

CANNOCK CHASE DISTRICT COUNCIL

INTERNAL AUDIT REPORT

ON QUARTER 3 OF 2008-09

FOR THE

AUDIT & GOVERNANCE COMMITTEE

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1. Introduction

- 1.1 This report is the third progress report to the Audit and Governance Committee on the work carried out in 2008-09 by the Internal Audit Section. It covers the period 1st April 2008 to 31st December 2008.
- 1.2 The report contains details of:-
- the performance of the section against the Internal Audit Plan for 2008-09 for the year to date;
 - a summary of the level of assurance issued for each of the reports that have been issued in the quarter (A definition of each level of assurance is contained in Appendix 1); and
 - the results of the follow-ups undertaken in the quarter; showing the original and the revised assurance after the follow-up has been completed.

2 Audit Performance

- 2.1 The 2008-09 Audit Plan has not allocated specific audits to quarters, however based on last year's profile a target number of audits has been set. The following targets will be used for the cumulative completion of the full year's plan (including IT Audits).

	Quarter %	Cumulative %	Cumulative Total Number of Audits
Quarter 1	13	13	4
Quarter 2	26	39	13
Quarter 3	26	65	21
Quarter 4	35	100	31

- 2.2 The profiling for the first quarter is lower than others due to the finalisation of work from the previous year and likewise the profiling for the fourth quarter is higher as much of the audit work is finalised at the year end.
- 2.3 The following table contains the cumulative performance against the Audit Plan at the end of the third quarter of 2008-09 (April to December 2008):-

	Planned Audits	Actual Audits			
	Number	Complete	% Complete	In Progress	% IP & Complete
Audit Plan	21	12	57%	8	95%

- 2.4 In quarter 3 of 2008-09 12 audits have been completed and a further 8 are in progress but have not been fully completed before the end of the quarter. This is an improvement on 2007-08 where only 7 audits had reached the draft report stage and 6 others were in-progress by the end of the second quarter.

- 2.5 As previously reported the section's performance is lower than anticipated due to sickness and training.
- 2.6 The Section has also been involved in a number of consultancy assignments and special investigations in the period which have diverted resources away from the planned work. There was an allowance of approximately 50 contingency days in the plan for consultancy and ad-hoc work for the whole year. However the section has spent 25 days on special investigations, 35 days on Standards Investigations, 10 days on financial appraisals and final account reviews and 16 days on general consultancy work totalling 86 days up to the end of the third quarter.

3 Audits Completed

Audit	Service Area	Risk	Assurance	Status	Number of Recommendations			
					High	Medium	Low	Total
ICT – Problem/Change Management	ICT	12	Limited	Draft	8	8	4	20
ICT – Data Transfers & External Links	ICT	12	Limited	Final	11	10	2	23
VFM – Agency Workers and Consultants	Corporate	12	Limited	Draft	3	7	4	14
Capital Strategy & Capital Programme Delivery (Include Section 106 Agreements)	Financial Management	16	Qualified	Draft	0	24	8	32
Leisure Centres Review	Leisure & Major Projects	12	Qualified	Draft	0	30	14	44
National Non-Domestic Rates	Financial Management	12	Adequate	Final	0	5	2	7
Creditors	Financial Management	12	Adequate	Draft	0	5	6	11

ICT – Problem/Change Management

- 3.1 An IT review was carried out on the procedures and processes in place within the ICT Section to manage changes to IT Applications and the network, such as software and hardware upgrades, and to manage problems that arise including software/hardware failure.
- 3.2 A number of weaknesses were identified around the application of procedures in particular the inconsistent approaches used by staff. The lack of adequate documentation around some of the changes was of particular concern. We were therefore only able to provide Limited Assurance for this area.
- 3.3 However, we do recognise that ICT Services are working to improve the management framework in place and the ICT Services Manager had already identified and started to address many of the issues identified in the report. Once implemented the new procedures and practices should significantly improve the level of assurance that we can offer.

