

SUBJECT:	Internal Audit: Status of Work
MEETING:	Audit Committee
DATE OF MEETING:	18 March 2010
REPORT OF:	Chief Internal Auditor
REPORT DATE:	22 February 2010

1 Internal audit report opinion definitions:

Opinion	Framework of governance, risk management and management control
Substantial assurance [G]	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.
Adequate Assurance [A1]	Basically a sound framework in place but with repeated evidence of inconsistent application.
Limited assurance [A2]	Critical weakness(es) identified within the framework or significant evidence of inconsistent application.
No assurance [R]	Fundamental weaknesses have been identified or the framework is ineffective or absent.
Closed [X]	Management has confirmed that all identified framework weaknesses have been appropriately addressed.

2 Status of 'live' reports:

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding (of which are 'high' priority)
				Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009	Mar 2010		
Fleet Transport	08/04/08	Executive Director of Environment	Environment	G	G	G	G	G	G	G	11 (0)	2 (0)
Licensing	16/04/08	Chief Executive	Legal and Democratic Services	G	G	G	G	G	G	G	13 (3)	1(0)
Parking: Off and On Street	16/04/08	Executive Director of Environment	Environment	G	G	G	G	G	G	X	15 (4)	0
Internet and Email	16/05/08	Executive Director of Resources	Resources	A	A	A	A	A	G	X	10 (3)	0
Network Management	10/06/08	Executive Director of Resources	Resources	A	G	G	G	G	G	G	19 (0)	1 (0)
Across Schools Thematic Reviews – Security	16/06/08	Executive Director Children's Services and Learning	Children's Services and Learning	A	A	A	G	G	G	G	8 (4)	1 (0)
Affordable Housing	14/08/08	Executive Director of Neighbourhoods	Neighbourhoods	A	G	G	G	G	G	G	12 (4)	1 (0)
Workforce planning	04/09/08	Executive Director of Resources	Resources	G	G	G	G	G	G	X	8 (0)	0

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding (of which are 'high' priority)
				Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009	Mar 2010		
Town Depot Stores	05/09/08	Executive Director of Neighbourhoods	Neighbourhoods		A	A	G	G	G	G	11 (3)	2 (0)
Itchen Bridge	16/09/08	Executive Director of Resources and Executive Director of Environment	Resources / Environment		A	G	G	G	G	G	4 (0)	1 (0)
Capital Programme and Major Projects	01/12/08	Executive Director of Resources	Cross-cutting		A	A	A	A	A2	A1	7(0)	7(0)
VAT	19/12/08	Executive Director of Resources	Resources			G	G	G	G	X	4(0)	0
Procurement	15/12/08	Executive Director of Resources	Resources			A	G	G	G	X	21(8)	0
Section 106 Agreements	26/01/09	Executive Director of Environment.	Environment			R	R	A	A2	X	7(6)	0
Public Transport	04/02/09	Executive Director of Environment. Executive Director of Resources	Environment			A	G	G	G	G	5(2)	1(0)
Mental Health and Substance Misuse	23/03/09	Executive Director Communities Health and Care	Communities Health and Care				A	A	A2	G	6 (3)	1 (0)

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding (of which are 'high' priority)
				Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009	Mar 2010		
Woodmill	26/03/09	Executive Director of Neighbourhoods and Executive Director of Resources	Neighbourhoods and Resources				R	A	G	G	9 (8)	1 (0)
Corporate Governance	07/04/09	Solicitor to the Council	Chief Executive				G	G	G	X	2 (0)	0
Computer Installations & Operating Systems	14/05/09	Executive Director of Resources	Resources					A	A2	A2	20 (6)	11 (5)
IS Security Management	14/05/09	Executive Director of Resources	Resources					A	G	G	13 (3)	4 (0)
Council Tax	14/05/09	Executive Director of Resources	Resources					G	G	X	6 (0)	0
Payroll	19/05/09	Executive Director of Resources	Resources					G	G	X	1 (0)	0
Registration Services	16/06/09	Executive Director of Environment	Environment					G	G	G	6 (0)	6 (0)
Development Control	19/06/09	Executive Director of Environment	Environment					G	G	G	1 (1)	1 (1)
Sports and Recreation Venues	23/06/09	Executive Director of Neighbourhoods	Neighbourhoods					A	G	G	10 (7)	1 (1)

