

BOROUGH OF BARROW-IN-FURNESS

AUDIT COMMITTEE

Meeting, Thursday, 15th December, 2011
at 2.00 p.m. (Committee Room No. 4)

A G E N D A

PART ONE

1. To note any items which the Chairman considers to be of an urgent nature.
2. To receive notice from Members who may wish to move any delegated matter non-delegated and which will be decided by a majority of Members present and voting at the meeting.

3. **Admission of Public and Press**

To consider whether the public and press should be excluded from the meeting during consideration of any of the items on the agenda.

4. Disclosure of Interests.

A Member with a personal interest in a matter to be considered at this meeting must either before the matter is discussed or when the interest becomes apparent disclose

1. ***The existence of that interest to the meeting.***
2. ***The nature of the interest.***
3. ***Decide whether they have a prejudicial interest.***

A note on declaring interests at meetings, which incorporates certain other aspects of the Code of Conduct and a pro-forma for completion where interests are disclosed will be available at the meeting.

5. To confirm the Minutes of the meeting held on 29th September, 2011 (copies attached).
6. Apologies for Absence/Attendance of Substitute Members.

FOR DECISION

- (D) 7. Audit Commission – Annual Audit Letter for the year 2010-2011.
- (D) 8. Annual Review of Internal Audit 2010-2011.
- (D) 9. Internal Audit Strategy.

- (D) 10. Internal Audit – Progress Report April 2011 to December 2011.
- (D) 11. Internal Audit – Final Reports.
- (D) 12. Performance Management.
- (D) 13. Annual Governance Statement.
- (D) 14. Risk Management.

**NOTE (D) - Delegated
(R) - For Referral to Council**

Membership of Committee

Councillors Burns (Chairman)
Pointer (Vice-Chairman)
W McClure
Murray
Thurlow
Wilson

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BOROUGH OF BARROW-IN-FURNESS

AUDIT COMMITTEE

Meeting: 29th September, 2011
at 2.00 p.m.

PRESENT:- Councillors Burns (Chairman), Murray, Sweeney, Thurlow and Wilson.

Also present were Keith Jackson from Internal Audit and Gina Martlew and Gareth Kelly from the Audit Commission.

10 – Minutes

The Minutes of the meetings held on 8th March and 7th July, 2011 were agreed as a correct record.

11 – Apologies for Absence/Attendance of Substitute Member

Apologies for absence were received from Councillors Pointer and W. McClure.

Councillor Sweeney had replaced Councillor Pointer for this meeting only.

12 – Annual Governance Statement 2010-2011

The Policy Review Officer provided Members with a refreshed Annual Governance Statement for 2011/12.

The Statement explained that the Council was responsible for delivering a wide range of statutory and discretionary services to the public in the area of the Borough. The Council was responsible for ensuring that its business was conducted in accordance with law and proper standards, and that public money was safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also had a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions were exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council was responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which included arrangements for the management of risk.

The Council had approved a Code of Corporate Governance, which was consistent with the principles of the CIPFA/SOLACE Framework - Delivering Good Governance in Local Government. The core principles identified in the framework underpinned the Council's approach to governance. The principles were:-

1. Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and Officers working together to achieve a common purpose with clearly defined functions and roles;

3. Promoting Council values and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which were subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of Members and Officers to be effective; and
6. Engaging with local people and other stakeholders to ensure robust public accountability.

Changes which had been made to the Annual Governance Statement were highlighted to Members.

RESOLVED:- (i) To agree to incorporate the changes to the Annual Governance Statement; and

(ii) To agree that the Annual Governance Statement be published on the Council website.

13 – Going Concern Concept

The Borough Treasurer reported that the International Financial Reporting Standards required the Council's Management Team to assess and determine that it was appropriate to prepare the financial statements on a going concern basis. This would take account of all available information about the future, which was at least, but not limited to a period of twelve months from the end of the reporting period.

The accounts of the Council for the period 1st April, 2010 to 31st March, 2011 had been prepared on a going concern basis. This basis assumed that the Council would be able to realise its assets and liabilities in the normal course of business and that it would continue in business for the foreseeable future.

Management Team had considered all relevant factors including: Forecasts and budgets; Working Capital Facility; Medium and Long-term Plans; New Legislations; Cash Flow Timing; Contingent Liabilities; Risk Management; and Political Environment and determined that the Going Concern concept did apply to Barrow Borough Council.

Members requested it be noted that the Council's policy to pay suppliers within the agreed terms would continue.

RESOLVED:- (i) To agree that the Council was a going concern; and

(ii) To agree that it was appropriate for the accounts to be prepared on the going concern basis.

14 – Final Accounts for the Year ended 31st March, 2011

The Borough Treasurer reported that the Accounts and Audit Regulations 2011 required the approval and publication of the Statement of Accounts by 30th September, 2011. A copy of the Statement of Accounts for 2010/11 was appended to the Borough Treasurer's report.

A number of amendments to the Comprehensive Income and Expenditure Statement were reported as follows:-

- Central Services to the Public – gross expenditure changed to £8285;
- Central Services to the Public – gross income changed to (£7302);
- Cost of Services – gross expenditure changed to £73242; and
- Cost of Services – gross income changed to (£46297).

The Borough Treasurer had informed the Committee that the Local Authority Accounts were prepared to comply with the Code of Practice on Local Authority Accounting 2010-11 incorporating International Financial Reporting Standards.

The Audit Commission had audited the Statement of Accounts for the year and their findings were reported in the Annual Governance Report which was included as a separate item on the agenda for this meeting.

Detailed information and analysis of the accounts had been presented in the full Statement of Accounts which had also been appended to the Borough Treasurer's report.

RESOLVED:- (i) To note that the Committee had reviewed and scrutinised the Annual Statement of Accounts and considered that the accounting policies had been followed;

(ii) To agree to formally approve the Statement of Accounts for 2010-11; and

(iii) To authorise the Chairman of this Committee to sign the Accounts on behalf of the Council.

15 – Audit Commission – Annual Governance Report for Year 2010-11

The Borough Treasurer reported that the Annual Governance Report was produced by the Audit Commission on completion of their audit for each financial year.

The report for 2010-11 had been appended to the report and Gina Martlew, the Appointed Auditor along with Gareth Kelly, the Audit Manager had attended the meeting to present the report to Members.

Gina Martlew had circulated additional post audit changes to Members for information. The report summarised the findings from the 2010-2011 audit which was substantially complete. It included the messages arising from the audit of the Councils financial statements and the results of the work undertaken to assess the Councils arrangements to secure value for money in the use of resources.

The Auditors concluded that they had undertaken the audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010 as to whether the Authority had proper arrangements for:-

- Securing financial resilience; and
- Challenging how it secured economy, efficiency and effectiveness.

The Audit Commission had given an unqualified opinion of the accounts and had determined these two criteria as those necessary for consideration under the Code of Audit Practice in satisfying the Auditors whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31st March, 2011. The Auditors were satisfied that, in all significant respects, the Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31st March, 2011.

RESOLVED:- (i) To note the information within the report; and

(ii) To approve the recommendations and Action Plan contained within the report.

16 – Letter of Representation 2010-2011

The Borough Treasurer reported that as part of the annual process of finalising the Accounts, there was a requirement to provide assurance to the Audit Commission on relevant and significant matters relating to the financial year. A letter of representation was issued to disclose material facts affecting the 2010-2011 transactions of the Council.

A copy of the Letter of Representation had been reproduced in the Borough Treasurer's report regarding the Councils Audit for the year ending 31st March, 2011.

RESOLVED:- (i) To approve the Letter of Representation for 2010-11; and

(ii) To authorise the Chairman of the Committee (Councillor Burns) and the Borough Treasurer to sign the letter on behalf of the Council.

The meeting closed at 3.25 p.m.

AUDIT COMMITTEE	Part One (D) Agenda Item 7
Date of Meeting: 15th December, 2011	
Reporting Officer: Policy Review Officer	
<p>Title: Audit Commission – Annual Audit Letter for the year 2010-2011</p> <p>Summary and Conclusions:</p> <p>The Annual Audit Letter is produced by the Audit Commission following the completion of their audit for each financial year.</p> <p>The Council’s External Auditors will attend the meeting to present the report to Members.</p> <p>Recommendations:</p> <p>Members are recommended to:</p> <ol style="list-style-type: none"> 1. Receive the report; 2. Raise any questions or concerns with the Appointed Auditor; and 3. Approve the recommendations contained in the report. 	

Report

The Audit Commission Annual Audit Letter for 2010-2011 is attached at **Appendix 1.**

Background Papers

Nil

Annual Audit Letter

Barrow in Furness Borough Council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I have included some recommendations in this report and the Council has accepted these as issues to address.

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

I issued my audit report including an unqualified opinion on the Council's 2010/11 Financial Statements on 30 September 2011.

There were no material errors within the primary statements apart from the Cashflow Statement. These errors were found on non cash movements, investing and financing activities, comparators and omission of a financing activities supporting disclosure note.

The accounts were amended for all the significant errors I identified as part of my audit.

Value for money

On 30 September 2011 I issued an unqualified value for money conclusion stating the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2010/11.

I noted that improvements had been made to the contracting and tendering processes following my recommendations from the previous audit year. There is scope for further improvement to ensure that contracts are properly set up and monitored.

