3 That the Board should receive updates on the identified actions at future board meetings until such time as all actions are fully completed. These reports should be part of the governance action plan reporting process.

9. Legal and Financial Implications

- 9.1 The LBH CFO has been sent a copy of this report and his comments are attached as Appendix 2.
- 9.2 The trust solicitor has been sent a copy of this report.
- 9.3 The General Manager will need to seek advice from external providers and liaison with the LBH audit and procurement teams, this cost will be contained within the existing overall budget provision for the charity.

10. Equalities Implications

- 10.1 There are no perceived equalities issues within this report.

11. Use of Appendices/Tables/Photographs

- 11.1 Appendix 1-Report of audit dept.
- 11.2 Appendix 2- Comment of LBH Chief Financial officer

Final Internal Audit Report
London Borough of Haringey
Alexandra Palace (The Trust)
September 2008

This report has been prepared on the basis of the limitations set out on page 20

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1. Introduction

- 1.1 Haringey Council as Trustee of the Alexandra Palace and Park Trust (the Trust) uses its corporate funds to support the revenue deficits of the Trust and more recently has provided financial support to Alexandra Park Trading Limited (APTL). In order to allow the Council's Section 151 Officer to fulfil their statutory responsibilities, assurance needed to be obtained that both the Trust and APTL's internal control mechanisms and governance procedures were in place and operating effectively. In order to achieve this assurance, an internal audit review of the internal controls and governance arrangements in place at the Trust and APTL was undertaken by Haringey Council. This report details the findings and recommendations for the Trust.
- 1.2 This report details the findings of the internal audit, based on the agreed scope, as follows:
- Organisational Structure;
 - Delegation of Authority and Accountability;
 - Control environment including risk assessment and management;
 - Compliance with Financial and Contract Procedure Rules;
 - The role of APTL and the Trust's management in ensuring key governance and control processes are operating effectively;
 - Monitoring and reporting processes in relation to governance and control issues both within APTL and the Trust and between APTL/the Trust and Haringey Council;
 - Review procedures to ensure local and statutory regulations are complied with; and
 - Follow up processes where incidences of non-compliance are identified.

- 1.3 The audit identified a number of operational and procedural weaknesses that need to be addressed. In order to assist management in using our reports, we categorise our recommendations according to their level of priority:

- Priority 1* - major issues for the attention of senior management and/or the Board;
- Priority 2* - other recommendations for senior/local management action; and
- Priority 3* - minor/best practice matters.

The audit approach to the work undertaken is shown in Appendix 1 - Audit Framework.

2. Executive Summary

- 2.1 Based on the findings in paragraphs 2.2-2.3 a **limited** level of assurance can be provided. Weaknesses in the system of internal controls are such as to put the system objectives at risk. A full definition of our levels of assurance is detailed out in Appendix 3.
- 2.2 A number of controls were observed to be operating satisfactorily, some of which are listed below:
- The Trust is meeting their external reporting requirements in accordance with Charity Law.
 - Evidence exists that some contracts have been successfully tendered and entered into.
- 2.3 Within the system there are weaknesses which put some of the system objectives at risk. The key areas where weaknesses were found at the time of audit include:
- The Trust did not have a formal code of corporate governance in place at the time of the audit.
 - The Trust did not have a formal risk management framework in place at the time of the audit.
 - The Trust did not have a formal contract management framework in place at the time of the audit.
 - The Trust advised that external audit completed additional work to provide assurance, but no reports were available to support this apart from the opinion in the annual statement of accounts.
 - The Trust did not have a formal performance review framework in place at the time of the audit.
- 2.4 The need for sound corporate governance arrangements to be in place was raised in a report to the Alexandra Palace & Park Board on the 28th June 2005. The report includes the following key statements and recommendations:
- a) That the financial affairs of the Trust must be audited and scrutinised by the Director of Finance in the same way as other parts of the Council;
 - b) The activities of the Council as trustee must be covered by an adequate system of internal audit;
 - c) The activities of the Council as trustee must also be covered by a sound system of internal control, including risk management arrangements; and
 - d) Reports to the Board must clearly set out the financial implications of all proposals and the Director of Finance must have an opportunity to comment further if necessary.

- 2.5 In November 2005, the Council's former Interim Chief Executive wrote to the former General Manager about the report and instructed that the governance measures referred to in the 28 June 2005 report be implemented with immediate effect.
- 2.6 There is no evidence that the report or instruction was complied with as noted in Section 1. The recommendations contained within Section 1 re-state and reinforce the comments and recommendations made in the June 2005 report.
- 2.7 As a result of our audit work, we have raised a number of recommendations to help improve controls in the respective areas. Details of our recommendations can be found in Sections 1 of this report. Due to the relationship that exists between Alexandra Park and Palace Trust (the Trust) and it's wholly owned non-charitable trading subsidiary Alexandra Palace Trading Ltd (APTLL) the findings of the audit are structured to reflect this.

