

## **BRECKLAND COUNCIL**

### **OVERVIEW AND SCRUTINY COMMISSION: 1 NOVEMBER 2007**

#### **REPORT OF THE OPERATIONS MANAGER, CABINET OFFICE** **(Author: Sandra King – Audit Manager, South Norfolk Council)**

### **PROGRESS REPORT ON INTERNAL AUDIT WORK FOR 2007/08**

**Summary:** This report provides members with the progress made between April and early October 2007 towards completing the work included in the agreed Audit Plan for 2007/08. It also includes abridged management summaries of final audit reports issued between April and early October 2007, performance information for that same period and some analysis of audit recommendations.

## **1 INTRODUCTION/BACKGROUND**

- 1.1 In accordance with the Accounts and Audit (Amendment) Regulations 2006 and the CIPFA Code of Practice for Internal Audit in Local Government 2006, the Council has a responsibility to maintain an adequate and effective system of internal audit of its accounting records and accounting control systems in accordance with the proper internal audit practices. To assist in fulfilling the responsibility outlined above, this report seeks to comment on the results of internal audit work conducted between April and October 2007; review the number of agreed recommendations arising from 2006/07 and 2007/08 audit assignments that were due to be implemented between April and October 2007, and provide performance data on the internal audit service to date.
- 1.2 The Internal Audit Service at Breckland Council has been outsourced since 1 April 2003. Up until 30 September 2007, the service had been delivered via an Internal Audit Group Agreement, whereby South Norfolk Council procured services from an external contractor on behalf of 3 local authorities and then recharged Breckland Council for the costs associated with the audits performed in accordance with its Annual Audit Plan and the requisite management input required to oversee Internal Audit at the authority.
- 1.3 The external contractor had been Bentley Jennison Risk Management Ltd from 23 September 2005 but, as of 1 October 2007, new arrangements have come into force. The Internal Audit Service continues to be managed by South Norfolk Council but a replacement internal audit service provider, namely Deloitte & Touche Public Sector Internal Audit Ltd has been appointed to deliver Strategic Audit Plan requirements for the next 5 years. The contract was awarded to this organisation following a rigorous retendering exercise undertaken by South Norfolk Council between January and September 2007.
- 1.4 In the course of preparing to re-let the contract, the original Internal Audit Group has grown in size and is now known as the Norfolk Internal Audit Consortium, comprising Breckland, Broadland, South Norfolk and Great Yarmouth Councils and the Broads Authority. It is also anticipated that the Group will undergo further expansion in January 2008 when another local authority from the Norfolk region is admitted to the Consortium.
- 1.5 This report essentially focuses on the work carried out by Bentley Jennison Risk Management Ltd in the first 2 quarters of 2007/08. It is important to note that, in the course of contract handover/commencement, there have been a number of issues which have created work pressures for South Norfolk Council's Audit Manager and culminated in some slippage, in terms of the overall completion of reviews, primarily as a consequence of problems linked to the quality and coverage of audit fieldwork and the resultant draft audit reports generated by the contractor. Access to performance information from the contractor has also been limited and was received some 4 weeks after it was first requested. Moreover, Bentley Jennison's Client

Manager was removed from the contract in mid September 2007, at a crucial stage in the closedown of the old contract, which then resulted in originally agreed contract completion/handover requirements having to be restated to both a Partner of the firm and more recently to a replacement Client Manager. This has had an adverse impact on contract continuity and moreover, noticeably reduced management support from Bentley Jennison has created additional work for South Norfolk Council's Audit Manager.

- 1.6 The position with regards to the Project Create at Breckland Council has also adversely impacted on what has been achievable in the Audit Plan for Quarters 1 and 2. It was always recognised that the delivery of audit work would need to be flexible because of the nature of the project. Currently, the involvement of Internal Audit in a range of work streams is being reconsidered in consultation with the Chief Accountant (responsible for Project Assurance) and the Business Transformation Manager, in light of recent developments at the Council, with the intention of reassessing audit coverage required in the second half of the year and hence, identifying what work will need to be commissioned from the new contractor.