Current and future challenges

Members will need to monitor the Budget Reduction Strategy and Medium Term Financial Plan closely to achieve the £5 million savings required by 2015/16.

As some income streams are not stable or are subject to national policy change it is important the Council maintains close budget to actual monitoring to manage income flows in the short to medium term.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified opinion on the Council's 2010/11 Financial Statements on 30 September 2011. There were no material errors within the primary statements apart from the Cash flow Statement. Officers amended the material and significant errors in the Statement of Accounts which I identified during the audit.

My detailed findings from the audit of the Statement of Accounts were reported to the Audit Committee in September 2011. My audit work identified missing 1 April 2009 and 2009/10 comparator information on various primary statements and disclosures notes.

Accounting practice & financial reporting

The Council's finance team had to deal with a large volume of changes to ensure compliance with the International Financial Reporting Standards (IFRS) code. However, a significant number of amendments were made to the accounts and related disclosure notes to ensure the Accounts gave a true and fair view and to comply with first year adoption of IFRS. The Council needs to ensure the disclosures in the accounts comply with the requirements of the CIPFA IFRS based Accounting Code of Practice.

Significant weaknesses in internal control

I identified scope to improve controls in the following areas:

- timely management action and reporting on agreed recommendations following Internal Audit work; and
- assurance gathering arrangements to support the Annual Governance Statement.

Internal Audit recommendations

The Council does not always act promptly on recommendations made by Internal Audit and agreed with management. It is important, as part of the Council's governance arrangements, that all internal audit control related recommendations are implemented in a timely manner and monitored by management and the Audit Committee.

Annual Governance Statement

I found the Council still does not have robust and ongoing assurance gathering arrangements in place to support the required disclosures in its Annual Governance Statement (AGS). The Council did draw on the requirements of the Good Governance Standard, but each Council department/division needs to have an assurance framework including annual declarations to support the Council's Annual Governance Statement.

Recommendations

Recommendations

- R1** Ensure that adequate time is built into the accounts closedown plan to undertake a thorough quality assurance review.
 - R2** Ensure that agreed audit recommendations are followed up and management should report progress against the recommendations to the Audit Committee at each meeting.
 - R3** Develop a robust departmental assurance gathering framework to support the Annual Governance Statement.
-

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is as follows.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The organisation has adequate systems and processes to manage financial risks effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> <p>The Council had total usable reserves of £13.45 million at the end of 2010/11. This is made up of usable capital reserves of £2.7 million, Housing Revenue Account balance and reserves of £1.24 million, Committed reserves of £5.68 million and General Fund balance and reserves of £3.83 million. In the context of the comprehensive spending review it is vital that reserve levels are closely monitored to ensure that usable general reserve balances reflect the level of financial risks the Council faces.</p>

Criterion	Key messages
	<p>The Council needs to ensure that its earmarked reserves are still required for the purposes they were originally set aside and that there are robust plans to either spend them or release them into the general fund if no longer required.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council is continuing to prioritise its resources within tighter overall funding. It is currently looking to reduce costs further through service reviews, a focus on back office savings, accommodation review, and increasing income.</p> <p>During these reviews I encourage the Council to continue to:</p> <ul style="list-style-type: none"> ■ make use of public consultation and use of appropriate information on local needs; ■ challenge service delivery with robust options appraisals; and ■ use comparative information to drive economy, efficiency and effectiveness.

Current and future challenges

Challenge	Action
<p>Economic downturn and pressure on the public sector</p> <p>The economic downturn is placing increasing pressure on the public sector as a whole. Following the Comprehensive Spending Review settlement the Council currently faces a budget gap of £5 million by the end of 2015/16.</p>	<p>The Council's Executive Committee approved new priorities and a new Budget Strategy in October 2011 and the Council also approved the priorities in October 2011.</p> <p>The £5 million reduction is to be achieved through a combination of senior management restructuring, voluntary redundancies and other staff cost savings, increased income, and annual use of available reserves, service reductions and efficiencies.</p> <p>Members will need to monitor the Budget Reduction Strategy and Medium Term Financial Plan closely to achieve the £5 million savings required by 2015/16.</p> <p>Some of the savings are as a result of reducing the numbers of senior managers. This presents a further risk for the Council to manage given the loss of knowledge and experience and pressure on future management capacity.</p>
<p>Income streams and policy changes</p> <p>The Council's income streams are under pressure because of both national policy and local issues, including:</p> <ul style="list-style-type: none">■ localisation of non-domestic business rates and the risk of lower future related revenue;■ the proposed national freeze on council tax has only one year of subsidy grant which has implications for medium term plans in terms of any future potential council tax rises■ impact of proposed changes in second and vacant homes discounts;	<p>£1.5 million (30 per cent) of the Budget Strategy to increase discretionary income includes increases to service charges. It is critical that members and officers closely monitor performance against the budgeted increases given price and demand sensitivities that currently exist in the economy.</p> <p>Some income streams are not stable and or are subject to policy change it is important the Council maintains close budget to actual monitoring to manage income flows in the short to medium term.</p>

Challenge

- future building control and planning services demand; and
- reduced car park income as a result of reduced demand and any changes to on-street parking enforcement arrangements;

I acknowledge the Council is facing further policy changes and subsequent financial pressures on self financing of its Housing Revenue Account (HRA) and proposed changes to the Council Tax Benefit scheme.

Action

The Council will need to continue to monitor the financial impact of the HRA and any Council Tax Benefits policy changes.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Borough Treasurer. I will present this letter at the Audit Committee on 15 December 2011 and will provide copies to all Members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports and opinions issued to the Council during the year.

Report	Date issued
Audit Plan	February 2011
IFRS Restatement and review of financial systems	June 2011
Annual Governance Report	September 2011
Auditor's report giving an opinion on the financial statements	30 September 2011
Value for money conclusion	30 September 2011
Certification of completion of the audit	30 September 2011
Auditor's assurance statement on whole of government accounts (WGA)	30 September 2011

The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Gina Martlew
Appointed Auditor
November 2011

Appendix 1 – Fees

	Planned Fee	Actual Fee	Variance
Scale fee for the audit	£118,000	£122,000	£4,000
Responding to taxpayer questions and potential objections	n/a	£1,250	£1,250
Rebated fees – see below	n/a	(£8,059)	(£8,059)
Total	£118,000	£115,191	(£2,809)

The Audit Committee, Chief Executive and Borough Treasurer agreed the additional audit fee of £4,000 in September 2011. The additional fee was to cover extra audit work carried out to ensure the Statement of Accounts were compliant with the new IFRS Code.

The £1,250 fee covers additional work I undertook to address and respond to questions received from a Barrow in Furness Borough taxpayer.

The Audit Commission has paid rebates to you of:

- £6,422 in respect of additional costs of ensuring correct introduction of International Financial Reporting Standards; and
- £1,637 in respect of reduced audit requirements for reviewing the Council's use of resources.

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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- any director/member or officer in their individual capacity; or
- any third party.



AUDIT COMMITTEE	Part One (D) Agenda Item 8
Date of Meeting: 15th December, 2011	
Reporting Officer: Borough Treasurer	
<p>Title: Annual Review of Internal Audit 2010-2011</p> <p>Summary and Conclusions:</p> <p>An annual review of the effectiveness of the Internal Audit Service is required by the Accounts and Audit Regulations 2011.</p> <p>Internal Audit must comply with proper practice as defined by the code of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This code is recognised in the Accounts and Audit Regulations as proper practice.</p> <p>For the year 2010-2011 a review has been undertaken and this report informs Committee of the findings.</p> <p>I am satisfied that the Internal Audit Service is effective.</p> <p>Recommendations:</p> <p>Members are recommended to endorse the review.</p>	

Report

Regulation 4 of the Accounts and Audit Regulations 2011 requires audited bodies to conduct a review of the effectiveness of its system of internal control at least once a year. Regulation 4 also requires the findings of the review of the system of internal control to be considered by this committee. This review is contained within the Annual Governance Statement, approved by Members in September 2011.

Regulation 6 of the Accounts and Audit Regulations 2011 requires audited bodies to review the effectiveness of their Internal Audit Service once a year and for the findings of the review to be considered by this committee; this is a part of the system of internal control referred to in Regulation 4.

I am satisfied that the Internal Audit Service is effective. I have referred to the following documents to support my opinion:

1. The CIPFA code of practice for Internal Audit in local government – a self-assessment checklist completed by the Head of Internal Audit and reviewed by the Borough Treasurer;
2. The CIPFA statement on the role of the Head of Internal Audit in local government – a self-assessment completed by the Head of Internal Audit and reviewed by the Borough Treasurer;
3. The Internal Audit annual report for 2010-2011 – this contains the performance of the service for the financial year; and
4. Post audit questionnaires – these are returned by departmental managers to reflect satisfaction with the service.

The CIPFA code of practice for Internal Audit in local government

The self-assessment checklist (Appendix 1) is split into eleven standards which are broken into criteria to make the self-assessment more logical.

