

SUBJECT:	Internal Audit: Status of Work
MEETING:	Audit Committee
DATE OF MEETING:	28th June 2007
REPORT OF:	Chief Internal Auditor
REPORT DATE:	4th June 2007

1 Internal audit report opinion definitions:

Opinion	Framework of governance, risk management and management control	Risk to achievement of management's objectives
Full assurance [G]	Sound framework in place and operating effectively.	The system is performing well to support achievement of clearly stated objectives through controlling risks to the defined accepted level.
Substantial assurance [G]	Basically sound, however, some non-critical weaknesses identified or evidence that the framework may not be consistently applied.	Some risk beyond accepted parameters that all objectives may not be fully achieved.
Limited assurance [A]	Critical weakness(es) identified within the framework or evidence of inconsistent application.	Risks may not be clearly defined and/or may fall outside accepted parameters. One or more important objectives are unlikely to be achieved.
No assurance [R]	Fundamental weaknesses have been identified or the framework is ineffective or absent.	Failure to recognise and manage risks effectively. A real and substantial risk of failure to achieve management's objectives.
Closed [X]	Management has confirmed that all non-critical framework weaknesses have been addressed.	Management considers risks to achievement of stated objectives to fall within accepted parameters.

2 Status of 'live' reports:									
Audit title	Report date	Audit Sponsor	Directorate	Opinion 2006/07				Original no. of actions (of which are 'high' priority)	No. of actions outstanding
				Q1	Q2	Q3	May 2007 Assessment		
ITS Backup and Disaster Recovery	22/06/06	Head of IT	Resources	R	R	R	A	39 (8)	8 (1)
Contracts: Corporate overview	31/07/06	Chief Executive	Cross-cutting		R	A	A	7 (7)	1 (1)
Contracts: Waterloo Rd Hostel Improvement	31/07/06	Executive Director	Neighbourhoods		R	A	A	14 (9)	5 (3)
Contracts: Unclassified roads	31/07/06	Executive Director	Environment		R	A	A	36 (17)	3 (1)
Contracts: Bargate	31/07/06	Executive Director	Environment		R	A	A	33 (16)	3 (1)
Partnerships: New Deal for Communities	02/10/06	Executive Director	Communities, Health and Care			R	R	16 (3)	1 (1)
Treasury Management	06/11/06	Head of Finance	Resources			G	G	1 (0)	1 (0)

Appendix

Audit title	Report date	Audit Sponsor	Directorate	Opinion 2006/07				Original no. of actions (of which are 'high' priority)	No. of actions outstanding
				Q1	Q2	Q3	May 2007 Assessment		
Part Three Maintenance	23/11/06	Head of Finance	Resources/ Communities, Health and Care			R	A	7 (4)	4 (2)
Schools forum governance	11/01/07	Head of Strategic Development	Children's Services and Learning				G	7 (0)	1 (0)
Dedicated schools grants	18/01/07	Head of Strategic Development	Children's Services and Learning				G	8 (0)	1 (0)
Financial management	22/01/07	Head of Finance	Cross Directorate Review				G	5 (2)	5 (2)
Kentish Road	01/02/07	Executive Director	Communities, Health and Care				A	5 (2)	4 (1)
Schools review: Cantell Maths & Computing College	19/02/07	Executive Director	Children's Services and Learning				A	20 (4)	8 (0)
Rent arrears	23/02/07	Head of Housing Neighbourhoods Management	Neighbourhoods				G/X	4 (0)	0
Main accounting system: Agresso	13/03/07	Head of Finance	Resources				G	6 (0)	4 (0)