## **2 KEY DECISION**

- 2.1 This is not a key decision.

## **3 COUNCIL PRIORITIES**

- 3.1 The matters raised in this report fall within the following Council priorities:

- A safe and healthy environment
- A well planned place to live which encourages vibrant communities
- A prosperous place to live and work

## **4 PROGRESS MADE AGAINST THE AUDIT PLAN**

- 4.1 The table below shows in summary the audit coverage for the period April to early October 2007, compared with the Audit Plan for 2007/08. Appendix 1 is also attached to detail the current status of individual audit assignments.

<b>Description</b>	<b>Days planned for 2007/8</b>	<b>Days delivered April to October 2007</b>	<b>% of planned work delivered</b>
Systems audit	186	58.4	31.4%
Computer audit	34	20	58.8%
Sub Total	220	78.4	35.6%
Project Create/Gateway audit	70	10	14.3%
Grand Total	290	88.4	30.5%
Extra work		15	

- 4.2 By early October 2007, 35.6% of programmed systems and computer audit work had been carried out, whereas a far lower proportion of Project Create related reviews than originally envisaged had been performed. The lack of progress with the Gateway audits is reflective of the Council's concerns with Capita in agreeing a way forward on a range of projects. With the exception of the Project Create related reviews, all other scheduled work had been completed to either the draft or final reporting stage by 12 October 2007. All remaining work is scheduled to take place in the second half of the financial year and the Audit Manager will shortly be liaising with the new contractor regarding contract commencement arrangements and the planning of Quarter 3 assignments.

## **5 PERFORMANCE OF THE INTERNAL AUDIT SERVICE**

- 5.1 In addition to ensuring delivery of specific work in the Annual Audit Plan, the internal audit contract provides for the service to be measured against the following indicators, as presented overleaf.

Description of indicator	Target	Achievement 2006/07	Achievement April to early October 2007
Average delay in issuing draft audit reports	10 working days	18.4 working days	7.8 working days
Average delay in issuing final audit reports	15 working days	17.4 working days	26.9 working days
Average delay between completion of work and issue of final report	25 working days	35.8 working days	34.7 working days
Percentage of audit recommendations accepted	90%	98.8%	100%

5.2 It is evident from the above table that draft reports are being produced within targeted timescales but final audit reports have been taking longer to turnaround after circulation of draft reports than was the case in the previous financial year. However, the time delays incurred have not been wholly attributable to Bentley Jennison. With reference to four of the seven audits detailed in Appendix 2 to this report, client officer responses were slow to be provided and until such time as the Action Lists to the draft reports had been completed, confirming agreed action to be taken forward, the release of the final audit reports could not be progressed.

5.3 It is also important to note that there has been a strong positive response to audit recommendations attaching to 2007/08 reviews, in so far as all audit recommendations made, have received the full endorsement of management. This is very encouraging as it demonstrates a strong commitment on the part of senior officers at the Council to strengthen the control environment in which their systems operate.

## **6 IMPLEMENTATION OF AUDIT RECOMMENDATIONS ACCEPTED BY OFFICERS**

6.1 Clearly, in addition to obtaining formal acceptance of audit recommendations by Council officers, it is equally crucial that agreed actions are actually implemented. In the next few months, a review will therefore be undertaken by the new contractor to establish the position regarding the implementation of agreed recommendations relating to audit reviews conducted during 2006/07 and 2007/08. This will establish the current status of high, medium and low priority recommendations and where agreed actions remain outstanding, it will be established why target dates have not been met and how management intends to resolve the issue in consequence.

6.2 In terms of categorised recommendations which will be subject to audit follow up, please see the table overleaf for details of the numbers involved:

Priority of recommendation	Number to be implemented by October 2007
High	26
Medium	37
Low	3
<b>TOTAL</b>	<b>66</b>

With the co-operation of Council officers, it is intended to provide an update on progress achieved in relation to the above recommendations at the December meeting of the Overview and Scrutiny Committee.

- 6.3 It is also acknowledged that the TEN Performance Management system is being used at Breckland Council to maintain an overview of the status of agreed actions, arising from previous audit work.

