

SUBJECT:	Internal Audit: Status of Work
MEETING:	Audit Committee
DATE OF MEETING:	24th January 2008
REPORT OF:	Chief Internal Auditor
REPORT DATE:	19th December 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 identified framework weaknesses have been appropriately 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					Original actions	Actions outstanding
				Q2 (06/07)	Q3 (06/07)	May 2007	August 2007	December 2007		
ITS Backup and Disaster Recovery	22/06/06	Head of IT	Resources	R	R	A	A	G	39 (8)	4 (0)
Contracts: Corporate overview	31/07/06	Chief Executive	Cross-cutting	R	A	A	G	X	7 (7)	0
Contracts: Waterloo Rd Hostel Improvement	31/07/06	Executive Director	Neighbourhoods	R	A	A	A	X	14 (9)	0
Contracts: Unclassified roads	31/07/06	Executive Director	Environment	R	A	A	G	X	36 (17)	0
Contracts: Bargate	31/07/06	Executive Director	Environment	R	A	A	G	G	33 (16)	1 (0)
Partnerships: New Deal for Communities	02/10/06	Executive Director	Communities, Health and Care		R	R	R	X	16 (3)	Superseded by October 2007 report
Financial management	22/01/07	Head of Finance	Cross Directorate Review			G	G	X	5 (2)	0

Audit title	Report date	Audit Sponsor	Directorate	Opinion					Original actions	Actions outstanding
				Q2 (06/07)	Q3 (06/07)	May 2007	August 2007	December 2007		
Kentish Road	01/02/07	Executive Director	Communities, Health and Care			A	G	G	5 (2)	2 (0)
Schools review: Cantell Maths & Computing College	19/02/07	Executive Director	Children's Services and Learning			A	A	A	20 (4)	7 (0)
Main accounting system: Agresso	13/03/07	Head of Finance	Resources			G	G	G	6 (0)	1 (0)
Creditors	26/03/07	Head of Transactions	Resources			G	G	G	5 (2)	1 (1)
Client Money Service	04/05/07	Executive Director	Communities Health and Care			A	A	A	12 (10)	2 (2)
Grants to the Voluntary Sector	29/05/07	Communities	Health and Care			A	G	G	7 (3)	3 (0)
Debtors	29/05/07	Head of Transactions	Resources			G	G	G	14 (0)	6 (0)
Housing and Council Tax Benefits	05/06/07	Head of Transactions	Resources			A	A	X	7 (4)	0

Audit title	Report date	Audit Sponsor	Directorate	Opinion					Original actions	Actions outstanding
				Q2 (06/07)	Q3 (06/07)	May 2007	August 2007	December 2007		
Partnership Working Arrangements	15/06/07	Chief Executive	Cross-cutting				G	G	6 (0)	4 (0)
Ensuring System Security	06/07/07	Head of IT	Resources				A	A	33 (11)	11 (3)
Streamline Receipting Machines	30/07/07	Head of Transactions	Resources				G	G	5 (0)	1 (0)
IT Solutions Identification	03/08/07	Head of IT	Resources				A	G	5 (0)	1 (0)
ICT Strategy	29/08/07	Head of IT	Resources				A	A	5 (1)	5 (1)
Treasury and Cash Flow Management	12/09/07	Head of Finance	Resources					G	0 (0)	0
Payroll	26/09/07	Head of Transactions	Resources					A/G	3 (1)	1 (0)
Sustainability Agenda	09/10/07	Head of Planning and Sustainability	Environment					A/G	7 (6)	2 (1)

Audit title	Report date	Audit Sponsor	Directorate	Opinion					Original actions	Actions outstanding
				Q2 (06/07)	Q3 (06/07)	May 2007	August 2007	December 2007		
New Deals for Communities - Thornhill Plus You	19/10/07	Executive Directors	Communities Health and Care, and Resources					R	8 (8)	4 (4)
Project management on funded projects	27/11/07	Executive Director	Communities Health and Care					A	15 (9)	15 (9)
People Strategy Delivery	30/11/07	Head of HR (Acting)	Resources					A	8 (4)	8 (4)

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

Audit title: Payroll (26/09/07)
Original published audit opinion: Limited Assurance [A] Current audit opinion: Substantial Assurance [G]
Executive summary: Prior to being processed, Payroll information sent electronically by managers to global inbox, 'Payhelp', was not appropriately secured,

presenting significant risk of breaching data protection legislation, loss of information or manipulation of data.