Appendix

Audit title	Report date	Audit Sponsor	Directorate	Opinion 2006/07				Original no. of actions (of which are 'high' priority)	No. of actions outstanding
				Q1	Q2	Q3	May 2007 Assessment		
Leisure: SWAC and Woodmill Activity Centre	21/03/07	Executive Director	Neighbourhoods				A	7 (3)	2(1)
Creditors	26/03/07	Head of Transactions	Resources				G	5 (2)	3 (1)
Council tax and NNDR	11/04/07	Head of Transactions	Resources				G/X	4 (2)	0
Client Money Service	04/05/07	Executive Director	Communities Health and Care				A	12 (10)	10 (8)
Grants to the Voluntary Sector	29/05/07	Communities	Health and Care				A	7 (3)	7 (3)
Debtors	29/05/07	Head of Transactions	Resources				G	14 (0)	8 (0)
Housing and Council Tax Benefits	05/06/07	Head of Transactions	Resources				A	7 (4)	7 (4)

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

Audit title: Kentish Road (01/02/07)

Published audit opinion: Limited Assurance [A]
<p>Executive summary:</p> <p>The core product, the care, was well delivered and feedback from residents was positive, however, our review identified issues regarding some financial and administrative controls. Our key concerns related to the PARIS records, with 40% of records being inaccurate and/or out of date.</p>
<p>Management actions and update:</p> <p>An appropriate action plan has been put in place with a target date for completion of all key actions including a review of all client records by September 2007.</p>
Current audit opinion: Limited Assurance [A]

Audit title: Cantell Maths and Computing College (19/02/07)
Published audit opinion: Limited Assurance [A]
<p>Executive summary:</p> <p>Our review identified procedural weaknesses and non-compliance in most areas examined that if remain unactioned, would result in the school not achieving the standards as required by the Financial Management in Schools Standard (FMSiS).</p> <p>The most significant procedural weaknesses were in: governance arrangements; budget monitoring reporting and review; receipt of goods; data protection registration; and health and safety implications surrounding minibus drivers.</p>
<p>Management actions and update:</p> <p>In February 2006 the Governing Body and its committees were replaced, at the request of the LEA, and on approval of the Department for Education and Skills [DfES] by an Interim Executive Board. Their tenure will cease during 2007 when a new Governing Body will be established.</p> <p>A Financial Officer was appointed in March 2007 and has been proactive in addressing a number of the finance related issues detailed within the report.</p>

Many of the remaining actions are the responsibility of the Clerk to the Governors, however, this post remains vacant
Current audit opinion: Limited assurance [A]

Audit title: SWAC and Woodmill Activity Centres (21/03/07)
Published audit opinion: No Assurance [R]
<p>Executive summary:</p> <p>Activity courses at the centres are well delivered and feedback from customers was positive. However, we identified numerous problems regarding the financial controls and risk management processes and had significant concerns about aspects of insurance and general security.</p> <p>An online shop was set up before the Council had a corporate system for accepting payments over the internet and uses a third party internet service provider and purchased software. The Council cannot guarantee compliance with the Payment Card Industry standard and the Data Protection Act with this current set up.</p>
<p>Management actions and update:</p> <p>An action plan has been put in place in respect of the system of financial control.</p> <p>A requirement to move the online shop to the Authority's City Web server using ICON for the payments process to enable the site to be managed in accordance with the Data Protection Act and Payment Card Industry standard has been included in the ITS plan for 2007/08.</p> <p>Further action plans are in place to address the role of the shop, its position within the Leisure Directorate and aspirations for the future.</p>
Current audit opinion: Substantial assurance [A]

Audit title: Client Money Services (04/05/07)
Published audit opinion: Limited Assurance [A]

<p>Executive summary:</p> <p>Client Money Services was introduced in 2004 to ensure finances for residents living in the Council's residential homes are managed in compliance with the National Minimum Standards for Care Homes. The Council administers bank accounts on behalf of 83 clients residing in Council homes and 168 clients in private homes. The balance of funds held in 2006 was around £666K. Accounts for clients living in the Council's residential homes were found to be well managed, however, this was not the case in respect of accounts for clients within private homes, with no evidence of regular reconciliation to confirm that accounts were correct.</p> <p>Further areas of concern were raised around the accuracy and completeness of client and the absence of key documents and parity between paper files retained and the Client Management System (Paris).</p>
<p>Management actions and update:</p> <p>Reconciliations are now all signed off by a Senior Officer, additionally client accounts are being investigated by a nominated officer. Many of the remaining agreed target dates are for coming months at which time further follow up will be undertaken.</p>
<p>Current audit opinion: Limited Assurance [A]</p>