ICT – Data Transfers & External Links

- 3.4 An IT review was carried out on the procedures and processes relating to external connections to the Council's network and applications and the transferring of data outside of the organisation either electronically or via portable media such as CDs and memory-sticks.
- 3.5 It was found that there were inadequate policies and controls in operation to record and monitor external links to the Council's network, e.g. software suppliers having remote access to update or correct problems with their software. In addition there were a significant number of weaknesses in the processes used by departments across the Council when transferring data outside of the Council. We were therefore only able to provide Limited Assurance for this area.
- 3.6 Despite the weaknesses identified the Auditor did not discover any evidence that any data had been lost or removed without permission or that any security breaches had occurred during the course of the audit.
- 3.7 The ICT Manager and the Information Manager are working on addressing the issues identified and once the recommendations made in the audit report have been implemented a higher level of assurance can be awarded to this area.

VFM – Agency Workers and Consultants

- 3.8 A value for money audit was carried out to identify the usage, processes and costs associated with the use of agency staff and consultants in order to ascertain whether the Council is achieving Value for Money in the way it utilises agency staff and consultants.
- 3.9 It was found that although a procedure was in place to control the appointment of agency workers this was not always being complied with. In addition, there was no routine monitoring of the use of agency staff to ensure the regular renewal of approval for their ongoing use and that agency workers were not employed for longer than 11 months in a post as specified in the corporate policy. It was also found that there is no corporate policy for the procurement of Consultants.

- 3.10 The Internal Audit Section is unable to offer a view on whether the Council is achieving Value for Money from its use of Agency Staff and Consultants as proper procurement processes in relation to obtaining quotes are not always being followed and the lack of formal Contracts for the use of Agency Staff.
- 3.11 As the framework for ensuring Value for Money in the procurement of Agency Staff and Consultants was found to not always be robust and operating effectively it has only been possible to offer Limited assurance in this area as it is not possible to determine whether Value-for-Money is being achieved.

Capital Strategy & Capital Programme Delivery (Include Section 106 Agreements)

- 3.12 A systems based review was carried out on the processes and procedures for the formulation of the Council's Capital Strategy and the operational processes in respect of delivering the Capital Programme schemes.
- 3.13 The Council does not have an up-to-date Capital Strategy; the previous Strategy covered the period 2002-2007. However, in the absence of a formal Capital Strategy it is recognised that direction is given by the "Delivering Change" process and the Council's budget framework (the "Delivering Change" Process is currently under review as part of the Priority Based Budgeting Audit). It was found that the overall management of the Capital Programme and the processes for the appraisal of & authorisation to spend for individual capital schemes was effective.
- 3.14 Weaknesses were also in the procedures and a failure to ensure a consistent, corporately applied project management methodology for the delivery of capital projects. Due to the weaknesses in specific areas identified it has only been possible to offer a qualified assurance for this area.

Leisure Centres Review

- 3.15 A systems based review was carried out on operational processes and procedures at the Council's two Leisure Centres (Chase and Rugeley).
- 3.16 Overall the procedures were found to be adequate and generally operating effectively. However, significant weaknesses were found in relation to the recording and reconciliation to other records of the time being claimed by staff; compliance with the ordering procedures; stock records and some procedures in relation to income and banking. Based on the findings it was only possible to offer Qualified assurance in relation to the operation of the Leisure Centres.
- 3.17 In addition to the audit work a special investigation was carried out to review the submission of all the timesheets to identify discrepancies between the time claimed on timesheets and the other supporting evidence. This resulted in a number of overpayments being recovered from staff although it was not possible to prove any deliberate falsification of timesheets had occurred.

National Non-Domestic Rates (Business Rates)

- 3.18 A systems based review was carried out on the processes and procedures for the National Non-domestic Rates system (NNDR). One half of the NNDR system is reviewed each year to ensure full system coverage on a biannual basis. This year the audit focused on valuation, liability and billing.
- 3.19 With the exception of not being able to evidence sample checks of the bills for accuracy there were no major weaknesses identified in relation to the NNDR system. It was therefore possible to provide adequate assurance.

Creditors

- 3.20 A systems based review was carried out in relation to the processes and procedures for the payment of and accounting for sums due to be paid by the Council for purchases and other services.
- 3.21 Generally procedures were found to be adequate within the section; the main weaknesses found were in relation to parts of the process where staff outside of the creditors section are involved. The main issues identified were in relation to the failure to issue official orders appropriately prior to the receipt of an invoice; the inappropriate use of NPF forms to circumvent raising an official order and the lack of segregation of duties in the authorisation of invoices particularly in relation to the same officer authorising both the order and the invoice.