**7 OPTIONS AVAILABLE**

- 7.1 To note this report.

**8 REASONS FOR RECOMMENDATION**

- 8.1 Not applicable

**9 RECOMMENDATION**

- (1) That members note this report

*Appendices:*

- Appendix 1 Audit work delivered as at 12 October 2007 compared with the Audit Plan  
Appendix 2 Abridged management summaries of audit reports

## Audit work delivered as at 12 October 2007 compared with the Audit Plan

Project description	Days planned	Days delivered	Status
<b>PLANNED WORK - SYSTEMS AUDIT</b>			
Work to support Statement on Internal Control**	10	10	Completed. Final Report issued 16 July 2007
Follow up of previous Systems Audit recommendations – Phase 1	3	5	Findings recorded in Annual Audit Report for 2006/07 presented to the Overview & Scrutiny Commission on 24 May 2007. Necessary to increase job budget to satisfy audit follow up requirements.
Section 106 Payments**	6	8	Completed. Final Report issued 26 September 2007 Necessary to increase job budget to permit appropriate audit testing of arrangements.
Gifts & Hospitality – Members & Officers**	5	5	Completed. Final Report issued 10 August 2007
Performance Indicators**	5	5	Completed. Final Report issued 13 September 2007.
Receipt, Handling & Banking of Remittances	10	10	Draft Report issued 27 September 2007.
Sundry Debtors & Housing Act Advances	15	15	Draft Report imminent.
Follow up of previous Systems Audit recommendations – Phase 2	2	0.4	Review of Leisure PFI Action List completed 28 September 2007.
Marketing, Consultation, Democratic Services, Data Protection, Freedom of Information, Central Administration, Customer Services, Press and Public Relations	20		Scheduled for Quarter 3 – to be performed by new contractor.
Corporate Governance	10		Scheduled for Quarter 3 – to be performed by new contractor.
Affordable Housing Initiatives	10		Scheduled for Quarter 3 – to be performed by new contractor.
Anglia Revenues Partnership – Housing Benefit/Council Tax Benefit	25		Scheduled for Quarter 3 – to be performed by new contractor.
Anglia Revenues Partnership – Management Arrangements	10		Scheduled for Quarter 3 – to be performed by new contractor.
Accountancy Services - Treasury Management, Control Accounts, Banking, Bank Reconciliations, Asset Register & Budgetary Control	30		Scheduled for Quarter 4 – to be performed by new contractor.
Environmental Services Contract	25		Scheduled for Quarter 4 – to be performed by new contractor.
<b>TOTAL SYSTEMS AUDIT</b>	<b>186</b>	<b>58.4</b>	
<b>Project description</b>	<b>Days planned</b>	<b>Days delivered</b>	<b>Status</b>

<b>PLANNED WORK - COMPUTER AUDIT</b>			
Information Security Management	10	10	Draft Report issued 28 September 2007
Application Review – Revenues System**	10	10	Completed. Final Report issued 28 September 2007.
Follow up of previous Computer Audit recommendations	4		Scheduled for Quarter 3 – to be performed by new contractor.
Remote Access, Mobile Computing and Wide Area Networks	10		Scheduled for Quarter 3 – to be performed by new contractor.
<b>TOTAL COMPUTER AUDIT</b>	<b>34</b>	<b>20</b>	

<b>PLANNED WORK – PROJECT CREATE RELATED</b>			
Human Resources/Payroll	14		Audit requirement to be confirmed.
Business Process Re-engineering	10		Audit requirement to be confirmed.
ICT Architecture	14		Audit requirement to be confirmed.
Mobile Working	8		Audit requirement to be confirmed.
Planning & Building Control – Project Create**	5	5	Completed. Final Report issued 23 July 2007
Planning & Building Control – Project Create Phase 2	5	5	Draft Report issued 10 October 2007
Customer Contact	8		Audit requirement to be confirmed.
Follow up of previous Project Create linked Audit recommendations	6		Extent of coverage dependent on completion of original planned reviews. Those requirements are currently being queried with management.
<b>TOTAL PROJECT CREATE RELATED AUDIT</b>	<b>70</b>	<b>10</b>	