Information in respect of car parking charges was retained in the Human Resources, Civic Buildings and Payroll department; however, there was no reconciliation between records retained to ensure appropriate salary deductions are made.

Management actions and update:

Access controls to Payhelp have been rectified to mitigate identified weaknesses

Parking permits are only issued following authorisation by the (Acting) Head of Human Resources and a review is ongoing to ensure permits are appropriately charged through Payroll.

Audit title: Sustainability Agenda (09/10/07)

Original published audit opinion: Limited Assurance [A]

Current audit opinion: Substantial Assurance [G]

Executive summary:

The Sustainability Team are responsible for the delivery of LAA stretch target 11, 'improved energy efficiency in operational buildings'. In order to achieve the required CO2 savings, projects identified for the Salix grant scheme have been intrinsically linked to the LAA target. To achieve the LAA Target and ensure compliance with the Salix contract, robust project management arrangements are required, however, were not evident at the time of the audit.

Implementation of the Salix projects had slipped with one project complete at the time of the review and future projects not due to commence until 2008. A detailed action plan necessary for the release of £50,000 LAA pump priming money to form part of 2007/08 match funding had not been produced. The £50,000 budget for 2008/09 to be match funded by the Carbon Trust had not been agreed and was to be presented as a pressure. Consequently, there was a risk of funding shortfall to the ring fenced Salix fund, impacting on the number of projects completed within the required timeframe.

Management actions and update:

The Salix projects and Project Management responsibilities have been transferred to the newly appointed Energy Manager.

Performance monitoring is now completed on a monthly basis to the Directorate Development Manager
A bid has been made from the Planning Delivery Grant for additional resources for the collection and reporting of performance data.

Audit title: New Deals for Communities - Thornhill Plus You (19/10/07)

Original published audit opinion: No Assurance [R]

Current audit opinion: No Assurance [R]

Executive summary:

Significant weaknesses in the procurement processes were identified for some Thornhill Plus You projects, which in some instances resulted in increased exposure to the risk of legal challenge to the Council.

The Thornhill Plus You Board is responsible for selecting projects to fulfil the programme's delivery plan and it has been agreed that its proposals should be managed within the Council's legal and financial frameworks as the 'Accountable Body' for the funding. Neither the Council's Scheme of Delegation nor the Accountable Body Agreement delegate authority to Thornhill Plus You officers or the Thornhill Plus You Board to formally approve the grant funding and as such funding had been awarded without the necessary Cabinet approval.

In principle, the issuing (and signed return) of an annual funding agreement which details claw back and repayment of any payments (quarterly) would limit any potential loss to the Council. It is, however, essential that a properly signed agreement is in place before the commencement of work and release of any funding. In one instance, no formal agreement was in place between Thornhill Plus You (the Council) and the funding applicant prior to commencement of work and release of grant funding.

The Thornhill Plus You Board is also responsible for attracting other external funding as agreed in its delivery plan. Where other sources of funding were identified as necessary to complete a project, there was no evidence (in form of a contract or letter of agreement from this provider) that organisations were "signed up" to ensure the share of funding would be delivered when needed.

Department of Communities and Local Government [DCLG] guidance, in the form of NDC Programme Notes, had been broadly followed by Thornhill Plus You; however, the division of risks and responsibilities between the partnership and the Accountable Body and the agreement of systems and procedures to deliver the programme had not been clearly addressed to ensure terms and conditions of the funding are met and roles and accountabilities are clearly understood.

Management actions and update:

Advice is now sought from the Council's Procurement Service at an early stage of plans/projects to ensure procurement procedures meet the Council's requirements. Advice has also been sought on the rules relating to aggregation/disaggregation of project values.

Approval for annual funding of the NDC programme has now been sought in accordance with Financial Procedure Rules through submission of a Three Year Delivery Plan (2008-11) to Cabinet 10th December.

TPY officers now advise Finance of any capital received or distributed or match-funding identified in accordance with Financial Procedure Rules.

Audit title: Project management on funded projects (27/11/07)**Original published audit opinion:** Limited Assurance [A]**Current audit opinion:** Limited Assurance [A]**Executive summary:**

The projects reviewed were found to have been delivered on time and within budget. However, the audit identified a number of areas where the Council's policies, procedures and systems require review to provide consistent standards and a more robust framework for future project delivery:

- the Council's Contract Procedure Rules are ambiguous and open to interpretation;
- there is a duplication of accounting records for capital accounting and monitoring;
- internal recharging to project budgets is slow making it difficult to accurately monitor total project spend; and
- project documentation from feasibility, approval, through to conclusion was not readily available and could be held in a multitude of locations, particularly where work had been outsourced to consultants working on behalf of the Council, impacting on ability to ascertain physical and financial progress of works on a timely basis.