Audits in Progress

- 3.22 During the quarter, work has commenced, but not yet been completed, on the following audits:
- Council Tax;
 - Housing Property Services;
 - Priority Based Budgeting;
 - Central Recharges
 - Payroll;
 - Housing Benefits;
 - Planning Application Review (IT Audit); and
 - New HR Application Review (IT Audit)
- 3.23 Details of the full audit plan for 2008-09 showing progress against all audits is given at Appendix 2.

4 Follow-ups Completed

- 4.1 Internal Audit has carried out follow-ups in relation to a number of reviews undertaken in the previous six months to examine the progress in implementing the recommendations made.
- 4.2 In the first instance the Service Manager is asked to provide information on the actions that have been taken to address the recommendations made in the audit report via a self assessment process. For all audits given Limited assurance and a sample of other areas the Auditors verify, by testing, the information provided by the manager. A list of the follow-ups due to be carried out in 2008-09 is contained in Appendix 3.
- 4.3 The table on the below indicates the original assurance offered along with the assurance given at the completion of the follow-up for each area reviewed.

Audit	Service Area	Original Assurance	Implemented or In Progress	Not Implemented	Total	Revised Opinion
Stores	Housing	Adequate	10	1	11	Adequate
Cashiers	Customer Services	Adequate	9	3	12	Adequate
NNDR	Financial Management	Adequate	11	0	11	Adequate
Creditors	Financial Management	Adequate	5	5	10	Adequate

Stores

- 4.4 There were no significant issues outstanding at the time of the follow-up.

Cashiers

- 4.5 The key outstanding recommendation at the time of the follow-up is the need to re-let the cash collection contract. However it is accepted that at this point in time a detailed review of the Council's needs for cash collections is required prior to the re-let occurring.

NNDR

- 4.6 There were no significant issues outstanding at the time of the follow-up.

Creditors

- 4.7 There were no significant issues outstanding at the time of the follow-up.

5 Revisions to the Audit Plan

- 5.1 As identified in section 2.5-2.7 above the Internal Audit Section has carried out more days on Special Investigations consultancy and ad-hoc work than anticipated at the time the audit plan was prepared. In addition, the number of days lost to sickness exceeded the provision built into the audit plan. In total approximately 120 days have been lost from the audit plan in excess of the contingency and sickness allocations for the year-to-date.
- 5.2 As such it is proposed that the focus of some of the audits will be examined to ensure the maximum coverage is achieved for the assurance work carried out by the Section and that the Audits shown in the table on the following page will be removed from the Audit Plan for 2008-09 to help to address shortfall of days:-

Audit Areas	Number of Days in Plan
Housing Allocations & Voids	15
Major Projects/Project Management	14
Managing Absence	10
Land Charges	14
Customer Contacts (CRM, Reception etc)	10
VFM - Debt Collection Review	20
Total	83

Housing Allocations

- 5.3 As reported on the Quarter 2 Report a decision has been taken in consultation with the Head of Housing to defer the Housing Allocations and Voids Audit until 2009-10. The risk score in the 2008-09 Audit Plan had been assessed as a 12. This was due to changes in the Council's Allocations policy to introduce a Choice Based Lettings System which was due to go live early in 2008-09. The implementation of this new process has been delayed and is now not likely to go live until February 2009 consequently the audit will be deferred until 2009-10.

Managing Absence

- 5.4 This has been agreed with the HR Manager. Following the implementation of the new HR Software in May this year the section has had difficulty in producing the necessary reports and have not been able to fully operate the managing absence system. It was therefore decided not to carry out the audit this year and to allow the system to become fully operational again. It is planned to carry out this review in 2009-10.

Major Projects /Project Management

- 5.5 This has been agreed with the Head of Leisure and Major Projects. The Capital Strategy & Capital Programme Delivery Audit identified the lack of a current corporate project management methodology being used across the Council and the planned Major Project activities have been placed on hold for the moment. It was therefore felt that carrying out this audit in 2008-09 would not be productive.

Customer Contacts

- 5.6 This has been agreed with the Customer Services Manager due to the review that is currently in progress in the Customer Services areas covering the cash office and reception. The audit will be deferred until the review has been concluded and any new or revised working methods have been given time to embed.

Land Charges

- 5.7 It has been agreed with the Legal & Democratic Services Manager that given that the area is currently subject to a full service review and in light of the current down-turn in the housing market it is not appropriate to carry out the audit at this time. It is considered that any audit review will be deferred until the later part of 2009-10 at the earliest to allow new working methods to become embedded.