In respect of the Trust there are six priority 1 recommendations and six priority 2 recommendations raised.

Acknowledgement

We would like to take this opportunity to thank management and staff for their time and assistance during the audit.

Section 1 – Detailed Findings/Action Plan

Alexandra Palace and Park Trust (the Trust)

1. Corporate Governance

Recommendation	Rationale	Priority Responsibility
<p>The Trust put in place a Code of Corporate Governance for their organisation; take appropriate measures to publicise it; ensure that responsibility for monitoring and reviewing its operation is defined; and ensure that it is complied with on an ongoing basis across the organisation, with regular reports to the Board demonstrating compliance.</p>	<p>The Trust did not have a formal code of corporate governance in place at the time of the audit.</p> <p>Public and private sector organisations need to ensure that they have effective governance arrangements in place to manage their businesses.</p> <p>A Code of Corporate Governance is an important tool in demonstrating and maintaining effective corporate governance across organisations.</p>	<p>1</p> <hr/> <p>General Manager</p>
Management response		Deadline
<p>APPCT agrees that it will review corporate governance arrangements but points out that the board did not accept the recommendations made in the report of 2005 which was submitted to the board of trustees without input from the charity officers or advisors.</p> <p>The matter was taken up by the then Chair of the board but not pursued</p> <p>The review when it is conducted will rely heavily on the separate legal advice which has been sought and this will be reported to the trustees in due course.</p>		<p>April 2009</p>

2. Risk Management Framework

Recommendation	Rationale	Priority Responsibility
<p>The Trust implement a risk management framework for their organisation; ensure that responsibility for monitoring and reviewing its operation is defined; and ensure that it is complied with and embedded across the organisation.</p>	<p>The Trust did not have a formal risk management framework in place at the time of the audit.</p> <p>In order for the Trust to achieve their objectives and outcomes, the risks which might prevent this need to be identified, managed and monitored.</p> <p>A uniform and consistent approach to managing risks will ensure that organisations can achieve their objectives in the most effective and efficient manner.</p>	<p>1</p> <p>General Manager</p>
Management response		
<p>APPCT will review its risk management strategy and report this back to the board of trustees. Formal adoption will of course be contingent on the review of strategy which is required now that the development is not going ahead</p>		<p>Deadline</p> <p>April 2009</p>

3. Relationship with Haringey Council

Recommendation	Rationale	Priority Responsibility
<p>The Trust formally agrees an operating framework between the organisations and Haringey Council.</p> <p>The framework should specify the processes and timing for financial and legal input from Haringey Council into reports to the Trust's Board</p>	<p>The Trust did not have a formal operating framework agreed and in place at the time of the audit.</p> <p>A formal operating framework would clarify the roles and responsibilities of all parties in the decision-making process.</p> <p>A framework would also ensure that appropriate support can be given by Haringey Council officers at relevant stages in the Trust's decision-making process.</p>	<p>1</p> <p>General Manager</p>
Management response		Deadline
<p>The operating framework between APPCT and LBH is currently defined in the LBH constitution. A report by the local authority officers on corporate governance was submitted to the trustees some time ago but the contents were rejected by the trustees.</p> <p>APPCT will review the existing relationships and define a framework in consultation with the trust solicitor, charity commission and local authority officers</p> <p>It must be noted that there is a risk that too close an association with LBH may lead to the inadvertent creation of a shadow directorship of APTL which would not be beneficial.</p> <p>There is also a risk of the local authority having undue influence over the decisions of the charity trustees and officers which could have serious repercussions if the Charity commission were to conclude that the necessary separation had been compromised.</p>		<p>April 2009</p>

4. Internal Audit Arrangements

Recommendation	Rationale	Priority Responsibility
<p>The Trust ensures that appropriate internal audit arrangements are in place for their organisations.</p> <p>Annual audit plans should be in place, which are agreed by the Board.</p> <p>Monitoring arrangements, including review of internal audit reports and implementation of recommendations should be in place.</p>	<p>At the time of the audit, the Trust advised that external audit completed additional work to provide assurance, but no reports were available to support this apart from their opinion in the annual statement of accounts.</p> <p>The role of internal audit is to provide an independent and objective opinion to the organisation on risk management, control and governance.</p> <p>The opinion given by internal audit is a key element of the framework of assurance which the organisation needs to report on as part of their statutory and annual reporting processes.</p>	<p>2</p> <p>General Manager</p>
Management response		
<p>This is recognised as a weakness. The newly appointed Head of Finance will look to re-implement internal audit functions by March 2009.</p>		<p>Deadline</p> <p>March 2009</p>