Management actions and update:

An appropriate action plan has been agreed with management.

Audit title: People Strategy Delivery (30/11/07)

Original published audit opinion: Limited Assurance **[A]**

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

Executive summary:

With the development of working arrangements with Capita, a review of the People Strategy had not been performed to identify:

- its impact;
- how it had been embedded within the Councils working arrangements;
- what improvements could be made in the future;
- how all stakeholders have embraced and helped deliver the strategy objectives.

The People Strategy (or contingent elements) was regularly discussed at COMT; however, there was no framework in place to feed outcomes from such forums back into the People Strategy review document. Any recommendations or decisions were subsequently not reflected and the strategy was not appropriately updated. There was also no clear outcome delivery framework in place to report strategy's achievements and how it has impacted on the working arrangements within the Council during 2005-2008.

Acceptance by Capita is crucial for future People Strategies and how the current People Strategy has been embedded in the Council. No decision had been made on how the finalisation of the strategy would be reflected within the continued working arrangements within the Council. There was no forward plan to show how the strategy would be delivered in conjunction with the partnership working and who would lead this process.

Management actions and update:

An appropriate action plan has been agreed with management.

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

Audit title: Cantell Maths and Computing College (19/02/07)

Original published audit opinion: No Assurance [A]
Current audit opinion: Limited Assurance [A]

Executive summary:
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).
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 minibuss drivers.

Management actions and update since last report:
No further follow up has been requested. Internal audit is due to assess Cantell's FMSiS submission (January 2008) which will enable an update against the outstanding actions.

High priority actions overdue:
None

Audit title: Client Money Services (04/05/07)

Original published audit opinion: No Assurance [A]
Current audit opinion: Limited Assurance [A]

Executive summary:
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.

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).

Management actions and update since last report:

Seeking resolution to outstanding actions by the end of January 2008. Delays due to work prioritisations.

High priority actions overdue:

Monies in the two holding accounts need to be assessed and resolved as a priority in order for all clients' accounts to be accurate (Finance Manager / Principal Accountant – Jun 07)

The differences in the main bank account should be resolved in order that assurance can be given that all repayments to the next of kin are accurate. (Finance Manager / Principal Accountant – Jun 07)

N.B. Reconciliations have identified a number of issues still to be addressed.

Audit title: Ensuring System Security (06/07/07)

Original published audit opinion: Limited Assurance [A]

Current audit opinion: Limited Assurance [A]

Executive summary:

The Council has a fundamental business requirement to ensure ICT systems security and compliance with applicable laws and regulations.

Key audit observations highlighted:

- Flaws were identified in the design of the online user set up form that could allow a seemingly authorised request for a bogus user and

(because there is no validation of authorised access requests) this might be processed without detection. Users are cloned on existing IDs rather than set up according to their actual role and may thereby acquire access rights and functions within systems that they do not need. There is a lack of regular reviews of access and authorisation rights by management to act as a compensating control.

- Issues were identified in respect of the control of remote dial up and ISDN access. In particular, it was not possible to reconcile the purchases of RSA SecurID authentication tokens with unused stocks, records of issue, user accounts and deactivated tokens.
- The Council processes a high volume of payment card transactions online. If the card payment system was compromised and this resulted in card fraud the Council could face sanctions from the card companies. The major card companies have introduced the Payment Card Industry (PCI) standard to specify the security controls that they consider necessary to secure card payment systems. The audit established that the Council is not yet fully compliant with the PCI standard as it has not carried out a compliance self-assessment or completed quarterly perimeter scans.

Management actions and update:

Short term measures have been implemented to address deficiencies identified with the user set up form; however additional measures will be enabled following the implementation of Microsoft Active Directory.

A schedule of regular firewall auditing and testing has been drawn up and implemented

High priority actions overdue:

Review of the draft Incident Response Plan – Revised implementation date March 2008

Audit title: ICT Strategy (29/08/07)

Original published audit opinion: Limited Assurance [A]

Current audit opinion: Limited Assurance [A]

Executive summary:

There is effective liaison between ICT and business areas at operational levels, particularly through ICT Business Planning Analysts, Strategy and Planning Consultants and Project Managers before formal projects are authorised by the Resources Board. This work often consists of

discussion of potential future developments or implementations, which are in due course supported by estimates of resources required.