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding
				Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009	Mar 2010		
Leisure Venues Alternative Management Transformation Project	26/06/09	Executive Director of Neighbourhoods	Neighbourhoods					G	G	X	5 (2)	0
Debtors	30/06/09	Executive Director of Resources	Resources					G	G	G	5 (1)	1 (0)
Direct Payments – follow up	30/06/09	Executive Director of Health and Community Care	Health and Communities Care					G	G	G	1 (0)	1 (0)
Expense Management	30/06/09	Executive Director of Resources	Resources					A	G	X	13 (10)	0
Open Spaces and Street Cleansing	01/07/09	Executive Director of Neighbourhoods	Neighbourhoods					A	G	G	9 (2)	2 (1)
School PFI Contract Management	03/07/09	Executive Director, Children Services and Learning	Children Services and Learning					A	A ₁	A ₁	8 (1)	6 (1)
Contract Management	07/07/09	Executive Director of Resources	Resources					A	G	G	9 (1)	1 (0)
Emergency Home Closures	28/07/09	Executive Director of Health and Community Care	Communities Health and Care					A	G	G	5 (1)	1 (0)

Audit title	Report date	Audit Sponsor	Directorate	Opinion						Original actions	Actions outstanding	
				Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009			Mar 2010
Transport Services Income Investigation	14/09/09	Executive Director of Resources	Resources						R	G	22 (22)	1 (1)
School Catering Services	17/09/09	Executive Director of Children Services and Learning	Children Services and Learning						G	G	5 (1)	1 (0)
Affordable Housing	13/11/09	Executive Director of Neighbourhoods	Neighbourhoods						G	X	3 (1)	0
NNDR	08/12/09	Executive Director of Resources	Resources						G	G	4 (0)	1 (1)
CCTV Services	05/01/10	Executive Director of Neighbourhoods	Neighbourhoods						G	G	11 (2)	5 (0)
Workforce Strategy	07/01/10	Executive Director of Resources	Resources						G	X	5 (1)	0
Compliance with Health & Safety Legislation	07/01/10	Executive Director of Resources	Resources						A1	X	12 (4)	0
Woodlands Community College	18/01/10	Executive Director or Children, Services and Learning	Children Services and Learning						R	G	25 (25)	7 (7)
Procurement Follow Up	08/02/10	Executive Director of Resources	Resources							G	3 (2)	3 (2)

Audit title	Report date	Audit Sponsor	Directorate	Opinion							Original actions	Actions outstanding
				Aug 2008	Nov 2008	Feb 2009	May 2009	Aug 2009	Dec 2009	Mar 2010		
Accommodation Strategy and Flexible Working	08/02/10	Executive Director of Resources	Resources							G	6 (1)	6 (1)
Integrated Transport and the Local Transport Strategy 2009/10	08/02/10	Executive Director of Environment	Environment							A2	19 (0)	19 (0)

3 Executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified:

Audit title: Integrated Transport and the Local Transport Strategy (08/02/10)

Original published audit opinion: Limited Assurance [A2]

Current audit opinion: Limited Assurance [A2]

Executive summary:

The Council was found to be achieving the required KPI's and PI's set by the Department of Transport.

Projects in place were linked with the Local Transport Plan's (LTP) overall objectives, however there was no process in place to assess the long term impact of such projects on the current LTP's objectives. Additionally there was no consistent process within the integrated transport programme for identifying the priority of a project, its benefits or feasibility.

There was good communication between the project teams of the relevant services (Highways, Network Management and Planning), but it varied in its formality; actions and decisions were often not formally recorded. There was no single source document available to all relevant services of both current and proposed projects in order to facilitate effective coordination.

Projects were not managed according to the Councils guidelines on project management. Project files reviewed found that key documents were omitted and commonly there were no risk or issue logs maintained. The reporting methodology used by project managers that fed into the highlight report used for reporting to the Highways Board and the Capital Monitoring Board report was not formalised. There was no single document available for project managers to use to feed into the highlight report that substantiated the traffic light risk assessment. Risks reported to the Highways and Capital Monitoring Board were based on opinion rather than a consistent and standard calculation of risk. There was no mechanism to monitor risks, determine the extent of the risk and allocate actions and ownership.

CAPEX, was used for monthly financial monitoring, however as a tool for project managers to monitor their budgets it is ineffective, containing incomplete and misleading information.

Management actions and update since last report:

An appropriate action plan has been produced

4 Update on previously published reports where critical weaknesses or unacceptable levels of risk identified:

Audit title: Capital Programme and Major Projects (01/12/08)

Original published audit opinion: Limited Assurance [A2]

Current audit opinion: Adequate Assurance [A1]

Executive summary:

Since 2007, the Council has introduced a new approach and framework for programme and project management and a significant investment has been made in providing project management training for key officers.