The adoption of the standards can be yes (fully adopted), partial, or no; the self-assessment is summarised in the table below:

Standard	Total criteria	Adopted		
		Yes	Partial	No
Scope of Internal Audit	21	21		
Independence	15	15		
Ethics for internal auditors	11	11		
Audit Committees	11	11		
Relationships	14	14		
Staffing, training and development	11	11		
Audit strategy and planning	20	20		
Undertaking audit work	18	18		
Due professional care	11	11		
Reporting	32	32		
Performance, quality and effectiveness	27	27		
Total	191	191	0	0

The CIPFA statement on the role of the Head of Internal Audit (HIA) in local government

This self-assessment checklist (Appendix 2) is split into five standards which are broken into criteria to make the self-assessment more logical.

As before, the adoption of the standards can be yes, no or not applicable; the self-assessment is summarised in the table below:

Standard	Total criteria	Adopted		
		Yes	No	N/A
The HIA in plays a critical role in delivering the Council's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.	13	13		
The HIA has a critical role in delivering the Council's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.	31	31		
The HIA is a senior manager with regular and open engagement across the Council, particularly with the leadership team and with the Audit Committee.	16	15		1
The HIA leads and directs an internal audit service that is resourced to be fit for purpose.	24	24		
The HIA is professionally qualified and suitably experienced.	9	9		
Total	93	92	0	1

The criteria (3.1.2 on Appendix 2) assessed as not applicable relates to the seniority of the Head of Internal Audit if they are an employee. The Head of Internal Audit is not a Council employee.

The Internal Audit annual report for 2010-2011

This was presented to this committee in July 2011.

Post audit questionnaires

Once audits are completed, departmental managers are issued with a satisfaction questionnaire. The questionnaire contains seven questions that are scored on the scale very good, good, satisfactory, below average and poor:

1. Assignment planning and fieldwork – the opportunity for you to comment on the scope and objectives of the audit;
2. Assignment planning and fieldwork – the technical knowledge of the auditor;
3. Assignment planning and fieldwork – the auditors understanding of your service and its business needs;
4. Assignment planning and fieldwork – the professional conduct of the auditor;

5. Reporting – clarity of the report/practicality and relevance of the recommendations;
6. Reporting – the report meeting the audit objectives; and
7. Overall assessment – overall assessment of the audit.

The completed questionnaires are returned to the Borough Treasurer and it is my expectation that the service should perform to a good standard which equates to an 80% satisfaction rate. From the questionnaires returned for 2010-2011, the Internal Audit Service achieved an 88% satisfaction rate.

Background Papers

Post audit questionnaires held by Borough Treasurer.

AUDIT COMMITTEE	Part One (D) Agenda Item 9
Date of Meeting: 15th December, 2011	
Reporting Officer: Borough Treasurer	
<p>Title: Internal Audit Strategy</p> <p>Summary and Conclusions:</p> <p>The Internal Audit Manager has prepared the attached Internal Audit Strategy for members' approval. Adopting the strategy would comply with good practice guidance issued by the Chartered Institute of Public Finance and Accountancy.</p> <p>The Council's Internal Audit Manager will attend the meeting to present the strategy to Members.</p> <p>Recommendations:</p> <p>Members are recommended to consider and approve the strategy.</p>	

Report

The Internal Audit Strategy is attached to this report at **Appendix 2**.

Background Papers

Nil

INTERNAL AUDIT STRATEGY

Vision:

To deliver a risk-based audit plan tailored to the Client's needs, in a professional, independent manner, to provide the Organisation with an opinion on the level of assurance it can place on the internal control environment, and to make recommendations to improve it.

1 Internal Audit Objectives

- 1.1 To play a critical role in helping the Organisation, where appropriate, to deliver its strategic objectives.
- 1.2 To review the governance, risk management and internal control arrangements of the Organisation to provide a level of assurance and an opinion on internal controls. This opinion assists the Organisation in completing the Annual Governance Statement.
- 1.3 To provide a cost effective and quality internal audit service based on the CIPFA and IIA codes of practice for Internal Audit and guidance on the role of its Head, which is seen to add value to the Organisation.
- 1.4 To understand the Organisation's risk profile and where assurances are required.
- 1.5 To agree areas where the external auditor and other review bodies will place reliance on Internal Audit's testing and findings, subject to existing formal protocols.
- 1.6 To consider the timing for each audit review to maximise the benefit of assurance provided and minimise the disruption to the Organisation's business activities.
- 1.7 To provide specific fraud related responsibilities as set out in the Organisation's Anti-Fraud and Corruption Strategy and to identify improvements to systems and procedures to prevent and deter fraud and corruption.
- 1.8 To value and continuously develop the Internal Audit team and its service.

2 Outcomes

- 2.1 Delivery of an Annual Audit Plan for the Organisation taking into account the Accounts and Audit Regulations 2003 (as amended), the Organisation's strategic objectives, its risk management process, comments from the Audit Committee or other Member led Scrutiny Committees and the requirements of the Audit Commission.
- 2.2 Regular reviews of the Audit Plan and, where appropriate, amending it to reflect significant changes.
- 2.3 An independent appraisal function reviewing the governance, risk management and internal control arrangements of the Organisation and its management to encourage, where appropriate, the proper, economic, efficient and effective use of resources within the Organisation.
- 2.4 Provision of clear and concise audit reports to assist management in implementing controls and improving services. In addition, production of an Annual Report containing the Head of Internal Audit's opinion statement.
- 2.5 Provision of responsive, accurate and informative advice and support on internal controls to management.
- 2.6 Reporting to the Organisation's Audit/Scrutiny committees in accordance with their terms of reference.
- 2.7 The investigation of suspected cases of employee financial irregularity, fraud or corruption in accordance with agreed procedures.
- 2.8 Following up the degree of implementation achieved in relation to recommendations agreed by management during prior years, and reporting of findings accordingly.
- 2.9 Contributing, as required, to the Organisation's annual review of its governance arrangements.

3 How the Head of Internal Audit will form an opinion on the control environment

- 3.1 The Head of Internal Audit prepares an annual risk based audit plan using the strategic risk register and identifies key areas for audit attention in partnership with the Organisation's Chief Financial Officer.
- 3.2 The Audit Plan outlines the areas to be reviewed and the resources

required. The plan is flexible in order to reflect the changing needs and priorities of the Organisation and external audit. Each internal report provides an opinion of that area, which is summarised in the Annual Report.

4 How Internal Audit's work will identify and address significant local and national issues and risk

- 4.1 Discussion will be held periodically with the Chief Financial Officer to identify any local and national issues and risk, changes in the service area and any new areas that require Internal Audit's opinion.
- 4.2 Pre-audit work is performed to identify changes in the area to be audited including legislation, implementation of new computer systems and working practices. These will be reviewed on "risk" as part of the scope for the audit. From these exploratory meetings a risk/control assessment is undertaken and documented and agreed with the auditee. For core financial, revenue and benefits audits, detailed flow charts are produced identifying the key controls to be tested.
- 4.3 The Head of Internal Audit is a member of the Cumbria Audit Group and attends regular meetings to assist in the identification of local and national issues and risks.

5 How the service will be provided

- 5.1 Internal Audit provides a significant on-site presence for all major clients, enabling "on-call" advice for client officers. Audit fieldwork is delivered by suitably qualified operational auditors with a mixture of on-site and office-based testing, using client IT systems where appropriate.
- 5.2 A quality assurance process applies to every element of audit work, from initial planning through fieldwork to final reports. All documents are subject to a rigorous critical review to ensure that they meet exacting standards.

6 How the Strategy will be resourced

- 6.1 Each year the Head of Internal Audit assesses the resources needed to deliver the Organisation's Audit Plan. The resulting staffing structure of Internal Audit comprises operational auditors with a mix of skills and qualifications together with wide experience within

auditing and the public sector, supplemented by specialists providing ICT and contract audit expertise.

- 6.2 All staff understand the objectives of the service, are effectively managed and fully involved in its service delivery activities.
- 6.3 Annual staff appraisals identify personal action plans and encourage a commitment to professional, skills training and continuing professional development.

AUDIT COMMITTEE	Part One (D) Agenda Item 10
Date of Meeting: 15th December, 2011	
Reporting Officer: Borough Treasurer	
<p>Title: Internal Audit – Progress Report April 2011 to December 2011</p> <p>Summary and Conclusions:</p> <p>The Committee will receive regular progress reports on the programme of work carried out by the Internal Audit Service. The attached report relates to the period April 2011 to December 2011.</p> <p>The Council's Internal Audit Manager will attend the meeting to present the report to Members.</p> <p>Recommendations:</p> <p>Members are recommended to:</p> <ol style="list-style-type: none"> 1. Receive and consider the report; and 2. Raise any questions or concerns with the Internal Audit Manager. 	

Report

The Internal Audit progress report is attached at **Appendix 3**.

Background Papers

Nil

FURNESS AUDIT

BARROW BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

April to December

2011/12

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EXECUTIVE SUMMARY

Purpose

The purpose of the report is to update Members of the Council's Audit Committee on:

- Internal Audit work performed up to 2nd December 2011, including final reports issued relating to a previous reporting period; and
- Significant issues that have arisen during this period as a result of our work.

Content

The information is presented in the following schedules:

1. *A Statistical Summary of Recommendations*

This schedule includes all audit recommendations to which Council management have responded between 1st April and 2nd December 2011. The figures are analysed according to the 'priority' of the recommendations, and the extent to which each has been accepted by management for action.

2. *Accepted Priority 1 Recommendations*

This schedule provides details of all major recommendations which have been accepted by management.