<p>Audit title: Grants to the Voluntary Sector (29/05/07)</p>
<p>Published audit opinion: Limited Assurance [A]</p>
<p>Executive summary:</p> <p>The Inclusion Team are tasked with controlling this corporate responsibility for grants to the voluntary sector and should be commended on the progress they have made in coordination of this function. However, there remain other areas of the Council outside of the remit of the Inclusion Team that continue to make grant awards and a more coordinated approach of this activity is required to ensure grant awards are appropriate, correctly controlled and administered and accounted for.</p> <p>Grant awards are recorded against a range of cost centres and account codes across the Council. This, combined with various mechanisms for payment (sundry creditor, creditor, journal transfer, and prepayment), makes monitoring and control of awards very difficult.</p> <p>The requirement to provide clear evidence that grant awards support the Council's key priorities was introduced for 2006/07.</p>

Although the nature of many of the organisations receiving awards and the purpose of the awards implies contribution to the key priorities, this was not explicit in the 2006/07 applications. In addition, a significant proportion of applications did not provide the full supporting detail requested and standards of documentation varied.

Management actions and update:

An appropriate action plan has been put in place and steps taken to ensure guidance on grants application requirements is followed. The timescale for the action plan ensures that all key issues will be addressed for 2008/09 grant awards.

Current audit opinion: Limited Assurance [A]

Audit title: Housing and Council Tax Benefits (05/06/07)

Published audit opinion: Limited Assurance [A]

Executive summary:

Over recent years the external auditors have expressed concerns about the Council's benefits. This review has observed improvements in operations under the supervision of the Housing and Council Tax Benefit Manager. Times for processing claims routinely comply with the government target of 36 days and proactive steps are being taken to address shortfalls identified as part of the Comprehensive Performance Assessment (CPA) review.

Our testing of claimants' Housing Benefit applications showed that not all cases had been fully reviewed before the application was processed. Observations highlighted a number of clerical errors within the system which could result in the claimants providing false information for future claims. Details of tenancy agreements were not thoroughly reviewed which could result in errors in payments made. This impact of the risk could increase following new legislation which no longer requires an annual review of changes in circumstances.

There is a requirement for the Authority to publish the quarterly performance information on the Department of Working Pensions website, this had not been completed and could have an impact on the Authority's CPA score.

In addition, verification framework training and up to date procedures were not in place for all staff; this could result in errors being made for Housing Benefit claims and increasing the amount of overpayments made.

Management actions and update:

Management responded positively to this review and an action plan has been put in place to address all key issues by the end of July 2007.

Current audit opinion: Limited Assurance [A]

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

Audit title: ITS Backup and Disaster Recovery (22/06/06)

Published audit opinion: No Assurance [R]

Executive summary:

ICT business continuity plans [BCPs] were relatively underdeveloped. The corporate risk register identified unavailability of ICT systems as fundamental organisational risks, however, ownership of these risks was uncertain and mitigating strategies, including a corporate Disaster Recovery Plan, had not been defined.

Divisional BCPs made reference to the dependency on ICT but did not quantify this in terms of impact of unavailability of systems and data on services; there was no evidence that Divisions had confirmed with IT Solutions that disaster recovery plans were in place for their systems. There was no Corporate BCP detailing the Council's plans to maintain operations, including computer processing, in the event of a disaster.

Although a considerable amount of critical business data was regularly backed up, there was no systematic testing of restores, although ad hoc restores had taken place, usually due to the loss of the live data. A significant number of servers were not being backed.