VFM – Debt Collection Review

- 5.8 The decision has been taken with the agreement of the Head of Governance & VFM based on the fact that the VFM reviews are not part of the core assurance work performed by the section. The decision has been taken to spend the remaining part of the year maximising the time spent on assurance work.

Appendix 1Levels of Assurance for Audit Reports

Assurance Level	Definition
Substantial	There is a robust control framework in place for the system. All necessary controls are in place and are operating effectively. Any recommendations made are generally low risk and relate to enhancements of existing controls.
Adequate	<p>There is an acceptable control framework in place. There may be some control weaknesses but the key controls are in place and are operating effectively. However some changes to the controls and how they operate would be beneficial</p> <p>An adequate opinion can be given where a small number of controls are not always operating effectively provided there are no high risk recommendations.</p>
Qualified	<p>The service may be delivering its intended output but the controls in place for some elements of the system are not always appropriate or effective to ensure that this will continue to occur. Controls are not being consistently applied across all elements of the system. This could include breaches of Council policy and the risk of medium financial impact on the Council.</p> <p>A qualified opinion will only be given if the areas where the controls are missing or not operational do not represent a significant risk to the system as a whole.</p>
Limited	There is an inadequate control framework to ensure that the system can deliver its intended objectives. Controls are absent or not operating across the majority of the system. This will include significant breaches of legislation or the potential for significant impact on the Council such as large financial losses. The operation of the system is currently providing an unacceptable risk to the Council.

Appendix 2

Audit Plan Monitoring 2008-09

Audit Area	Service Lead Officer	Director	Total Risk Score	In Progress	Draft Report	Final Report	Original Assurance	Follow-up Due	Follow-up Completed	Revised Assurance
Streetscene	Head of Environmental Services	Service Improvement	20	Y large follow-up	Yes (Q2)	Yes	Limited			
Capital Strategy & Capital Programme Delivery (Include Section 106 Agreements)	Head of Financial Management	Governance	16	Yes	Yes Q3	Awaiting Discussion	Qualified			
Housing Benefits	Head of Financial Management	Governance	16	Yes						
Payroll	HR Manager	Deputy Chief Executive	16	Yes						
Major Projects/ Project Management	Head of Leisure & Major Projects	Organisational Improvement	16	Remove from plan with the agreement of the Head of Leisure and Major Projects – reported to Audit & Governance Feb 09						
Data Transfers / External Links (IT Audit)	ICT Services Manager	Deputy Chief Executive	12	Yes	Yes Q3	Yes Q3	Limited			
Energy Management	Support Services Manager	Deputy Chief Executive	12	Yes	Yes (q1)	Awaiting Discussion	Limited			
Problem / Change Management (IT Audit)	ICT Services Manager	Deputy Chief Executive	12	Yes	Yes Q3	Awaiting Discussion	Limited			
Civil Contingencies, Emergency Planning, Business Continuity	Head of Governance & VFM	Governance	12	Yes	Yes (Q2)	Awaiting Final Report	Qualified			
Procurement	Head of Governance & VFM	Governance	12	Yes	Yes (Q2)	Awaiting Final Report	Qualified			
Leisure Centres Review	Head of Leisure & Major Projects	Organisational Improvement	12	Yes	Yes Q3	Awaiting Discussion	Qualified			
VFM - Agency Workers and Consultants	Corporate	Corporate	12	Yes	Yes Q3	Awaiting Discussion	Qualified			
Capital Accounting	Head of Financial Management	Governance	12	Yes	Yes (q1)	Yes	Adequate			
National Non-Domestic Rates	Head of Financial Management	Governance	12	Yes	Yes Q3	Yes	Adequate			
Creditors	Head of Financial Management	Governance	12	Yes	Yes Q3	Awaiting Discussion	Adequate			