Capital/ Major Project Boards had been set up within each Directorate (except Resources) and met regularly. Although each had a Terms of Reference there was no specified minimum requirement for their operation, meaning that there were inconsistencies in their operation and reporting frameworks. Due to the significant differences between the nature of Directorate/ Portfolio capital programmes and projects there needed to be some flexibility in the operation of the Boards, but corporate minimum requirements for all Directorates need to be specified to ensure the effectiveness of this key part of the governance framework?

There was a lack of prioritisation of resources dedicated to the programme/project monitoring processes which resulted in time being spent at Directorate Boards discussing matters of detail that could have been more appropriately covered outside of these meetings, had the officers involved had the time and opportunity available to do so. This in turn prevented the Board meetings from covering programme governance matters robustly and sufficiently or occasionally at all. In addition, some Board meetings had been presented with inadequate or no financial information due to conflicting demands on the time of Finance staff.

Six-monthly financial reports on the overall capital programme were presented to Chief Officers' Management Team, Cabinet and Council, but these did not include details of the progress/ delivery of the programme and individual schemes/ projects. There was no corporate coordination function for the Council, providing oversight, scrutiny and challenge across the Council's capital programme and major projects, therefore no means of ensuring that Directorate Boards were operating effectively and that the Directorate/Portfolio programmes and projects were being properly managed and delivered.

Management actions and update since last report:

The development of PM Connect is in its final stages with implementation to commence in August and be fully operational from April 2010.

The Executive Director of Resources has commissioned a fundamental review of project management which will address all management actions in response to audit observations. PM Connect is implemented in the Neighbourhoods Directorate who have 'early develop' status which also includes significant changes to monthly capital financial monitoring and the way this is reported corporately and through capital boards. This allows any lessons to be addressed prior to full roll out. The system will be fully operational from April 2010. A training programme has been developed alongside to ensure that staff and managers are trained regarding following the new Project Management governance, including specific training for Project Board members as well as Project Managers.

High priority actions overdue:

None

Audit title: Computer Installations & Operating Systems (14/05/09)

Original published audit opinion: Limited Assurance [A]

Current audit opinion: Limited Assurance [A2]

Executive summary: InfraEnterprise is used by Capita for managing the change control process. This includes updating both Microsoft Windows and UNIX operating systems with appropriate patches and applying firmware updates.

Microsoft's Baseline Security Analyser was run against the network's domain controllers and identified missing security updates. PatchDiag was run against the operating systems for a number of the main applications and missing UNIX security patches were identified.

Documented procedures for patching Windows needed to be finalised. Procedures for patching UNIX and firmware updates needed to be developed.

The Council uses Microsoft Windows 2003 Active Directory to control its network and a number of the main applications including Social Care, Housing and Revenues and Benefits run on Sun Solaris. The Microsoft Windows Active Directory domain security policy was satisfactory, but the UNIX operating system retained default security settings.

Management actions and update:

None

High priority actions overdue:

Confirmation must be sought from the suppliers of the PARIS and Revenues and Benefits systems that the operating systems have been hardened to comply with the UNIX Policy that will be developed jointly. (Sep 09)

Capita must install regular security patches to all UNIX servers to comply with the UNIX Policy that will be developed jointly. (Sep 09)

Capita need to force a password change for the UNIX operating system to comply with the UNIX Policy that will be developed jointly. (Sep 09)

The name check and history functions need to be enabled to comply with the UNIX Policy that will be developed jointly. (Sep 09)

Immediately disable all UNIX accounts for Capita staff who have left to comply with the UNIX Policy that will be developed jointly. (Sep 09)

Audit title: Schools PFI Contract Management (03/07/09)

Original published audit opinion: Limited Assurance [A2]

Current audit opinion: Adequate Assurance [A1]

Executive summary:

A governance framework was in place that met the requirements of the 'Concession Agreement', however 'terms of reference' were not evident for all the committees in place or had been reviewed recently. As such assurance could not be provided that each committee was fully aware and fulfilling its substantive role.

The Council did not maintain an Operational Contract Manual for the management of school PFI, consequently good practice may not be consistently followed during the life of the contract as the Council's contract management team changes.

No formal training on managing PFI contracts had been provided to Council staff, therefore a significant amount of trust and reliance is placed on the service provider in the provision of technical expertise.