Management actions and update:

A report was submitted to Cabinet on 19 March 2007 with regard to the ICT Disaster Recovery and ICT Infrastructure Project from which a decision was made:

'That the Council accepts the risk with the current level and provision for IT Disaster Recovery, noting that the provision of an

enhanced service may be supplied by a SSP, a commercial service or through Shared Service arrangements with the Hampshire and Isle of Wight Partnership. Appropriate proposals for an enhanced service will be developed by officers and presented to the Cabinet Member for Resources.'

This area has been put forward for inclusion on the Statement on Internal Control for 2006/07.

Current audit opinion: Limited Assurance [A]

(NB current opinion reflects that the Council has defined its acceptable risk parameter and will log the risk relating to Disaster Recovery in the Strategic Risk Register).

Audit title: Contracts: Corporate Overview (31/07/06)

Published audit opinion: No Assurance [R]

Executive summary:

A number of common themes emerged from our review of overspends on three capital contracts, including poor project management and lack of proper planning, capital programming and estimating.

The failure to properly establish and manage the capital programme in a consistent manner impacted on Members' ability to fully engage in the management of the programme and the decision making process.

There were weaknesses in financial systems and controls, including evidence of some breaches of Financial Regulations. A failure to adopt common ownership of projects, instead operating in silos, demonstrated lack of corporate commitment and teamwork. The absence of a performance management framework left the Council open to exposure regarding cost consciousness and operational procedures.

Management actions and update:

The key actions outstanding relate to the approach to working operations in the post CCT environment, including assessing the status of Trading Organisations. The performance of the planned highway maintenance team is to be formally assessed and benchmarked, including comparison with Colas. A review to establish roles and responsibilities will take place, along with the introduction of new written procedures, particularly between Housing and BDS and within housing. Discussions held with Property

Services & Housing Managers. Brief agreed to develop improved arrangements. Review of types of works to be carried out internally or contracted by Building Contracts Services in future. Proposed roles /procedures have been developed for all parties involved in project management and are currently being finalised. These will be reviewed around September 2007 to ensure effectiveness.

Current audit opinion: Limited assurance [A]

Audit title: Contracts: Waterloo Road Hostel Improvement (31/07/06)

Published audit opinion: No Assurance [R]

Executive summary:

This project involved conversion of the hostel at 76 Waterloo Road from bed-sits to self-contained accommodation. The “contract” for the works was let to the Council’s in-house Building Contract Services (“BCS”) team within the Housing Services Division on the basis that previous a contract for hostel improvement work at Howards Road had been successfully delivered.

At the time of our investigation, the final cost of the programme was anticipated to be in the region of £356,400, an overspend of around £191,600 (117%) against the contract sum.

A number of primary contributing factors were identified including: failure to properly plan, manage and control the project; adoption of CCT operational practices in relation to client/contractor split; failure to properly apply effective procurement processes; reliance on multiple systems for the provision of financial information and lack of cost consciousness throughout.

Management actions and update:

A review of types of works to be carried out internally or contracted by Building Contracts Services and the charging mechanism has been completed and implemented with effect from 1st April 2007.

The annual HRA Capital Outturn report has been reviewed to ensure it provides an appropriate level of detail to Members – the new format report will be submitted to Council in July 2007.

Current audit opinion: Limited assurance [A]

Audit title: Contracts: Bargate scheme overspend investigation (31/07/06)**Published audit opinion:** No Assurance [R]**Executive summary:**

This investigation into highway overspends was conducted by the Acting Head of Highways under guidance from Internal Audit. The Bargate scheme involved the installation of ducting and signals, kerblines and carriageway construction, and special surfacing. The original cost for the scheme was estimated at £300k and a further £45k was approved following a request to enhance the finished surface. The projected outturn figure was £596k, showing an adverse variance of £251k.