3. *Rejected Recommendations*

This schedule provides details of major and significant (i.e. Priority 1 and Priority 2) recommendations, which have been rejected by Council Management.

4. *Audit Coverage*

Details of audit assignments carried out in the period, including any checks on external partner organisations.

5. *Classifications of Assurance and Recommendations*

An explanation of the classifications used for prioritising recommendations and assessing levels of assurance.

1. STATISTICAL SUMMARY OF RECOMMENDATIONS

The following table summarises the number of audit recommendations we made in our final reports issued up to 2nd December 2011; analysed by their priority, including whether accepted by management.

Recommendations	Total	Priority 1	Priority 2	Priority 3
Made	56	1	32	23
Fully Accepted	52	1	30	21
Partly Accepted	4	0	2	2
Not Accepted	0	0	0	0

2. ACCEPTED PRIORITY 1 RECOMMENDATIONS

One priority one recommendation was made within the reporting period.

Audit Report	PARTIAL DEMOLITION OF A 'DARLINGTON' STEEL PORTAL FRAMED WAREHOUSE & RE-ESTABLISHING STRUCTURE ETC
Recommendation	The Council should ensure that the Final Account submitted by the contractor is fully scrutinised prior to approval for payment; and the additional sum claimed by the Contractor is acceptable.
Rationale	<p>Contractors submitted a final account (11th March 2010) following confirmation that practical completion has been achieved. The account is usually scrutinised by the Council's appointed Quantity Surveyor or equivalent to confirm accuracy and completeness.</p> <p>Internal Audit obtained the Final Account submitted by Thomas Armstrong Construction Limited's Principal Quantity Surveyor dated 11th March 2010. Practical Completion had been achieved on 22nd July 2009, a delay of 23 days beyond the agreed contract period for completion i.e. 20th April 2009 to 29th June 2009 (a total of ten weeks).</p> <p>It should be noted that the contractor had tendered to complete the work in six weeks; however the Council made provision for ten weeks in the contract document.</p> <p>The Final Account includes a claim by the contractor for additional Preliminary Sums for a period outside the contract period amounting to £19,662.53. Internal Audit have not been provided with any evidence to confirm that an extension to contract document or equivalent had been approved and issued by the Council for the period 29th June 2009 to 22nd July 2009.</p> <p>Internal Audit were also unable to establish whether the Final Account sum had been queried with the contractor.</p>
Response	<p>The Council were committed to getting the main road contract underway; Thomas Armstrong are competitive. A Quantity Surveyor was not appointed for this contract, however the final account was mathematically checked with the contractor's Principal Quantity Surveyor.</p> <p>An Extension of time was warranted with additional work items, although this was not formally given in writing.</p>

3. REJECTED RECOMMENDATIONS

3.1 PRIORITY ONE RECOMMENDATIONS

There have been no rejected priority one recommendations during the reporting period.

3.2 PRIORITY TWO RECOMMENDATIONS

There have been no rejected priority two recommendations during the reporting period.

4. INTERNAL AUDIT COVERAGE: APR-DEC 2011

Audit Assignment	System Significance Band	Status	Assurance
ANNUAL AUDITS			
Income Collection	1	Final	Substantial
Housing and Council Tax Benefits	1	Commenced	
Council Tax	1	Final	Unqualified
Performance Management	2	Fieldwork complete	
Business Rates (NDR)	1	Final	Unqualified
Risk Management	1	Draft	Restricted
Financial Information System	1		
Budgetary Control	2	Final	Unqualified
Treasury Management	2	Final	Unqualified
Car Park Meter Income	2	Final	Substantial
Payroll System Review	2		
Payroll (inc. Expenses)	2	Final	Substantial
Accounts Receivable	2	Draft	Substantial
Corporate Control/Governance	2		
Periodic Checks	2	Q2 complete	-
Procurement (inc. Ordering)	2	Commenced	
Accounts Payable	2	Final	Substantial
Housing Rents	2	Final	Substantial
Standing Orders/Financial Regs/Anti Fraud	2		
Housing Maintenance (Day to day repairs)	2		

Audit Assignment	System Significance Band	Status	Assurance
RISK ASSESSED SYSTEMS			
Leisure Centre	3	Draft	Substantial
Disabled Facilities Grants	3	Final	Substantial
Insurance	3	Final	Substantial
Asset Register/Property Portfolio (replaced with add. Contract Audit)	3	Cancelled	-
Cemeteries and Crematoria	4	Final	Substantial
Grounds Maintenance	4	Draft	Substantial
Personnel	4	Final	Substantial
DESIGNATED ANNUAL AUDIT ACTIVITY			
Receipt Book Checks	-	Ongoing	-
Petty Cash/Floats Spot Checks	-	Complete	-
<i>Other Projects</i>			
Contract Standing Orders Compliance Checklists	-	Complete	-
<i>Community Organisations (inc. Mayor's Account)</i>			
Hawcoat	-	Complete	-
Abbotsvale	-	Complete	-
Dalton Community Association	-	Awaiting return of certification letter	-
Roosegate	-	Complete	-
Barrow Playing Fields Users Association	-	Commenced	-
Mayors Account	-	Complete	-

Audit Assignment	System Significance Band	Status	Assurance
<i>Funding Checks/Grant Claims</i>			
North Central Barrow Renewal Area Final Claim Funding Check	-	Complete	-
Inspiring Communities Final Claim Funding Check	-	Complete	-
Walney Landfill Funding Check	-	Complete	-
Fraud Hotline	-	Ongoing	-
NFI Responsibilities	-	Ongoing	-
IT ENVIRONMENT AUDITS	1		
Internet Access and Security	-	Ongoing	
IT General Controls (Liberata)	-	Draft	Substantial
Disaster Recovery Update (NINEVEH)	-	Ongoing	
CONTRACT AUDIT	1		
Demolition of Sutherland Street	-	Final	Substantial
Re-roofing, demolition and Elevation repairs at 2-28 Sutherland St & 96 Crellin St. Group Repair)	-	Draft	Restricted
Marsh St Group Repair	-	Final	Substantial
Waterside Business Park - New Access Road	-	Fieldwork complete	-
Demolition of Arthur Street	-	Stage 2 complete	-
Ship Inn Piel Island	-	Commenced	
AUDIT MANAGEMENT			
<i>Implementation Review</i>			
Contract Probity	-	Complete	-
Contract Payment Procedures/ Contract Register	-	Complete	-

Audit Assignment	System Significance Band	Status	Assurance
Streetcare	-	Complete	-
Capital Programme	-	Complete	-
<i>Implementation Review</i>			
Development Control	-	Complete	-
Client Monitoring (Revenues & Benefits)	-	Complete	-
Forum 28	-	Complete	-
Licensing	-	Complete	-
Barrow Park	-	Complete	-
Allotments	-	Complete	-
Market Complex	-	Complete	-

Audit Assignment	System Significance Band	Status	Assurance
CONTINGENCY <i>(Previous year draft and final reports issued during period)</i>			
Emlyn Street Car Park	1	Final	Substantial
Construction of Link Road - Cornmill Crossing to North Rd.	1	Final	Substantial
Partial Demolition of a Darlington Steel portal framed warehouse and Re-establishing structure	1	Final	Restricted
Public Realm Scheme Phase 2	1	Final	Substantial
Heating Ventilation and Air Conditioning contract	1	Final	Substantial

5. CLASSIFICATIONS

5.1 Classification of Assurance Levels

At the conclusion of each audit, we give an overall opinion on the level of assurance, which we consider is provided by the controls in place within the system audited. The following classification of assurance levels has been adopted:

Level	Definition
1. Unqualified Assurance	The controls appear to be consistently applied.
2. Substantial Assurance	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
3. Restricted Assurance	The level of non-compliance identified places the system objectives at risk.
4. None	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

The conclusions and assurance levels specified for each audit are used to support the Council's governance review arrangements, as required by the Accounts and Audit (Amendment) (England) Regulations 2006, and the 2007 CIPFA/SOLACE Framework and Guidance notes.

5.2 Priority of Recommendations

Our audit recommendations are categorised by three priority levels: -

- Priority 1* Major issues that we consider need to be brought to the attention of senior management.
- Priority 2* Important issues which should be addressed by management in their area of responsibility.
- Priority 3* Detailed issues of a relatively minor nature.