The monthly KPI review meetings between the Authority, school and the contractor showed that performance of the contractors is discussed but there was no evidence from agendas or minutes to suggest that the "assessment of performance of the contractors management of the agreement" reports were reviewed within these meeting as detailed within "Schedule 4 - Performance Measurement System to Concession Agreement". Therefore, enforcement of the Concession Agreement may be more difficult in relation to other aspects if the contractor is not complying fully.

Interserve Pyramid Schools (Southampton), led on the most recent benchmarking exercise and collecting data for the Council for comparative purposes. The benchmarking process commenced 6 months prior to contract renewal as opposed to 9 to 24 months in line with good practice.

The results of an independent review of the benchmarking process conducted by Procurement have never been provided to the Infrastructure & Capital Projects Team, thus failing to comply with best practice guidance on "Benchmarking and Market Testing" in relation to capturing the lesson learnt.

Management actions and update:

None

High priority actions overdue:

Further schools will be re-built under PFI as part of BSF Wave 6a. The Assets and Capital Strategy Manager will discuss with the Head of Infrastructure and Capital and BSF Project Director arrangements for bringing management of existing and new PFI contracts under the Building Schools for the Future Team (Sep 09)

N.B. To be implemented (Apr 10)

Audit title: Woodlands Community College (18/01/10)

Original published audit opinion: No assurance

Current audit opinion: No assurance

Executive summary:

Review identified a significant failure to discharge financial responsibilities in line with the Council's financial procedure rules, School Financial Procedures and FMSiS standards and a lack of robust controls in place with regard to the purchasing system, income received, expenditure, petty cash/imprest accounts and asset management.

The absence of controls in relation to the reconciliation of income received to that banked, security of cash held on the premises overnight and secure documentation provided no assurance that all monies received had been banked intact.

The college did not maintain its own local financial procedures, and there was no process in place to enable staff with financial responsibilities to operate financial systems in a consistent manner, in accordance with the Council's financial procedure rules.

There was a lack of transparency as to how financial decisions were made. The Full Governing Body minutes did not record sufficient detail of discussions arising from the budgetary information presented to demonstrate that there has been a clear and full understanding and that governors had an opportunity to respond.

Management actions and update since last report:

Significant progress has been made against the audit action plan. Of the 25 high priority actions 18 have been completed. The remaining seven require documentation to be approved at the next meeting of the Full Governing Body (10 March 2010)

High priority actions overdue:

None

5 Internal Audit Performance

Internal Audit has been assessed as fully compliant with the CIPFA Code of Practice by the Audit Commission in their triennial review of the service in 2009

6 Planning and Resourcing

Sarah Dennis was appointed Head of Efficiency and IT on 01 February 2010. Neil Pitman has been appointed as the Head of Internal, Risk and Assurance as Sarah's replacement. Work is ongoing to fill the Internal Audit Manager post.

7 Rolling work programme

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
<u>2009/10 Audit Plan</u>					
Annual governance statement	✓	✓	✓	✓	10/05/09
Hampshire Camera Partnership	✓	✓	✓	✓	07/06/09
Youth Services	✓	✓	✓	✓	28/07/09
Supporting People	✓	✓	✓	✓	05/08/09
Solent Sea Rescue	✓	✓	✓	✓	24/08/09

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
School Catering Services	✓	✓	✓	✓	17/09/09
School Grant funding	✓	✓	✓	✓	29/09/09
Building Control	✓	✓	✓	✓	12/10/09
Treasury Management	✓	✓	✓	✓	12/11/09
Affordable Housing Development	✓	✓	✓	✓	13/11/09
Transport Services Income Investigation	n/a	✓	✓	✓	14/11/09
Council tax	✓	✓	✓	✓	17/11/09
Debtors	✓	✓	✓	✓	20/11/09
Housing and Council Tax Benefit administration – 09/10	✓	✓	✓	✓	01/12/09
NNDR	✓	✓	✓	✓	08/12/09
CCTV	✓	✓	✓	✓	04/01/10
Compliance with Health and Safety Legislation	✓	✓	✓	✓	07/01/10

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Workforce Strategy	✓	✓	✓	✓	07/01/10
Woodlands Community School	✓	✓	✓	✓	31/01/10
Integrated Transport and the Local Transport Strategy	✓	✓	✓	✓	08/02/10
Accommodation Strategy and Flexible Working	✓	✓	✓	✓	08/02/10
Procurement	✓	✓	✓	✓	08/02/10
Land and property management	✓	✓	✓	✓	22/02/10
Highways Network Management	✓	✓	✓	✓	12/03/10
Highways Resources Management	✓	✓	✓	✓	12/03/10
Creditors	✓	✓	✓	✓	20/03/10
Housing rent collection and debt management	✓	✓	✓	✓	20/03/10
Payroll	✓	✓	✓	✓	12/03/10
Decent Homes and Estates	✓	✓	✓	✓	20/03/10