The review identified gaps from scheme conception through to delivery, caused by divisional culture, no post CCT environment plan (resulting in a lack of control), a partnership that had not demonstrated sustained added value, cross boundary tensions, and lack of investment in appropriate management systems.

The annual budget cycle did not allow sufficient time for adequate programme planning. Capacity to deliver the scheme was hampered by absence of a detailed design brief, an overly challenging delivery programme and failure to understand roles and responsibilities, both in-house and within partnership arrangements.

Management actions and update:

The majority of actions have been completed; however, it is too early to provide an accurate assessment of their effectiveness. Outstanding actions relate to development of operative and supervisory skills sets; skills sets have been defined but a complete review of working practices through service modernisation proposals and identification of any new skill sets required is planned for completion by June 2007. Options for the development of additional funding and service delivery routes for the Highways Service post 2008 are currently being explored.

Current audit opinion: Limited assurance [A]**Audit title: Contracts: Unclassified roads overspend investigation (31/07/06)**

<p>Published audit opinion: No Assurance [R]</p>
<p>Executive summary:</p> <p>This investigation into highway overspends was conducted by the Acting Head of Highways under guidance from Internal Audit. The unclassified roads programme for 2005/06 included 31 street named schemes estimated at £1.374M, four area based schemes and unspecified slurry and specialist patching works estimated at £161k, deferred schemes and carry over schemes from 2004/05 estimated at £269k. Following commencement of the programme it became apparent that individual scheme costs could not become contained within their original estimates. Overall programme costs were revised upwards to £1.941m and the projected outturn figures was £2.343m, an adverse variance of £539k.</p> <p>The issues identified from this reviewed closely mirrored those observed in the Bargate scheme investigation.</p>
<p>Management actions and update:</p> <p>Please see previous comments regarding the Bargate scheme.</p>
<p>Current audit opinion: Limited assurance [A]</p>

<p>Audit title: Partnerships: New Deal for Communities (02/10/06)</p>
<p>Published audit opinion: No Assurance [R]</p>
<p>Executive summary:</p> <p>We were unable to locate a formal accountable body agreement between the Council (as the Accountable Body) and New Deal for Communities, relating to such matters as financial management, procedures and systems, and procurement rules regarding systems and procedures. The other main findings of the audit result largely from the lack of shared understanding of the partnership model in place and included: failure to agree proper systems of financial management, including agreement of appropriate financial/contract procedures; and, lack of clarity over ownership and responsibility for assets.</p>

Management actions and update:

An Accountable Body Agreement [ABA] was developed and approved by Cabinet 8th January 2007. The development of a range of service level agreements between the Council and the Partnership and the approval of appropriate financial, contract and project procedures to support the ABA remains outstanding.

Current audit opinion: No assurance [R]

Audit title: Part Three Maintenance (23/11/06)

Published audit opinion: No Assurance [R]

Executive summary:

Our review found an unsatisfactory level of errors within the Part Three Maintenance income and debt management system. It became evident during the course of this audit that management of the system had been treated as low priority. Income records had not been adequately maintained and invoices raised had not always been updated to reflect the income received. There had been a failing to implement debt recovery procedures. Full testing could not be performed within this area due to the high level of mistakes and errors found.

Management actions and update:

Since our review, responsibility for Part Three Maintenance income collection has transferred from Social Services Finance to Exchequer Services.

Progress has been made on the case by case review of client accounts, although work to complete this exercise is reliant on the Paris / Agresso interface.

Steps have been taken to ensure client records in Paris have corresponding records in Agresso. Where records had no financial assessment, these have been listed and referred back to the Health and Social Care Financial Assessment team.

A majority of the remaining actions are reliant on the implementation and initiation of the Paris / Agresso interface
Current audit opinion: Limited Assurance [A]

5 Internal Audit Performance

The CIPFA Code of Practice for Internal Audit was revised in December 2006. An internal assessment of the internal audit service against the requirements of the revised Code has been completed and an action plan has been put in place to ensure full compliance with the revised Code by September 2007. Key issues relate to:

- Audit rights within key partnership agreements and contracts;
- Current resource levels within the internal audit team; and
- The development of an Internal Audit Manual.