Business input to ICT at a strategic level is delivered by the Resources Board, which is also required to act as the ICT Steering Group. This board consists of senior officers from across the Directorates who are Policy Coordinators for ICT and for all other functions. It is inevitable therefore that the amount of their time which is available for ICT is limited. Therefore it is necessary to find a way to increase the input to ICT from the business at a strategic level.

Management actions and update:

All management actions are scheduled for completion March 2008 and detailed on the 'Information Security Risk Register' for implementation.

High priority actions overdue:

None

5 Internal Audit Performance

The internal audit action plan to ensure compliance with CIPFA Code of Practice for Internal Audit is broadly complete with the exception of the following items:

- Establishment of audit rights within key partnership agreements and contracts – to be addressed through future/ revised agreements;
- Introduction of a feedback mechanism for the internal audit service – to be addressed through roll-out of a biennial feedback questionnaire, January 2008; and
- Development of protocols for working with other internal auditors – to be addressed through Memorandum of Understanding with PCT auditors.

6 Planning and Resourcing

Two new members of staff joined the team in November 2007; however, the team continues to carry a 23% shortfall (3 fte) in current resource needs. Supplementary resources have been bought in from PricewaterhouseCoopers LLP (working in partnership with South Coast Audit) to ensure delivery of all high risk reviews identified within the 2007/08 audit plan. The success of this contract will be carefully assessed to determine whether this type of co-sourcing arrangement would provide a solution to resourcing the 2008/09 audit plan.

7 Rolling work programme						
Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
2006/07 Audit Plan:						
Partnerships: Governance Arrangements	✓	✓	✓	✓	✓	Final 15/06/07
IT Systems Security	✓	✓	✓	✓	✓	Final 06/07/07
IT Solutions identification	✓	✓	✓	✓	✓	Final 03/08/07
ICT Strategy and Planning	✓	✓	✓	✓	✓	Final 29/08/07
Payroll	✓	✓	✓	✓	✓	Final 26/09/07
Project management on funded projects	✓	✓	✓	✓	✓	Final 27/11/07
2007/08 Audit Plan:						

Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
Hampshire Camera Partnership	✓	✓	✓	✓	✓	Final 06/06/07
Solent Sea Rescue	✓	✓	✓	✓	✓	Final 26/06/07
Statement on Internal Control	✓	✓	✓	✓	✓	Final 18/05/07
Thornhill Plus You	✓	✓	✓	✓	✓	Final 19/10/07
Treasury and Cash Flow Management	✓	✓	✓	✓	✓	Final 12/09/07
Sustainability Agenda	✓	✓	✓	✓	✓	Final 09/10/07
People Strategy Delivery	✓	✓	✓	✓	✓	Final 30/11/07
Decent Homes and Estates Transformational Programme	✓	✓	✓	✓		Draft 28/09/07
Strategic Service Partnership	✓	✓	✓	✓		Draft 15/11/07
Section 31 Agreements – Health Service Act 2006	✓	✓	✓			
Licensing	✓	✓	✓			
Corporate Business Continuity Planning	✓	✓	✓			

Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
Across Schools Thematic Reviews – Security	✓	✓	✓			
Domiciliary and Residential Care Provider Services	✓	✓	✓			
School Admissions	✓	✓	✓			
Compliance with Health and Safety Legislation	✓	✓	✓			
Financial management of Assets	✓	✓	✓			
Corporate Communications and Marketing	✓	✓	✓			
Fleet Transport	✓	✓	✓			
Supporting People	✓	✓	✓			
Part Three Maintenance	✓	✓	✓			
Data Management – Child Protection Records	✓	✓	✓			
Parking Off and On Street & Residents	✓	✓				

Audit title	Audit stage					Progress note
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
Information Governance	✓	✓				
Children & Young Peoples Plan / Children Trust	✓	✓				
Independent Living Transformational Programme	✓	✓				
Joint Area Review	✓	✓				
Direct Payments	✓	✓				
Housing and Council Tax Benefit Administration	✓	✓				
Local Taxation Services	✓	✓				
Payroll	✓	✓				
Precautions against fraud	✓	✓				
FMSiS – Primary & Special Schools	✓	✓				5 of 24 complete
Internal Audit	✓	✓				