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Cash Collection and banking	✓	✓	✓	✓	12/03/10
Adult and Learning Disability	✓	✓	✓	✓	20/03/10
Network Management	✓	✓	✓	✓	20/03/10
Corporate Business Continuity Planning	✓	✓	✓	✓	20/03/10
Application Software Management	✓	✓	✓	✓	20/03/10
Corporate Governance Framework	✓	✓	✓		
Data Management – Children Services	✓	✓			
Strategic Service Partnership	✓	✓			
European Funding	✓	✓			
Risk Management	✓	✓			
Commissioning Plan for Health and Wellbeing	✓	✓			

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Local and Multi Area Agreement	✓	✓			
Financial Management	✓	✓			
Main Accounting System	✓	✓			
IT Solutions Development	✓				
Financial Management Standards in Schools	21 of 28 complete				

8 Status of 'Live' External Audit

Audit title	Report date	Audit Sponsor	Directorate	Original actions	Actions outstanding
				(of which are 'high' priority)	
Opinion Interim Report	June 08	Executive Director of Resources	Resources	5 (2)	2 (1)
Final Accounts memo	Dec 08	Executive Director of Resources	Resources	5 (1)	1 (0)
Use of Resources	March 09	Executive Director of Resources	Resources	7 (4)	2 (1)
Data quality	March 09	Cross Directorate	Cross Directorate	6 (2)	2 (0)

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
Opinion Interim Report (Jun 08)							
Social Services Income							
6	Identify the cause of the failure of the social care billing, and implement changes to the system to ensure that this does not continue into future years.	3	Carolyn Williamson	Agreed	Significant resources are still being employed to manage the current billing situation. A major project to develop a new charging policy and billing system to be introduced for 2009/10 is now underway.	Apr-09	New charging policy has been introduced from April 2009, work is continuing on implementing an upgrade of Paris so that the system side of billing can be improved. This is expected to happen in the autumn 2010.
IT Risk Assessment							
7	Implement changes identified from our risk assessment of IT systems. <ul style="list-style-type: none"> Ensure that IT policies and standards are up to date and revised on a regular and timely basis. 	2	Kevin Foley	Agreed	Need a list of the major risk areas so that this can be completed. Will investigate and put appropriate controls in place.	Phased Programme End July	IT Policies are currently being reviewed and updated by the IT Client Team
Final Account Memo (Dec 08)							
Registration of assets with the Land Registry							
-	The registration of ownership of Land & Buildings with the Land Registry	2	John Spiers	Yes	This work is undertaken by Legal Services who have taken on a	Ongoing	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
	should be continued until completed.				temporary contract solicitor to undertake the work. The contract will continue as there is still a lot of work to do. The resources portfolio work is now well underway.		
Use of Resources (Mar 09)							
Internal Control							
-	Ensure that the revised non-residential social care billing policy and the replacement income billing module are implemented.	3	Carolyn Williamson	Yes	The new policy and charging module are in the process of being delivered per the specific action plan resulting from the PWC review.	Dec-09	New charging policy has been introduced from April 2009, work is continuing on implementing an upgrade of Paris so that the system side of billing can be improved. This is expected to happen in the autumn 2010.
-	Evaluate partnerships' contribution to improving VFM as part of implementing the Council's partnership protocol.	2	Joy Wilmot-Palmer	Yes	Process to be developed by the end of 2009/10 following the agreement and implementation of the new protocol.	Mar-10	
Data Quality (Mar 09)							
Management arrangements							

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
7	Agree appropriate data sharing arrangements with the Council's LAA partners.	2	Joy Wilmot-Palmer	Yes	Data Sharing arrangements are already in place to facilitate the operation of key partnerships that underpin the delivery of the LAA. Following on from the approval of the partnership protocol these arrangements will be reviewed for both existing and new partnerships to determine if they would be more appropriately applied at an individual partner rather than at a partnership level having due regard to all legal obligations as well as other information management requirements.	Mar-10	
7	Consistently apply existing quality checking of externally reported data more effectively, supported by refresher training for staff.	2	Joy Wilmot-Palmer	Yes	The sign off arrangements for externally reported data, including HIP forms, will be reviewed. Updated guidance will be issued and the respective roles of Heads of Service and Policy Co-ordinators within the quality assurance process will be reinforced.	Mar-10	