5. Contract Management Framework

Recommendation	Rationale	Priority Responsibility
<p>The Trust implement a contract management framework for their organisation; ensure that responsibility for monitoring and reviewing its operation is defined; and ensure that it is complied with and embedded across the organisation.</p> <p>The framework should define approval and reporting requirements, including the involvement of the Board.</p>	<p>The Trust did not have a formal contract management framework in place at the time of the audit. A number of contracts reviewed had either breached EU procurement regulations; had expired but were continuing beyond the contract period; were due to expire; and some operations were not subject to contract but had significant expenditure committed to them.</p> <p>A formal contract management framework would ensure that the organisation complied with local and statutory contract regulations</p> <p>Regular reporting on contract management would ensure that appropriate decisions were taken in accordance with business requirements.</p>	<p>1</p> <p>General Manager</p>

Management response	Deadline
<p>APPCT agrees that this is a weakness and will draft suitable frameworks.</p> <p>The current position on those contracts identified above is a direct result of the drive to achieve the overall council and trustee strategy of risk transfer via a long lease of the building which has prevented re-tendering.</p>	<p>March 2009</p>

6. Business Planning Framework

Recommendation	Rationale	Priority Responsibility
<p>The Trust implements a formal business planning framework for their organisation; and ensures that responsibility for monitoring and reviewing its progress is defined.</p> <p>The framework should define approval, monitoring and reporting requirements, including the involvement of the Board.</p>	<p>In order for the Trust to achieve its objectives and outcomes, there is a need for a comprehensive business plan to be in place, including budgets and financial information, which can be monitored, reviewed and reported against on a regular basis.</p> <p>A uniform and consistent approach to business planning will ensure that organisations can monitor progress more effectively. Organisations can highlight variations or risks to non-achievement at an early stage to enable appropriate actions to be approved.</p>	<p>1</p> <p>General Manager</p>
Management response		Deadline
<p>The trust undertakes in business planning by way of annual budget preparation, APPCT is aware that the LBH planning cycle is triennial and that APPCT planning does not align with the LBH system. There is no requirement of the Charities act that it does so, but it will endeavour to provide three year information.</p>		<p>November 2008</p>

7. Performance Review and Staff Development

Recommendation	Rationale	Priority Responsibility
<p>The Trust will ensure that a formal performance review and staff training and development framework is introduced.</p> <p>The framework should specify the roles and responsibilities of all relevant parties, including the Board.</p>	<p>The Trust did not have a formal performance review framework in place at the time of the audit.</p> <p>A formal performance review framework would clarify the roles and responsibilities of all parties in delivering the aims and objectives of the organisation.</p> <p>A performance review framework would also ensure that individual officers' performance can be monitored and managed effectively and appropriate support and training can be identified and provided.</p>	<p>2</p> <p>General Manager</p>
Management response		Deadline
<p>All staff will have been appraised by the end of September 08</p>		<p>September 2008</p>

8. **Contract management**

Recommendation	Rationale	Priority Responsibility
<p>The Trust should ensure that its expenditure complies with local and statutory procurement regulations.</p> <p>In particular, the Trust should ensure that contracts are in place for:</p> <ul style="list-style-type: none"> • security arrangements; • engineering; and • legal services. 	<p>A number of contracts reviewed as part of the audit had either breached EU procurement regulations; had expired but were continuing beyond the contract period; were due to expire; and some operations were not subject to contract but had significant expenditure committed to them.</p> <p>The Trust needs to ensure compliance with local and statutory contract and procurement regulations.</p>	<p style="text-align: center;">1</p> <hr/> <p>General Manager</p>
Management response		Deadline
<p>The APPCT have recently considered the future of contracts for Security and Engineering. A forward plan is being developed to ensure the security function is secured until it is tendered and a new contract begun in April 2009, the engineering contract has been extended until 2010 when it will be re-tendered.</p> <p>The General manager is seeking advice on the subject of the legal services to the trust and this will be reported to the board in due course.</p> <p>Further procurement advice will be sought as part of a review of financial controls and procedures being conducted by the new Head of Finance</p>		<p>February 2009</p>

9. Contract management

Recommendation	Rationale	Priority Responsibility
<p>A copy of the insurance bond held by Integral (UK) Ltd should be obtained and held on file.</p> <p>The Trust should ensure that this continues to be in force should this contract be extended or re-appointed.</p>	<p>Compliance with the contract terms and conditions is essential in minimising the risks to the Trust.</p>	<p>2</p> <p>General Manager</p>
Management response		
<p>This has been obtained</p>		
Deadline		