APPENDIX 1 – DRAFT REPORTS ISSUED

Ref	Audit	Date issued
10-24	Catering Contract Sodexo Forum 28	29 Sept 2010
11-28	Grounds Maintenance	11 May 2011
11-23	Leisure Centre	17 June 2011
IT46	IT General Controls (Liberata)	30 Aug 2011
11-08	Risk Management/Business Continuity	2 Sept 2011
CR63	Re-roofing, demolition and Elevation repairs at 2-28 Sutherland St & 96 Crellin St. (Group Repair)	15 Sept 2011
11-15	Accounts Receivable	2 Dec 2011

Appendix 2 – Restricted Assurance Audits

		Recommendations			Previous Recommendations			Total	Date Issued
Ref	Audit	P1	P2	P3	P1	P2	P3		
CR 55	Alterations to the Park Leisure Centre	0	9	0	N/a			9	9 June 2010
10-24	Sodexo Catering Contract Forum 28 (<i>awaiting management response</i>)	2	6	1	N/a			9	17 August 2010
CR 53	Construction of Holker Street Car Park	0	10	0	N/a			10	1 December 2010
10-34	Residual Waste Probity Review	2	3	0	N/a			5	2 December 2010
IT40	IT Asset Management	0	11	2	N/a			13	10 December 2010
IT 44	IT General Controls, Review of IT 42	1	16	5	N/a			22	11 February 2011
CR59	Partial Demolition of a Darlington Steel portal framed warehouse and Re-establishing structure	1	4	1	N/a			6	20 July 2011
11-08	Risk Management/Business Continuity (<i>awaiting management response</i>)	3	1	0	N/a			4	2 September 2011
CR63	Re-roofing, demolition and Elevation repairs at 2-28 Sutherland St & 96 Crellin St. (Group Repair) (<i>awaiting management response</i>)	1	2	2	N/a			5	15 September 2011

AUDIT COMMITTEE	Part One (D) Agenda Item 11
Date of Meeting: 15th December, 2011	
Reporting Officer: Borough Treasurer	
<p>Title: Internal Audit – Final Reports</p> <p>Summary and Conclusions:</p> <p>Internal Audit have completed a number audits in accordance with the approved annual programme. On completion, final reports are presented to this Committee for consideration.</p> <p>The Council's Internal Audit Manager will attend the meeting to present the reports to Members.</p> <p>Recommendations:</p> <p>Members are recommended to:</p> <ol style="list-style-type: none"> 1. Receive and consider the reports; and 2. Raise any questions or concerns with the Internal Audit Manager. 	

Report

There are 16 final reports for consideration, attached to this report **Appendices 4 – 19**. The following table sets out the assurance level assigned to each report and the number of issues identified.

The assurance levels are:

None – control is weak, causing the system to be vulnerable to error and abuse.

Restricted – significant weaknesses have been identified in the system of control, which put the system objectives at risk.

Substantial – while there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.

Unqualified – there is an adequate system of control designed to achieve the system objectives.

The recommendation levels assigned to issues identified are:

Priority 1 – **major issues** that Internal Audit considers need to be brought to the attention of senior management.

Priority 2 – **important issues** which should be addressed by management in their areas of responsibility.

Priority 3 – **minor issues** which provide scope for operational improvement.

Previous issues – are issues identified in a previous audit report that have not been entirely implemented at the time of this latest audit.

No.	Report	Assurance level	Major issues	Important issues	Minor issues	Previous issues
11-05	Council Tax	Unqualified	-	-	-	-
11-07	NNDR	Unqualified	-	-	-	-
11-10	Budgetary Control	Unqualified	-	-	-	-
11-11	Treasury	Unqualified	-	-	-	-
11-12	Car Parking	Substantial	-	-	2	1
11-14	Payroll	Substantial	-	5	2	8
11-19	Payables	Substantial	-	-	1	-
11-20	Housing Rents	Substantial	-	-	1	1
11-24	Disabled Facilities	Substantial	-	1	2	-
11-25	Insurance	Substantial	-	1	5	2
CR58	Link Road	Substantial	-	1	-	-
CR59	Darlington Street	Restricted	1	4	1	-
CR60	Public Realm Ph2	Substantial	7	-	-	-
CR61	Heating Contract	Substantial	3	-	-	-
CR62	Sutherland Street	Substantial	2	-	-	-
CR64	Marsh Street	Substantial	-	-	1	-

Background Papers

Nil

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 11-05
COUNCIL TAX

Executive Summary

Introduction

The Council's Council Tax service is administered by Liberata, using the Northgate iWorld system, as part of a long term contract awarded in 1998. The gross liability for 2011/12 is approximately £40m, which relates to 33,269 properties.

Audit Objectives

An audit of this system forms part of the agreed 2011/12 programme. The audit objectives were to evaluate and test the internal controls over the Council Tax system. The scope and objectives of the audit were discussed and agreed in advance with Lesley Wood, Senior Revenues Technician.

Key Points
Unqualified Assurance
No recommendations

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – *Unqualified Assurance*

As a result of the audit we have concluded that there is a basically sound system of control, and as such we have not raised any new recommendations.

During the audit, Internal Audit reviewed the two agreed recommendations made in Audit Report 10-05, dated January 2011. Both recommendations have been fully implemented.

Management Response

We have received a constructive management response from Lesley Wood, Senior Revenues Technician, accepting the report.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- Maintenance of the Council Tax database;
- Exemptions/Discounts;
- Billing;
- Collection;
- Recovery; and
- Write offs.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Keith Jackson, Gill Jones and Jack Jones

The fieldwork was performed: September to October 2011.

All final Internal Audit reports are presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 11-07
NATIONAL NON DOMESTIC RATES

Executive Summary

Introduction

The Council's National Non Domestic Rates (NNDR) service is administered by Liberata, using the Northgate iWorld system, as part of a long term contract awarded in 1998. The total rateable value for the 2,293 NNDR properties in the Borough is around £58.0m, which produces a gross liability of £25.1m for 2011/12.

Audit Objectives

An audit of this system forms part of the agreed 2011/12 programme. The audit objectives were to review the internal controls over the National Non Domestic Rates system. The scope and objectives of the audit were discussed and agreed in advance with Lesley Wood, Senior Revenues Technician.

Key Points
Unqualified Assurance
No recommendations

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – *Unqualified Assurance*

As a result of the audit we have concluded that there is a basically sound system, and as such we have not raised any new recommendations.

During the audit, Internal Audit reviewed the agreed recommendation made in Audit Report 10-07, dated January 2011, and confirmed that this had been implemented.

Management Response

We have received a constructive management response from Lesley Wood, Senior Revenues Technician, accepting the report.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- Maintenance of the NNDR database;
- Reliefs/Exemptions;
- Billing;
- Collection;
- Recovery of Arrears; and
- Write offs.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendation from our previous audit report.

Performance

Auditors: Keith Jackson, Gill Jones and Jack Jones.

The fieldwork was performed: September to October 2011.

All final Internal Audit reports are presented to the Council's Audit Committee.

APPENDIX 2

CLASSIFICATIONS

Assurance Level

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 11-10
BUDGETARY CONTROL

Executive Summary

Introduction

The Council's Budgetary Control function is co-ordinated by the Borough Treasurer's department, with responsibility for individual budgets being allocated to the designated budget holders. Each Accountant is assigned responsibility for a number of specified cost centres, and liaises with the relevant budget holders to ensure the efficient and effective management of Council funds. A detailed timetable and written procedures exist to assist with the management of the Budgetary Control process. The financial details for each cost centre are recorded and controlled through the Council's Oracle Financial System. For the financial year 2011/12, the General Fund budget for the Council is approximately £14.1 million and the Capital programme amounts to just over £8 million.

Audit Objectives

An audit of this system forms part of the agreed 2011/12 programme. The audit objectives were to evaluate and test the internal controls over the Budgetary Control function. The scope and objectives of the audit were discussed and agreed in advance with Sue Roberts, Deputy Borough Treasurer.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Key Points
Unqualified Assurance
No Recommendations

Audit Conclusion – *Unqualified Assurance*

As a result of the audit we have concluded that there is a basically sound system of control and no issues of significance have been identified. As such, we have not raised any new recommendations.

Internal Audit reviewed the one recommendation made in the previous audit report 10-11, dated May 2011; the recommendation has been implemented as far as practicable.

Internal Audit also reviewed the outstanding recommendation from audit report 09-11, dated February 2010. The recommendation has been overtaken by events.

In addition, Internal Audit reviewed the outstanding recommendation from audit report 07-14, dated March 2008. The recommendation has been overtaken by events.

Management Response

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, accepting the report.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- Budget Preparation and Approval;
- Communicating the Budget;
- Budget Monitoring & Management Information; and
- Virements and Supplements.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditor: Sarah Mach

The fieldwork was performed: August to September 2011

All final Internal Audit reports will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 11-11
TREASURY MANAGEMENT

Executive Summary

Introduction

The Council defines Treasury Management as “the management of the Council’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”. The performance of treasury transactions is delegated to the Borough Treasurer and Deputy Borough Treasurer.

The Council’s Treasury Management Strategy 2011/12 to 2013/14 was presented to Executive Committee on 2nd February 2011 and referred to and approved by Council on 22nd March 2011. The principal loan amount is currently £22,389,734 which relates to five loans with the Public Works Loan Board, with maturity dates between 2031 and 2053. There have been no short term loans since the previous audit.

The Council continue to invest surplus funds into an interest bearing account with the Council’s own bank, HSBC plc. In addition, during 2011/12 the Council have placed a small number of fixed term investments through HSBC Money Market.

Audit Objectives

An audit of this system forms part of the agreed 2011/12 programme. The audit objectives were to evaluate and test the internal controls over the Treasury Management process. The scope and objectives of the audit were discussed and agreed in advance with Sue Roberts, Deputy Borough Treasurer.

Audit work included a control evaluation of the system design, and testing the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Key Points
Unqualified Assurance
No recommendations

Audit Conclusion – *Unqualified Assurance*

As a result of the audit we have concluded that there is a basically sound system of control, and as such we have not raised any new recommendations.

Management Response

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, accepting the report.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- Treasury Management Policy/Strategy;
- Investment of Funds;
- Long term borrowing;
- Temporary borrowing; and
- Management information and reporting.

