

SUBJECT:	Internal Audit: Status of Work 1st April - 31st December 2006
MEETING:	Audit Committee
DATE OF MEETING:	8th February 2007
REPORT OF:	Chief Internal Auditor
REPORT DATE:	29th January 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 Final reports published in reporting period:									
Audit title	Report date	Audit Sponsor	Directorate	Opinion				Original no. of actions	No. of actions outstanding
				Q1	Q2	Q3	Current Assessment		
ITS Backup and Disaster Recovery	22/06/06	Head of IT	Resources	R	R	R	R	39 (8)	23 (7)
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)
Blue Badge Scheme	29/08/06	Parking Services Manager	Environment/ Communities, Health and Care		G	X	X	6 (1)	0
Homelessness Deposits	21/09/06	Homelessness Manager	Neighbourhoods		G	X	X	4 (0)	0
Partnerships: New Deal for Communities	02/10/06	Executive Director,	Communities, Health and Care			R	G	16 (3)	1 (1)
Cash collection and cash office	16/10/06	Head of Transactions	Resources			G	X	1 (0)	0
Treasury Management	06/11/06	Head of Finance	Resources			G	G	1 (0)	1 (0)
Part Three Maintenance	23/11/06	Head of Finance	Resources/ Communities, Health and Care			R	R	7 (4)	7 (4)

Audit title	Report date	Audit Sponsor	Directorate	Opinion				Original no. of actions	No. of actions outstanding
				Q1	Q2	Q3	Current Assessment		
Leisure: Chamberlayne Leisure Centre	21/12/06	Head of Leisure	Neighbourhoods			G	X	5 (0)	0

3 Executive summaries of 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]
<p>Executive summary:</p> <p>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.</p> <p>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.</p> <p>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.</p>
<p>Management actions and update:</p> <p>Management's original action plan proposed that a Disaster Recovery Plan [DRP] would be dealt with in two stages. Stage 1 would consist of</p>

an interim DRP, including development of a schedule for systems recovery in order of corporate priority, to be prepared within ITS by end August 2006. Stage 2 would be the creation of a long term DRP in consultation with the Strategic Service Partner. In addition, a number of actions were agreed to enhance Divisional BCPs, documentation of backup systems and procedures and security of backup data by end November 2006.

Management has advised that work has commenced on developing an interim DRP within the ITS divisional business continuity plan. A number of essential components, including agreement of a schedule for systems recovery and allocation of DRP roles and responsibilities, are still to be addressed and timescale for completion of the interim proposal has slipped to March 2007. Initial discussions have commenced with Capita regarding the creation of a long term DRP which would involve development of a “cold site” for recovery of critical systems within 72 hours. Work has commenced on documentation of backup systems and processes with a revised completion date of February 2007. Improvements to security of backup data are substantially complete.

Current audit opinion: No Assurance **[R]**

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:

Management’s action plan proposed development of clear project management guidelines and a revised capital framework supported by an

appropriate programme of training and a performance management framework. A review of Capital Monitoring and capital budgeting within the Housing Revenue Account [HRA] was proposed. The need for all Managers to attend 'Core Competency' training to ensure they understand and comply with Corporate Standards was also identified.

Since the review, Project Managers have been identified against each Capital project. A project management skills audit has been undertaken to enable development of a suitable training programme.

Cabinet received a report identifying the improvements to be made and a further report was presented to Cabinet 22nd January 2007 setting out a consolidated action plan (to be completed in full by June 2007) to ensure the improvements are embedded over the coming year regarding capital programme management and monitoring.

A review of HRA capital schemes and monitoring arrangements has been undertaken. Capital Programme Review Boards have been established within the Neighbourhoods and Environment Directorates to monitor progress/spend on overall programme and individual schemes. Similar Boards will be set up in all other Directorates with responsibilities for management of capital programmes.

A project management 'skills audit' has been undertaken by Human Resources and a training programme designed to address project management skills across the Council. A review of types of works to be carried out internally or contracted by Building Contracts Services will also be undertaken.

Level 1 and 2 managers attended Corporate Standards training sessions (August to October 2006); this has been added to the roll forward training programme. Once the Capital programme management and monitoring work is complete, it will form part of the wider Financial Management Training to be rolled out during 2007.

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:

The Management action plan put in place was designed to prevent the issues recurring in the future capital programme. A Neighbourhoods Capital Programme Review Board has been established in January 2007 for major works in the Capital Programme and the project management approach is being defined.

Management instructions have been issued to all BDS managers, Directors and Level 1 Managers to clarify project management responsibilities where the in-house contractor is engaged to deliver a project. A review of types of works to be carried out internally or contracted by Building Contracts Services and the charging mechanism is also underway, scheduled for completion by May 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 Management action plan put in place was designed to prevent the issues recurring in the future capital programme. The action plan proposed redesign of programme briefs and development of a joint project management procedure with Halcrow; this has been achieved through development of a new Scheme Protocol. All major schemes in the 2006/07 financial programme have been given cost profiles and commitment costing has been introduced. Outline productivity profiles now exists for all major schemes and are monitored weekly. A three-year capital programme strategy is now in place and a new Capital Programme management Board has been introduced to enhance control and accountability. Roles and responsibilities have been defined and more efficient resource planning measures introduced.

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.