10. Repair and Maintenance of the buildings

Recommendation	Rationale	Priority Responsibility
<p>The Trust should ensure that a robust programme of planned maintenance, developed by a suitably qualified and independent contractor/surveyor, is in place and is appropriately approved and monitored.</p> <p>The Trust should ensure that any additional works required or identified as part of the planned maintenance programme are subject to separate assessment and approval processes.</p>	<p>Current arrangements in place are that the incumbent contractor undertakes any additional work identified outside of the planned maintenance, although a separate quote is received.</p> <p>Ensuring separation of roles between planned and ad hoc maintenance would improve accountability and transparency.</p>	<p>2</p> <p>General Manager</p>
Management response		Deadline
<p>A defined programme of PPM is in place, the GM has subsequently re-appointed the professional advisor to assist in the contract management of the engineering contract. Advice is also sought on the building from several other professional advisors on an as needed basis.</p> <p>The PPM contractor does not have authority to undertake additional works unless approved by the Charity, however total separation of this role would lead to unnecessary cost increases.</p>		

11. Performance Review

Recommendation	Rationale	Priority Responsibility
<p>The performance of the Development Manager must be subject to formal appraisal, in accordance with the requirements of the original appointment.</p>	<p>The terms and conditions of employment required review of the performance of the Development Manager role. Formal review processes would enable timely decisions to be taken in respect of the continuation of this temporary appointment.</p>	<p>2 General Manager</p>
Management response		Deadline
<p>Agreed, with the ending of the development project, some of the KPI points are not valid and as such the continuation of this contract for services may now not be needed.</p>		<p>September 2008</p>

12. Asset Register

Recommendation	Rationale	Priority Responsibility
<p>The asset register should be reviewed and amended to reflect date of acquisition and value.</p> <p>Arrangements should be put in place for on-going periodic review of the register to ensure accuracy</p>	<p>An up to date register enables the organisation to monitor its assets and assists in the production of statutory accounting processes. An asset register is also useful in the event of any losses.</p> <p>Periodic review of the accuracy of the asset register is a deterrent against obsolescence and misappropriation</p>	<p>2</p> <p>General Manager</p>
Management response		
<p>Agreed. A more detailed fixed asset register will be introduced in the 2008/09 financial year and the date and value of all new acquisitions will be recorded.</p> <p>In respect of existing assets, this information should be relatively easy to obtain for the past three financial years. However, the backing documentation for earlier acquisitions is likely to be in archive and thus we will need to consider the cost/benefit of updating the register for these items, particularly as many older items will be fully depreciated.</p>		
Deadline		
<p>March 2009</p>		

Statement of responsibility

We take responsibility for this report, which is prepared on the basis of the limitations set out below.

London Borough of Haringey Internal Audit & Risk Management

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The matters raised in this report are only those which came to our attention during the course of our audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. You should assess recommendations for improvements for their full commercial impact before they are implemented. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

We emphasise that the responsibility for a sound system of internal control rests with you and work performed by internal audit should not be relied upon to identify all systems weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by management as being of greatest risk and significance. Effective implementation of our recommendations by you is important for the maintenance of a reliable internal control system.

Appendix 1 - Audit Framework

Audit objectives

To review the Trusts internal control mechanisms and governance procedures.

Audit Approach

The audit approach was developed by reference to appropriate standards and an assessment of risks and controls within the system.

The following procedures were adopted:

- **planning** – the key controls were identified and the overall approach determined;
- **documenting**- risks and causes of risks were assessed;
- **evaluating** – controls are matched against risks;
- **reporting** – findings, recommendations and implementation.

Areas covered

The audit reviewed the procedures and controls over the following:

- The operation of the Trust.

Appendix 2 – Staff involved

AUDIT TEAM	STAFF CONSULTED
Anne Woods – Head of Audit and Risk Management Bryan Gonsalves – Principal Auditor	David Loudfoot - General Manager Alexandra Park and Palace (the Trust) Kenneth Cushion – Acting Finance Director Mark Evison - Park Manager

Appendix 3 – Definition of Assurance Levels

Assurance Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives.
Substantial Assurance	There is a basically sound system, but there are weaknesses which put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk.
No Assurance	Control is generally weak leaving the system open to significant error or abuse.

Appendix 2

Comments of the London Borough of Haringey Chief Financial Officer:

Gerald Almeroth LBH CFO has been supplied a copy of this report and provided the following comment:

“ The report is noted and I concur with the recommendations in the report. These actions should be implemented as soon as practically possible.”