Our audit coverage excludes any activities on the part of the Council involving the use of derivatives or complex financial instruments. We have only checked the controls and therefore, cannot express an opinion on the financial accuracy of the reported figures or the appropriateness of the investment policies.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

Performance

Auditors: Keith Jackson and Sarah Mach

The fieldwork was performed: September to October 2011

All final Internal Audit reports will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 11-12
CAR PARK METER INCOME

Executive Summary

Introduction

The Council's Parking Services Department are responsible for the collection of income from car park pay and display machines within the Borough. There are currently 24 pay and display machines, from which total income received during 2010/11 was in excess of £735,000. Since November 2010 the Council have introduced the facility for car park users to pay using a mobile phone technology via RingGo, which allows the user to make payment with a credit or debit card rather than using cash at a machine.

Audit Objectives

An audit of this system forms part of the agreed 2011/12 programme. The audit objectives were to evaluate and test the internal controls over the Car Park Meter Income process. The scope and objectives of the audit were discussed and agreed in advance with Caren Hindle, Parking Services Manager.

Key Points
Substantial Assurance
Two minor issues.
One Previous recommendation

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system, there are weaknesses, which may put some of the system objectives at risk. We have made two Priority 3 recommendations, which relate to:

- ensuring that the monthly fee for the 'pay by phone' parking service, is consistently and correctly invoiced; and
- updating the parking procedures on a regular basis.

Internal Audit also reviewed the one recommendation made in the previous audit report 10-13, dated July 2010, which remains outstanding and concerns recording all variances identified between ticket machine audit tickets and cash collected on the 'Car Park Ticket Machine Income' sheets.

Management Response

We have received a constructive management response from Caren Hindle, Parking Services Manager, accepting each of the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Parking Services Manager	Priority: 3
<p>The Council should ensure that the monthly fee for the 'pay by phone' parking service is consistently and correctly invoiced.</p>		
<p>Rationale</p>		
<p>Cobalt Telephone Technologies operate the RingGo 'pay by phone' parking service for the Council. Monthly income is paid directly into the Council's bank account following which the Council are invoiced a fee of 8.8% of the monthly income.</p> <p>Internal Audit reviewed the monthly invoiced charges from Cobalt and identified for January to date, the 8.8% fee had been correctly charged based on the monthly income received by the Council. However, no invoice has been received from Cobalt relating to December 2010 and the November 2010 fee had been incorrectly calculated.</p>		
<p>Management Response</p>		
<p>From May 2011, I am checking the online reports and writing on the invoice the date it has been checked to confirm it matches the invoice, prior to signing off the invoice.</p>		
Accepted	Implementation Deadline:	Implemented

Recommendation 2	Responsibility: Parking Services Manager	Priority: 3
<p>The Council should ensure that the parking procedures are updated on a regular basis.</p>		
<p>Rationale</p>		
<p>Internal Audit reviewed the documented car parking procedures and identified that these were last updated in July 2009. There have been changes to certain processes and procedures, which should be reflected within the departmental procedures, for example the merge of Parking Services and Admin Services departments.</p>		
<p>Management Response</p>		
<p>Due to staff shortages, training requirements and volume of work, an updated procedure is required but will take longer to produce. I hope to have this completed by 31 December 2011.</p>		
Accepted	Implementation Deadline:	31 December 2011

Previous Recommendations	Responsibility: Parking Services Manager
<p>The Council should implement the agreed outstanding recommendation from audit report 10-13, dated July 2010, namely:</p> <p>The Council should ensure that all variances identified between ticket machine audit tickets and cash collected are recorded on the 'Car Park Ticket Machine Income' sheets; and are therefore subject to review by the Parking Services Manager.</p> <p>(Priority 3)</p>	
Rationale	
<p>When the income from each car park ticket machine is removed (held within a sealed box), an audit ticket is automatically produced stating the value of cash within the machine. The sealed cash boxes are returned to the Town Hall and the contents counted and recorded on the 'Car Park Ticket Machine Income' sheet. The current procedure requires discrepancies between the ticket value and the cash collected to be recorded on the sheet, and any variances greater than £5 investigated by the Parking Services Manager.</p> <p>For a sample of 20 days in 2010/11, Internal Audit identified where a variance over £5 had occurred; each had been investigated by the Parking Manager. However, a further three discrepancies under £5 had not been recorded on the 'Car Park Ticket Machine Income' sheets. Consistently recording all discrepancies ensures that each variance is brought to the attention of the Parking Services Manager upon review of the 'Car Park Ticket Machine Income' sheet; therefore any required action may be taken.</p>	
Management Response	
<p>The cash sheets are checked prior to signing them off but this will be performed more thoroughly, as well as the monthly check.</p>	
Revised Implementation Deadline:	Implemented

APPENDIX 1

AUDIT FRAMEWORK

Coverage

The review covered the following areas which were agreed as part of the preliminary planning stage:

- collection of income;
- banking & reconciliation of income;
- monitoring of car park income;
- car parking charges; and
- procedures.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Sarah Mach and Gill Jones

The fieldwork was performed: May-June 2011

All final Internal Audit reports will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 11-14
PAYROLL

Executive Summary

Introduction

Salaries and expenses of Council Officers and Members' allowances and expenses are processed within the Borough Treasurer's Department using a package supplied by Selima Software Ltd. The July 2011 monthly payroll involved the payment of approximately £0.5m to 386 individuals.

Later in 2011, the Council is to move to a payroll bureau arrangement provided by Selima. This will involve significant changes to the way in which payroll data is prepared for processing and subsequent calculation by the company.

Audit Objectives

An audit of this system forms part of the agreed 2011/12 programme. The audit objectives were to test the operation of internal controls over the current Payroll system in the period leading up to the implementation of the bureau arrangement. The scope and objectives of the audit were discussed and agreed in advance with Chris Butler, Systems and Control Accountant.

Audit work comprised testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Key Points
Substantial Assurance
Five important issues
Two minor issues
Eight Previous Recommendations

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system, there are a number of weaknesses which put some of the system objectives at risk. We have made five Priority 2 recommendations which relate to:

- reviewing the payment of landline telephone allowances to officers who are supplied with a mobile telephone;
- ensuring that all claims for the payment of overtime hours are signed by the employee;
- applying the correct mileage rate for Members' expense claims and reviewing the rate as appropriate;
- obtaining documentation to support the re-imburement of Members' telephone/broadband rental payments and considering introducing a standard allowance for these costs; and
- introducing a process for permanent employee payroll information to be checked and certified annually by departmental managers.

In addition, we have made two Priority 3 recommendations, which concern:

- clarifying whether an employee identified in this review is entitled to receive a telephone allowance; and
- ensuring that all officers' expense claims are signed by the employee before authorisation and payment.

Internal Audit reviewed the five recommendations made in audit report 10-14, dated February 2011. One recommendation has been implemented and two have been superseded by substantive recommendations from this review; two Priority 3 recommendations remain outstanding, which concern:

- producing, authorising and retaining payroll reports on a consistent basis; and
- requiring Members to provide fuel receipts and submit driving licences and insurance details for examination.

We also reviewed the six outstanding recommendations made in audit report 08-21, dated February 2009. One recommendation has been implemented and five recommendations remain outstanding, which concern:

- independently reviewing the input of changes to standing data (Priority 2);
- independently checking the calculation of initial pay for starters and final pay for leavers, for accuracy (Priority 2);
- ensuring that Officer's expense forms are initialled to confirm they have been checked for accuracy by the Payroll Officer (Priority 3);
- considering introducing a pro-forma to document the calculation of pay for new starters (Priority 3); and
- ensuring current versions of Officers and Members claim forms are available on the Council's Intranet facility (Priority 3).

Finally, Internal Audit reviewed the outstanding Priority 3 recommendation made in Audit Report 07-17, dated December 2007. The recommendation remains outstanding and concerns ensuring that overtime and subsistence claims are made on the correct forms.

Where appropriate, the Council should consider these recommendations in its introduction of the new payroll bureau arrangements.