The detailed action plan for this investigation is being monitored by the Environment and Transport Standing Scrutiny Panel.

Current audit opinion: Limited assurance **[A]**

Audit title: Contracts: Unclassified roads 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 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.

The issues identified from this reviewed closely mirrored those observed in the Bargate scheme investigation.

Management actions and update:

Please see previous comments regarding the Bargate scheme.

Current audit opinion: Limited assurance **[A]**

Audit title: Partnerships: New Deal for Communities (02/10/06)

Published audit opinion: No Assurance **[R]**

Executive summary:

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; and, lack of clarity over ownership and responsibility for assets.

Management actions and update:

Management responded appropriately to address the key issues identified within our review; a significant number of positive actions have been undertaken, including progress in the development of an 'accountable body agreement', approved by Cabinet 8th January 2007 and development of a range of service level agreements between the Council and the Partnership.

Current audit opinion: Substantial assurance **[G]**

Audit title: Part Three Maintenance (23/11/06)
Published audit opinion: No Assurance [R]
<p>Executive summary:</p> <p>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.</p>
<p>Management actions and update:</p> <p>Since our review, responsibility for Part Three Maintenance income collection has transferred from Social Services Finance to Exchequer Services. A joint management action plan was agreed to undertake a review of all assessments held on client files and Agresso on a case by case basis to ensure that all income had been properly identified and accounted for. Timescales agreed in the action plan were largely dependant on the delivery and use of the Paris/Agresso interface; delivery of this interface has been delayed and is not now expected to go live until mid February 2007.</p> <p>There has been little progress on the case by case review of client accounts; however, 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. Information flows surrounding most categories of Health and Social Care debt (including Part Three Maintenance clients) are in process of being reviewed.</p>
Current audit opinion: No Assurance [R]

4 Internal Audit Performance

Internal audit continues to work on implementing the action plan resulting from the Audit Commission's 2005 review against the CIPFA Code of Internal Audit Practice 2003. Actions outstanding are as follows:

- Ensure that Internal Audit has the appropriate resources, in both numbers and skills, to meet the CIPFA standards and provide the Council with the assurance it needs.

The internal audit service was restructured in October 2006 and the internal audit strategy has been revised to outline an audit planning methodology that will enable resource numbers and skills to be determined. The audit needs assessment exercise currently underway and due for completion in March 2007 will enable final resource requirements to be confirmed.

- Evaluate the effectiveness of the APACE software and whether to invest time in further developing its use.

APACE is not fit for purpose and is no longer used. A formal project is underway to determine future requirements for audit planning and management software.

The CIPFA Code of Practice for Internal Audit has been revised (December 2006). An internal assessment of the internal audit service against the requirements of the revised Code is underway; although early indications are that the service is well-placed to meet the Code following adoption of the revised internal audit strategy. A further external review of internal audit by the Audit Commission is planned for February 2007.

5 Planning and Resourcing

The Internal audit team is currently operating with a 42% shortfall (6.2 fte) in current resource needs. A recent recruitment campaign was successful in securing an Internal Audit Manager who will be joining the team in March 2007; however, it failed to identify suitable candidates for any other posts. Some external resources (Deloitte) are currently being bought in to ensure the 2006/07 audit plan is delivered. The Chief Internal Auditor and Executive Director of Resources are currently reviewing options, including the development of co-sourcing or shared services arrangements, for resourcing the 2007/08 audit plan.

6 Rolling work programme

Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	

Appendix

Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
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 28/08/06
Homelessness deposits	✓	✓	✓	✓	✓	Final 21/09/06
Partnerships: New Deal for Communities	✓	✓	✓	✓	✓	Final 02/10/06
Cash collection and cash office	✓	✓	✓	✓	✓	Final 26/10/06
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

Appendix

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
Rent arrears	✓	✓	✓	✓		Draft 10/11/06 Clarifying management queries
School review: Cantell Maths & Computing College	✓	✓	✓	✓		Draft 29/11/06 Response due 19/01/07
IT Systems Security	✓	✓	✓	✓		Draft 15/12/07 Response due 15/01/07
Creditors	✓	✓	✓	✓		Draft 02/01/07
Leisure: SWAC and Woodmill Activity Centre	✓	✓	✓	✓		Draft 15/01/07
Kentish Road	✓	✓	✓	✓		Draft 23/01/07
Grants to voluntary sector	✓	✓	✓	✓		Draft 25/01/07
Main accounting system: Agresso	✓	✓	✓			Drafting report 02/01/07

Appendix

Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
Debtors	✓	✓				Planned completion 31/01/07
Council tax and NNDR	✓	✓				Planned completion 31/01/07
Contracts: DDA compliance project	✓	✓	✓			Planned completion 31/01/07
Partnerships: Governance arrangements	✓	✓				Planned completion 28/02/07
Client Money Service	✓	✓	✓			Planned completion 31/01/07
IT Data Management	✓	✓	✓			Planned completion 31/01/07
Housing and council tax benefits	✓	✓				Planned completion 28/02/07
IT Project management	✓	✓				Planned completion 28/02/07
Project management on funded projects	✓					Scheduled completion 28/02/07
Payroll						Scheduled completion 28/02/07
IT Solutions identification						Unscheduled
IT Third Party Services						Unscheduled

Appendix

Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
ICT Strategy and Planning						Unscheduled