<b>EXTRA WORK</b>			
Anglia Revenues Partnership – Review of East Cambridgeshire’s Transferred Workload***		15	Completed. Final Report issued 7 August 2007
Assurance Statement required from the old contractor as part of the closedown procedure, relating to the previous audit contract.			To be undertaken upon issue of Final Reports relating to Q1 & Q2 audit assignments.
<b>TOTAL EXTRA WORK</b>		<b>15</b>	
<b>GRAND WORK TOTAL</b>	<b>290</b>	<b>103.4</b>	

**\*\*Abridged management summaries attached for information at Appendix 2.**

**\*\*\*The audit was undertaken at the specific request of the Anglia Revenues Partnership and the resultant final audit report has been issued to both the Anglia Revenues Partnership and East Cambridgeshire District Council.**

**Audit to Support the Statement on Internal Control (SIC)**

Report No. BRK/08/01 issued 16 July 2007

**Management summary (abridged)****Audit Opinion**

The review established that the majority of internal controls are in existence and appear to be operating satisfactorily. The follow up work on recommendations resulting from audits completed in 2006/07 found that appropriate action had either been taken by management to address the issues raised or was in the course of being taken.

A number of high priority recommendations have been made relating to systems audits where Draft/Final Reports were issued after 31 March 2007. The issues raised concerning weaknesses in internal control procedures need to be reviewed by the Chief Accountant and may need to be highlighted in the SIC. In this respect, particular attention should be paid to the action point raised in the Council Tax & NNDR audit report concerning the lack of formal evidence to support the Management checking processes.

During 2006/07 the Chief Accountant put in place a quarterly reporting process whereby the Council's Operations Managers provide assurance statements on the effectiveness of the control environment in respect of their own service areas. Due to changes in the senior management team, assurance statements for Quarter 3 were not obtained but this is not considered as a significant departure to what is now regarded as standard practice within the Council, especially as the Chief Accountant used the Quarter 3 meetings to introduce the new Operations Managers to Assurance Statements and explain the process and expectations.

**Recommendations**

The number of recommendations made is shown below.

Priority rating	Number of recommendations
High	1
Medium	3
Low	0

The high priority recommendation arising from this review essentially advised the Chief Accountant consider the impact of the high priority recommendations identified in Internal Audit Reports issued since 31 March 2007, when compiling the Statement on Internal Control for 2006/07.

**Audit review of Section 106 Payments**

**Report No. BRK/08/05 issued 26 September 2007**

**Management summary (abridged)**

**Audit Opinion**

We established that the process of monitoring Section 106 Agreements was in a state of transition with monitoring now being undertaken on a full time, as opposed to a part time basis, following the recent appointment of a full time Monitoring Officer. This is seen as a positive step forward although we do have some concerns as to whether sufficient income can be generated to make the post self financing after the initial 12 months, as intended, or whether the Council may have to provide some funding to maintain this post thereafter.

Whilst no major concerns were noted, we did experience difficulties in identifying cases that had actually reached completion of a Section 106 Agreement. The primary cause for this was that the current Planning database (Ocella) does not distinguish between cases where instructions have been issued to the Solicitors to raise an Agreement but are still outstanding, those where circumstances may have changed and no Agreement is therefore still applicable, and those where actual Agreements have been produced. The removal of planning files from site to be copied to CD also restricted our sample selection.