Management Response

We have received a constructive management response from Chris Butler, Systems and Control Accountant and Mohamad Saleh, Borough Treasurer, accepting each of the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Management Team	Priority :	2
<p>The Council should review the payment of landline telephone allowances to those officers who are also supplied with a mobile telephone.</p>			
<p>Rationale</p>			
<p>From a random sample of three employees, Internal Audit identified that the Health and Safety Adviser had been paid a telephone allowance towards his landline rental costs.</p> <p>The Personnel Officer confirmed that the Council also supplies the employee with a mobile phone, which questions the need for assistance towards his land line rental. It appears that other officers may be in the same position of receiving both types of assistance and should therefore be reviewed for acceptability.</p>			
<p>Management Response</p>			
<p>The Members mileage and telephone & broadband allowances are to be considered for amendment at Council in January 2012. These and subsequent changes will be communicated by the Democratic Services Manager to the payroll bureau.</p>			
Accepted	Implementation Deadline:		31 January 2012

Recommendation 2	Responsibility: Systems and Control Accountant	Priority :	2
<p>The Council should ensure that all employees' claims for the payment of overtime hours are signed by the employee or, if agreed as acceptable practice, signed/initialled by an appropriate supervisor.</p>			
<p>Rationale</p>			
<p>Internal Audit reviewed the overtime claims submitted by a random sample of three employees for hours worked in June 2011.</p> <p>One claim related to a shift worker at the Park Leisure Centre, where the procedure involves actual hours being transferred from the employee's signing-in card to a summary timesheet which details pre-printed planned rota hours; overtime is paid for hours worked in excess of the rota. The sampled summary timesheet had been initialled by a duty officer to verify the transfer of information, prior to it being authorised by the Centre's Assistant Administration Officer.</p> <p>Employees would normally be expected to sign their own timesheets/overtime claims. In this example the adopted practice may be considered acceptable as the duty officer evidences the transfer of hours, however an examination of similar claims from the Leisure Centre identified that not all had been initialled by a supervisor.</p>			
<p>Management Response</p>			
<p>Leisure Centre staff have been reminded that claims should be initialled by a supervisor when submitted on the current paper timesheets.</p>			
Accepted	Implementation Deadline:		Immediate

Recommendation 3	Responsibility: Borough Treasurer/Democratic Services Manager	Priority :	2
<p>The Council should ensure that changes to the Members' Allowances Scheme are consistently/formally recorded and promptly notified to the Borough Treasurer's Department. (Particularly taking into account the impending changes to the payroll and expense processing.)</p>			
<p>Rationale</p>			
<p>The Members' Allowance Scheme is reviewed by the Independent Remuneration Panel every three years. However, elements of the Scheme are occasionally reviewed separately through the Full Council following referral from the Executive Committee; clearly the results of such reviews need to be consistently and formally recorded. Following which these changes must be promptly notified to the Borough Treasurer's Department Payroll Officer, in writing, by the Democratic Services Manager, to ensure an adequate system of internal control exists.</p> <p>This process needs to remain effective when the payroll and expenses system is transferred to an external provider.</p>			
<p>Management Response</p>			
<p>All changes to the Members' Allowance Scheme will be promptly notified to the Councils' payroll bureau by the Democratic Services Manager. There are changes that occur within the 3 year period of the scheme and these are approved by Full Council. Allowances for the Leader & Deputy Leader and Chair & Vice-Chair of the Executive Committee were changed by Council in October 2011; the Borough Treasurer authorised these changes to be made by the payroll bureau as notification was not received from the Democratic Service Manager.</p> <p>The Members mileage and telephone & broadband allowances are to be considered for amendment at Council in January 2012. These and subsequent changes will be communicated by the Democratic Services Manager to the payroll bureau.</p>			
Accepted	Implementation Deadline:		31 January 2012

Recommendation 4	Responsibility: a) Systems and Control Accountant b) Management Team	Priority :	2
<p>The Council should:</p> <p>a) ensure that documentation is obtained to substantiate the re-imbusement of telephone/broadband rental payments to Members; and</p> <p>b) consider introducing a standard allowance to reimburse all Members for their telephone/broadband costs, possibly as an additional element within an enhanced basic allowance.</p>			
Rationale			
<p>Recommendation 4 of Internal Audit Report 10-14 stated that:</p> <p>The Council should ensure that entitlement to telephone/broadband rental payments for Members can be consistently substantiated by supporting documents.</p> <p>Internal Audit reviewed a sample of three expenses payments made to Members since April 2011. Two of these included payments for broadband and telephone rentals, of £11.50 and £12.99, however there was no supporting documentation for these expenses and the amounts paid had been based on known historical figures.</p> <p>Re-imburements should be supported by evidence of the expenses incurred. Alternatively, the Council may find it administratively more efficient, particularly taking into account the pending bureau arrangements, to introduce a standard amount within the Members' Allowance Scheme to apply to the re-imbusement of broadband/telephone costs for all Members. This could be achieved by incorporating an additional element within an enhanced basic allowance.</p>			
Management Response			
<p>Executive Committee 16.11.11 has recommended a maximum broadband allowance of £20 per month which will be implemented once approved by Council.</p>			
Accepted	Implementation Deadline:		1 February 2012

Recommendation 5	Responsibility: Systems and Control Accountant	Priority :	2
<p>The Council should consider the introduction of a process for permanent employee payroll information to be checked and certified annually by departmental managers, commencing on the introduction of the new bureau arrangements.</p>			
<p>Rationale</p>			
<p>Recommendation 1 of Audit Report 10-14, dated February 2011, stated that:</p> <p style="padding-left: 40px;">The Council should consider performing an independent annual review of the payroll for a sample of employees. (Priority 3)</p> <p>Discussion during the review confirmed that this measure had not been introduced, although the following checks are made:</p> <ul style="list-style-type: none"> - payroll details form the basis of the annual salary estimates; - salary cost allocations are confirmed with managers annually; and - the Payroll Officer checks annually that individual casual employees are still required on the payroll. <p>Establishment payroll details will have to be checked on the introduction of the new payroll bureau arrangements; this would be an opportunity to begin formal annual checks by Departmental managers, who could be required to certify the existence of employees and the accuracy of their payroll details, eg salary scale, spinal column point and allowances.</p>			
<p>Management Response</p>			
<p>The bureau service provider has been asked to provide an annual report of payroll details for Cost Centre Managers to verify.</p>			
Accepted	Implementation Deadline:		30 April 2012

Recommendation 6	Responsibility: Systems and Control Accountant and Principal Personnel Officer	Priority :	3
<p>The Council should clarify and confirm whether the employee identified in this review is entitled to receive a telephone allowance.</p>			
<p>Rationale</p>			
<p>Internal Audit selected a random sample of three employees from the Council's establishment list and reviewed the documentation supporting allowances and expenses paid with July 2011 salaries.</p> <p>The payroll for July 2011 showed that a telephone allowance of £11.50 had been paid to the Health and Safety Adviser. The Payroll section held no documentation to support the payment of this allowance, which appeared to be a longstanding arrangement. Internal Audit confirmed from the approved establishment list that an allowance was not attached to the employee's current post, nor did it appear on the copy of the post's terms and conditions held on his personal file.</p>			
<p>Management Response</p>			
<p>In this case the Payroll Officer has been instructed to make this payment, but has not received any instruction to cancel it. A reconciliation between the Personnel and Payroll records will be carried out now that the data has been transferred to bureau service provider Selima.</p>			
Accepted	Implementation Deadline:		28 February 2012

Recommendation 7	Responsibility: Systems and Control Accountant	Priority :	3
<p>The Council should ensure that all expense claims submitted by officers are signed by the employee before authorisation and payment.</p>			
<p>Rationale</p>			
<p>Internal Audit selected a sample of three employees who had been re-imbursed expenses in the July 2011 payroll and examined the related expenses claims.</p> <p>One employee had not signed her claim form, although it had been authorised by her manager and processed for payment.</p>			
<p>Management Response</p>			
<p>The lack of staff signature is an oversight in this case, and the Manager's authorisation has been considered sufficient approval for payment to be made. Both claimants and Managers/Supervisors should continue to sign the existing paper claims, however, with the adoption of electronic claim forms no Managerial approval will be required (claims will be subject to audit with any falsification being treated as misconduct).</p>			
Accepted	Implementation Deadline:	1 March 2012	

Previous Recommendations	Responsibility: 2. Systems and Control Accountant 5. Democratic Services Manager
<p>The Council should implement the two outstanding recommendations from the previous audit report 10-14, dated February 2011, namely:</p> <ul style="list-style-type: none"> 2. The Council should ensure that Payroll reports are produced, authorised and retained on a consistent basis. (Priority 3) 5. The Council should consider requiring Members to provide petrol receipts and perform driving licence and insurance checks, in line with requirements for officers. (Priority 3) 	
Rationale	
<ul style="list-style-type: none"> 2. The Internal Audit review examined a number of payroll reports. The majority were satisfactory, the exceptions being that, for a sample of three payroll runs since January 2011: <ul style="list-style-type: none"> The Allowance/Deduction Control report for July 2011 had not been authorised; The Payroll BACS Form for May 2011 had not been authorised; and The BACS Preparation Report was not filed for February 2011 and had not been authorised for the other two sampled months, May and July 2011. 5. Internal Audit reviewed three mileage claims submitted by Members since April 2011. VAT receipts for fuel had not been provided for any claim; the Democratic Services Manager confirmed to Internal Audit that Members had not been requested to provide VAT receipts with their mileage claims. <ul style="list-style-type: none"> He also confirmed that a procedure to check Members' driving licences, motor insurance and MOT certificates had not yet been introduced. 	
Management Response	
<ul style="list-style-type: none"> 2. Every effort will be made to ensure that the relevant documents are signed and retained in future. 5. Since 1.11.11 staff have not been required to present petrol receipts with their mileage claims. 	
Revised Implementation Deadline	1 November 2011

Previous Recommendations	Responsibility: Systems and Control Accountant
<p>The Council should implement the outstanding recommendations from the previous audit report 08-21, dated February 2009, namely:</p> <ol style="list-style-type: none"> 1. The Council should ensure that changes to the Payroll system for employee standing data are input and checked by separate officers. (Priority 2) 2. The Council should ensure that the calculation of the initial pay for starters and final pay for leavers is checked by a second officer to confirm accuracy. (Priority 2) 	
Rationale	
<ol style="list-style-type: none"> 1. Internal Audit reviewed five changes to payroll standing data from 2011/12 employee changes audit reports. The Payroll Officer had both input these amendments to the Payroll system and also checked the changes. 2. Internal Audit selected a sample of three new starters during 2011 from a report produced by the Personnel Section and reviewed the calculation of their initial month's pay. Although the payments were accurate, the Payroll Officer explained that initial pay calculations were not checked by a second officer. Internal Audit reviewed the calculation of the final pay for five staff who had left the Council in 2011. The Payroll Officer confirmed that these calculations had not been independently checked either. Four of the calculations were accurate but one had been understated by £0.08. Although this instance is an insignificant amount, it emphasises the value of calculations being checked independently. 	
Management Response	
<p>All such changes and calculations will now be made by the bureau service provider.</p>	
Revised Implementation Deadline	1 November 2011