Audit Area	Service Lead Officer	Director	Total Risk Score	In Progress	Draft Report	Final Report	Original Assurance	Follow-up Due	Follow-up Completed	Revised Assurance
Priority Based Budget Process (Delivering Change), Estimate Preparation & Budgetary Control	Head of Financial Management	Governance	12	Yes						
Central Recharges / Time Recording System	Head of Financial Management	Governance	12	Yes						
Housing Property Services	Head of Housing	Service Improvement	12	Yes						
HR Application Post Implementation Review (IT Audit)	HR Manager	Deputy Chief Executive	12	Yes						
Planning Application (Swift) Review (IT Audit)	ICT Services Manager Head of Regeneration & Planning	Deputy Chief Executive	12	Yes						
Council Tax	Head of Financial Management	Governance	12	Yes						
Risk Management	Head of Governance & VFM	Governance	12							
Partnerships	Partnerships Manager	Chief Executive	12							
Members Allowances, PCs & Other Expenses	Legal Services Manager	Governance	12							
Refuse Collection and Recycling (including Bonus)	Head of Environmental Services	Service Improvement	12							
Performance Mgt (including PIs)	Performance Manager	Chief Executive	12							
Rent Debit, Collection & Arrears	Head of Housing Head of Financial Management	Service Improvement Governance	12							
Sundry Debtors	Head of Financial Management	Governance	12							
End User Development (IT Audit)	ICT Services Manager	Deputy Chief Executive	12							
Managing Absence	HR Manager	Deputy Chief Executive	12	Removed from the Plan December 2009 with the agreement of the HR Manager – reported to the Audit & Governance Committee Feb 2009						
Allocations & Voids	Head of Housing	Service Improvement	12	Removed from the Plan with the agreement of the Head of Housing – reported to the Audit & Governance Committee August 2008						
VFM - Debt Collection Review	Head of Financial Management	Governance	12	Removed from the Plan with the agreement of the Head of Governance & VFM – reported to the Audit & Governance Committee Feb 2009						

Audit Area	Service Lead Officer	Director	Total Risk Score	In Progress	Draft Report	Final Report	Original Assurance	Follow-up Due	Follow-up Completed	Revised Assurance
Customer Contacts (CRM, Reception etc)	Customer Services Manager	Deputy Chief Executive	12	Removed from the Plan with the agreement of the Customer Services Manager – reported to the Audit & Governance Committee Feb 2009						
Land charges	Legal Services Manager	Governance	12	Removed from the Plan with the agreement of the Legal Services Manager – reported to the Audit & Governance Committee Feb 2009						

Follow-Up Monitoring Information

Audit Area	Service Lead Officer	Director	Risk	Original Assurance	Follow-up Due	Follow-up Completed	Revised Assurance	2nd Follow-Up Due?
Housing Benefit Fraud Investigation Team	Head of Financial Management	Governance	12	Adequate	March 08	June 08	Adequate	No
Homelessness	Head of Regeneration & Planning	Deputy Chief Exec	12	Qualified	June 08	June 08	Adequate	No
Capital Accounting	Head of Financial Management	Governance	12	Adequate	August 08	June 08	Adequate	No
Stores	Head of Housing	Service Improvement	12	Adequate	August 08	Sept 08	Adequate	No
Cashiers	Customer Services Manager	Deputy Chief Executive	12	Adequate	Sept 2008	October 08	Adequate	No
Creditors	Head of Financial Management	Governance	12	Adequate	Next Audit	Dec 08	Adequate	No
NNDR	Head of Financial Management	Governance	12	Adequate	Next Audit	Dec 08	Adequate	No
IS/IT Law	ICT Manager / PR & Marketing Manager	Deputy Chief Executive	16	Limited	Nov 08	Awaiting Management Response		
System Management Thematic Review	ICT Manager	Deputy Chief Executive	16	Limited	Nov 08	Awaiting Management Response		
Elections (2005 Audit)	Chief Executive	Chief Executive	12	Limited	Dec 08	IP		
Housing Benefits	Head of Financial Management	Governance	16	Adequate	Next Audit	IP		
Council Tax	Head of Financial Management	Governance	12	Adequate	Next Audit	IP		
Performance Management & PIs	Policy & Performance Manager	Chief Exec	12	Adequate	Next Audit			
Rent Debit, Collection & Arrears	Head of Housing Head of Financial Management	Service Improvement Governance	12	Adequate	Next Audit			
Treasury Management	Head of Financial Management	Governance	12	Adequate	Next Audit			
Refuse Collection and Recycling	Head of Environmental Services	Service Improvement	12	Qualified	Next Audit			
Risk Management	Head of Governance & VFM	Governance	12	Adequate	Next Audit			
Sundry Debtors	Head of Financial Management	Governance	12	Adequate	Next Audit			
Payroll	HR Manager	Deputy Chief Exec	12	Adequate	Next Audit			