Despite this, we found evidence to demonstrate that the Council has proper procedures in place to demonstrate transparency in addressing affordable housing requirements, calculating commuted sums and takes into account the requirements of the County Council interests. We also found that whilst manual monitoring systems existed and evidence that they included monitoring of key conditions (trigger points); there was also a willingness to address areas where improvements could be made, in particular:

- Conveying the conditions of each Agreement to the solicitor with the written instructions as opposed to providing this information separately;
- Introduction of a formal sign-off process to provide evidence of independent check in the calculation of commuted sums and affordable housing requirements;
- Providing a clearer audit trail on the Planning database (Ocella) to distinguish between genuine Section 106 Agreements and to be able to monitor progress with other cases from the point when instructions to raise an Agreement were first issued. This should enhance controls over monitoring case loads and allow for the provision of more accurate data.
- Prioritising cases to ensure those with affordable housing implications, commuted sums or other financial implications are reviewed more regularly as opposed to those with lesser conditions attached e.g. those with time limits or booking restrictions attached. This should ensure resources are better aligned as part of the monitoring process.
- Ensuring an adequate audit trail is maintained so that all interested parties can monitor the receipt and use of commuted sums or other monies received as part of the Agreement to ensure they are being spent for the intended purpose. It would also improve public relations if the Council publicised the use of these monies, as and when they are spent.

## Recommendations

The number of recommendations made is shown below.

<b>Priority rating</b>	<b>Number of recommendations</b>
High	0
Medium	6
Low	1

There were no high priority recommendations arising from this review.

**Audit review of Project Create – Gateway review of Stage 3 – Investment Decision relating to Planning & Building Control**

**Report No. BRK/08/08 issued 25 July 2007**

**Management summary (abridged)**

**Audit Opinion**

This review was limited due to the very strict review/reporting deadlines with the Chief Accountant reporting to Cabinet on 14<sup>th</sup> May 2007 and with their recommendations being reported to Council on 17<sup>th</sup> May 2007. The recommendation being proposed at that time was to proceed to the Full Business Case (FBC) stage with the option of setting up a wholly owned company.

We followed the Office of Government's (OGC's) guidance, where possible to form an opinion as to progress to date on the Council's proposed recommendation. The extent of review work carried out had been limited as a consequence of tight reporting deadlines and also because the OGC's guidance covers areas that would be more relevant once Council has made its decision to proceed to the FBC stage. As a consequence, the Business Transformation Manager requested that Gateway Stage 3 for Planning and Building Control be revisited, possibly in September 2007, when the FBC had been developed further.

Having followed the OGC's guidance as part of the preliminary review process, we established a need to ensure resources were made available to progress and deliver outcomes of all work streams. This would require the setting up of a Project Development Team for overseeing delivery of Planning and Building Control and would require specialist representation from Finance, Legal and ICT etc, which would likewise be necessary to develop and support other work streams. With regards to ICT input, the situation was compounded in that the Interim ICT Manager was leaving the Council at the end of May 2007. Also leaving, later in July 2007, was another key ICT officer. We were informed by both the Business Transformation Manager and the Chief Accountant that no immediate plans had been put in place to provide relief cover until such time as these vacancies were subsequently filled.

We also established that more detailed Risk Logs and budget reporting would be required moving forward, if, as expected, Council, at their meeting on 17<sup>th</sup> May, approved the recommendation on moving forward to the FBC on the wholly owned company. There would also be a need to ensure service plans were produced and signed off so that the Council could be assured of the services it would receive under the proposed arrangements. As a consequence of the above we made 5 high priority recommendations which merited management's consideration.

**Recommendations**

The number of recommendations made is shown below.

<b>Priority rating</b>	<b>Number of recommendations</b>
High	5
Medium	0
Low	0

The five high priority recommendations were as follows:

- A Project Development Team should be appointed as a matter of priority if Cabinet/Council approves the recommendations to proceed with a FBC on the basis of a wholly owned company. This should comprise representation from all key areas e.g. Finance, Legal, ICT etc and have clear terms of reference.

- Suitable arrangements need to be put in place for ICT support with progressing the FBC and on other business cases in light of the imminent departure of the current ICT Manager(s).
- To ensure management make the necessary resources available to both implement and deliver approved work streams and to ensure the continuing development of business cases for the remaining work streams.
- More detailed budget reports and service plans need to be produced once the approval to proceed with the FBC is given.
- One of the first tasks of the Project Development Team should be to set up and maintain a risk log specifically for the approved FBC.