A further external review of internal audit has been undertaken by the Audit Commission and a report on their conclusions is expected to be made available to the Audit Committee on 28th June 2007.

6 Planning and Resourcing

The Internal audit team continues to operate with a 42% shortfall (6.2 fte) in current resource needs. A recent recruitment campaign has been successful in identifying 3 new members of staff who we anticipate will be joining the team in June/July 2007. Despite the resource shortfall, the 2006/07 revised audit plan was delivered with the exception of the review on *Project management on funded projects*. The Chief Internal Auditor and Executive Director of Resources continue to review options, including the development of co-sourcing or shared services arrangements, for resourcing the 2007/08 audit plan.

7 Rolling work programme

Audit title	Audit stage	Progress note
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	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
2006/07 Audit Plan:						
ITS Backup and Disaster Recovery	✓	✓	✓	✓	✓	Final 22/06/06
Contracts: Waterloo Road	✓	✓	✓	✓	✓	Final 31/07/06
Contracts: Unclassified roads	✓	✓	✓	✓	✓	Final 31/07/06
Contracts: Bargate	✓	✓	✓	✓	✓	Final 31/07/06
Blue Badge Scheme	✓	✓	✓	✓	✓	Final 29/08/06
Homelessness deposits	✓	✓	✓	✓	✓	Final 21/09/06
Partnerships: New Deal for Communities	✓	✓	✓	✓	✓	Final 02/10/06
Cash collection and cash office	✓	✓	✓	✓	✓	Final 16/10/06
Treasury management	✓	✓	✓	✓	✓	Final 06/11/06
Part Three Maintenance	✓	✓	✓	✓	✓	Final 23/11/06
Leisure: Chamberlayne Leisure Centre	✓	✓	✓	✓	✓	Final 21/12/06
Schools forum governance	✓	✓	✓	✓	✓	Final 11/01/07

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Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
Dedicated schools grants	✓	✓	✓	✓	✓	Final 18/01/07
Financial management	✓	✓	✓	✓	✓	Final 22/01/07
Kentish Road	✓	✓	✓	✓	✓	Final 01/02/07
School review: Cantell Maths & Computing College	✓	✓	✓	✓	✓	Final 19/02/07
Rent arrears	✓	✓	✓	✓	✓	Final 23/02/07
Main accounting system: Agresso	✓	✓	✓	✓	✓	Final 13/03/07
Leisure: SWAC and Woodmill Activity Centre	✓	✓	✓	✓	✓	Final 21/03/07
Creditors	✓	✓	✓	✓	✓	Final 26/03/07
Council tax and NNDR	✓	✓	✓	✓	✓	Final 11/04/07
Client Money Service	✓	✓	✓	✓	✓	Final 04/05/07
Grants to voluntary sector	✓	✓	✓	✓	✓	Final 29/05/07

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Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
Debtors	✓	✓	✓	✓	✓	Final 29/05/07
Housing and council tax benefits	✓	✓	✓	✓	✓	Final 05/06/07
Partnerships: Governance arrangements	✓	✓	✓	✓		Final 15/06/07
IT Systems Security	✓	✓	✓	✓		Draft 27/02/07 – management response with IA for clarification of queries
Contracts: DDA compliance project	✓	✓	✓	✓		Draft 30/04/07 – management response with IA for clarification of queries
IT Data Management	✓	✓	✓			IA Quality review
IT Project management	✓	✓	✓			IA Quality review
Payroll	✓	✓	✓			IA Quality review
IT Solutions identification	✓	✓	✓			IA Quality review
ICT Strategy and Planning	✓	✓	✓			IA Quality review
Reconciliations	✓	✓	✓			IA Quality review

Appendix

Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
Project management on funded projects	✓	✓				Work in progress