**Audit review of Gifts & Hospitality****Report No. BRK/08/10 issued 10 August 2007****Management summary (abridged)****Audit Opinion**

We found that controls over the receipt of gifts and hospitality by both Members and Officers were generally sound with the Council having adopted a revised Code of Conduct for Members in accordance with statutory requirements.

On an operational level, a link to the Register of Gifts & Hospitality form on the Members Extranet would allow quicker access the register. This was acknowledged by the Standards Officer.

We did establish that the Officers' Code could be enhanced through defining financial values up to which receipt of gifts and hospitality should be declared and a time limit for reporting such instances. It appears at present that the assumption is to report every case irrespective of the estimated/actual value. If this is the case, then it needs to be made clear. This would fall in line with the Members Code which currently has a limit of reporting cases with a value of £25 or more and for reporting all such cases within 28 days of their receipt.

Confusion also exists as to what action can be taken in light of non compliance with the Code of Conduct for Employees if they fail to declare receipt of a gift or hospitality, since although new starters are given a copy of the Code of Conduct, they are not required to sign acceptance with the conditions included therein.

We also found that the requirements of the Code for Officers, in particular paragraph 12.1 which requires Officers to seek approval from their Portfolio Manager/Chief Executive, was not evident in any cases tested nor was there a facility on the current forms for doing so. As a consequence, we are unable to give assurances that all gifts or hospitality received had actually been approved.

Whilst it is accepted that the Register of Gifts & Hospitality is a public record, access needs to be restricted to prevent it being lost or deliberately stolen.

**Recommendations**

The number of recommendations made is shown below.

<b>Priority rating</b>	<b>Number of recommendations</b>
High	0
Medium	3
Low	2

There were no high priority recommendations arising from this review.

**Audit of Performance Indicators****Report No. BRK/08/11 issued 13 September 2007****Management Summary (abridged)****Audit Opinion**

Whilst we were encouraged that progress had been made in providing documentary evidence in support of BVPI 166 – Environmental Health checklist, more needs to be done to fully substantiate the outturn figures being put forward for 2006/07. It is also possible that with the deadline for publishing the final outturn figures being early October that the stated figure of 98.85% could actually be improved upon by providing examples of activity to confirm compliance with the Enforcement Policy.

We also found that controls for collating data in support of local indicator SI - SH 17 – on the number of affordable housing units completed in 2007/08 were generally sound, with only a need to obtain written confirmation of units becoming available from Registered Social Landlords/Developers in all cases. However, a need for improved controls was evident in all the remaining indicators checked as presently, no assurance can be given that the information being supplied in evidence is totally reliable. This therefore undermines the process of maintaining indicators for measuring performance.

**Recommendations**

The number of recommendations made is shown below.

<b>Priority rating</b>	<b>Number of recommendations</b>
High	0
Medium	6
Low	2

There were no high priority recommendations arising from this review.

**Audit of Application Review – Revenues System****Report No. BRK/08/12 issued 28 September 2007****Management Summary (abridged)****Audit Opinion**

Overall, the Academy application is well controlled. Policies and procedures have been put in place to complement the system controls. The Comino document imaging system with workflow functionality has been implemented to manage system input and archive all input documentation, however a retention policy has not been put in place for the systems documents. The Academy application has been well documented with user and administrator procedures and guidelines put in place. Robust access controls are applied across the system with the use of groups to assign permissions and the use of a well controlled user registration process. Conversely, user de-registration controls were found to be weak as “nameless” accounts were seen on the live application. We also noted that agreed separation of duties have been enforced at group level through a one off process, but there is need to formalise a regular process of access level review to ensure adequate separation of duties continues to be maintained. In addition, the system has full audit trail functionality that ensures all processing is recorded, although failed logon events are not being monitored to detect unauthorised access attempts. Password controls are enforced; however certain security issues around privileged profiles have been raised for management consideration and finally, disaster recovery plans covering the application are in place and have been adequately tested.

**Recommendations**

The number of recommendations made is shown below.

<b>Priority rating</b>	<b>Number of recommendations</b>
High	0
Medium	6
Low	2

There were no recommendations rated as “High”