Previous Recommendations	Responsibility: Systems and Control Accountant
<p>The Council should implement the outstanding recommendations from the previous audit report 08-21, dated February 2009, namely:</p> <ol style="list-style-type: none"> 4. The Council should ensure that Officers' expense claims are initialled to confirm they have been checked for accuracy by the Payroll Officer. (Priority 3) 5. The Council should consider introducing a standard proforma to document the calculation of pay for new starters. (Priority 3) 6. The Council should include the current versions of employee and Member claim forms available on the Council's Intranet facility. (Priority 3) 	
Rationale	
<ol style="list-style-type: none"> 4. Internal Audit selected a sample of three transactions from a copy payslip report for July 2011 and reviewed the related expenses claims. None of the claim forms had been initialled to indicate that they had been checked by the Payroll Officer. 5. The Payroll Officer confirmed to Internal Audit that a standard pro-forma is not used to calculate initial pay; part-month calculations are noted on a slip of paper attached to the Payroll system file maintenance form. 6. Internal Audit reviewed the information and forms available in the Borough Treasurer's Department's section of the Council's Intranet. The only document relating to claims was an out of Borough travel authorisation form. There were no claim forms for overtime, travel or subsistence. 	
Management Response	
<ol style="list-style-type: none"> 4. The Payroll officer noted the appropriate expenditure codes on each claim form, thus providing evidence that the form had been checked. Since the start of the bureau service all input is carried out remotely and will not be checked in this way by a Council employee. 5. Since the start of the bureau service these calculations are undertaken externally. 6. Standard electronic forms are being considered. 	
Revised Implementation Deadline	1 November 2011

Previous Recommendation	Responsibility: Systems and Control Accountant
<p>The Council should implement the outstanding recommendation from the previous audit report 07-17, dated December 2007, namely:</p> <p>2. The Council should:</p> <ul style="list-style-type: none"> a) ensure that claims for expenses are processed using the correct 'claim for overtime and subsistence allowance' form; and b) consider revising the form to include a standard declaration regarding validity/responsibility for expenses claimed. <p>(Priority 3)</p>	
Rationale	
<p>Internal Audit reviewed the overtime claims submitted by a random sample of three employees for hours worked in June 2011.</p> <ul style="list-style-type: none"> a) The three overtime claims were made on different types of form; this was acceptable for one, as it also recorded rota patterns for a Leisure Centre employee. b) There was no declaration on any of the overtime forms, although there is on the form used by officers to claim subsistence with mileage. 	
Management Response	
<p>Consideration will be given to this as part of the introduction of standard electronic claim forms.</p>	
Revised Implementation Deadline	1 March 2012

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- payroll procedures;
- data input;
- payment procedures;
- new starters;
- processing of expenses;
- outputs and returns; and
- leaver's procedures.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- confirm the risks previously identified against each area;
- confirm the evaluation of controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Keith Jackson and Jack Jones

The fieldwork was performed: August 2011

All final Internal Audit reports are presented to the Council's Audit Committee.

APPENDIX 2

CLASSIFICATIONS

Assurance Level

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues, which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 11-19
ACCOUNTS PAYABLE

Executive Summary

Introduction

The payment of suppliers' invoices, rent allowances, business rate and council tax refunds is managed by the Borough Treasurer's Department, using the Accounts Payable module of the Council's Oracle Financial system. Since early in 2009/10 all payments processed by the Council have been made by BACS.

The system currently holds live records for 2,787 suppliers and the following payments were made in the six months to 30 September 2011:

	Number	Amount (£000)
Suppliers	2,922	14,063
Rent Allowances	20,198	6,216
Council Tax Refunds	1,053	261
NNDR Refunds	120	312
Housing Rent Refunds	136	55

Audit Objectives

An audit of this system forms part of the agreed 2011/12 programme. The audit objectives were to evaluate and test the internal controls over the Accounts Payable system. The scope and objectives of the audit were discussed and agreed in advance with Chris Butler, Systems and Control Accountant.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Key Points

Substantial Assurance

One minor issue

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system, there are weaknesses, which put some of the system objectives at risk. We have made one Priority 3 recommendation, which relates to ensuring that all suppliers' invoices are paid promptly.

Internal Audit also reviewed the agreed recommendation made in Audit Report 10-18, dated March 2011. The recommendation has been implemented.

Management Response

We have received a constructive management response from Chris Butler, Systems and Control Accountant accepting the recommendation.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Systems and Control Accountant	Priority: 3
<p>The Council should consider whether any action is required to ensure that all suppliers' invoices are paid promptly within agreed settlement terms.</p>		
<p>Rationale</p>		
<p>Suppliers are set up on the Council's payments system so that their invoices are either paid immediately or within 30 days. Internal Audit compared the payment dates of a random sample of 20 invoices paid in 2011/12 to the settlement terms held on the system. For this test, it was assumed that an invoice would be received two days after the invoice date.</p> <p>Of the fourteen suppliers on immediate terms, eight had been paid within fourteen days of assumed receipt and six over this period, varying from 15 to 35 days.</p> <p>Five of the six invoices due within 30 days had been paid within this timescale. The remaining payment was made after 49 days; however this was due to a delay in authorisation by the department.</p> <p>It appears the delays tend to occur in "spending departments" or when invoices were in transit; this process should be improved when the Council moves to on-line authorisation of invoices.</p>		
<p>Management Response</p>		
<p>With the current system we are reliant on Departments returning invoices to the Treasurer's office promptly. As noted above, once electronic authorisation is implemented this turnaround time should improve.</p>		
Accepted	Implementation Deadline:	31 January 2012

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- authorisation and certification of invoices;
- processing of invoices;
- payment of invoices;
- payment of rent allowances, council tax, NNDR and rent refunds;
- access to the system; and
- segregation of duties.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Keith Jackson and Sarah Mach

The fieldwork was performed: October 2011

All final Internal Audit reports are presented to the Council's Audit Committee.

APPENDIX 2

CLASSIFICATIONS

Assurance Level

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 11-20
HOUSING RENTS

Executive Summary

Introduction

The Council currently owns and manages 2,711 dwellings and 484 garages. The total stock is relatively static as Right to Buy sales of homes have declined in recent years. The Housing Department is responsible for the monitoring and maintenance of the Council's Housing Rent Account for these properties.

The annual rent debit is approximately £8.9m. At 31 March 2011, current tenant arrears were £158,236, which equates to 1.9% of rent owed, compared to a target of 2.1% for 2010/11. At the same date, former tenant arrears were £103,064, equivalent to 1.2% of rent owed, against a target of 1.9%.

Audit Objectives

An audit of this system forms part of the agreed 2011/12 programme. The audit objectives were to evaluate and test the internal controls over the Housing Rents system. The scope and objectives of the audit were discussed and agreed in advance with Jane Coles, Business Support Manager.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Key Points
Substantial Assurance
One minor issue
One previous recommendation

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system of control, there are weaknesses which put some of the system objectives at risk. We have made one Priority 3 recommendation relating to the writing off of old unidentified income items which have accumulated in the Rents suspense account.

In addition, Internal Audit reviewed the two agreed recommendations made in Audit Report 10-19, dated June 2011, both of which have been fully implemented.

Internal Audit also reviewed the three outstanding recommendations made in Audit Report 09-18, dated May 2010. The three recommendations have been fully implemented.

Finally, Internal Audit reviewed the one outstanding recommendation made in Audit Report 08-26, dated July 2009. This remains outstanding and concerns reconciling the number of annual rent increase letters due to be sent to tenants and the number of actual letters posted.

Management Response

We have received a constructive management response from Jane Coles, Business Support Manager, accepting the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Business Support Manager	Priority:	3
<p>The Council should consider writing off the old unidentified receipts which have accumulated in the suspense account within the Rents system.</p>			
<p>Rationale</p>			
<p>Where rental income is received without sufficient supporting information to identify it to the correct tenant's account, the amount is held in a suspense account within the Rents system. Housing Accounts staff transfer the money to the correct account when it has been identified.</p> <p>Internal Audit reviewed the suspense account for 2011/12. All items posted to suspense in the year to date had been identified and transferred promptly to the correct accounts, however it was identified that the suspense account contains an accumulation of unidentified entries totalling £1,308.32, which date back to the period between 2002 and 2009.</p> <p>At this stage, these items are not examined regularly and it would therefore appear unlikely that they will be identified. It is therefore suggested that they could be written off and the necessary adjustments made to the accounts. Provided that a record is kept of the transactions, it would be possible to re-instate any receipts subsequently queried by a tenant and identified to an individual's account.</p>			
<p>Management Response</p>			
<p>We will discuss with Borough Treasurer's staff and resolve.</p>			
Accepted	Implementation Deadline:	31 December 2011	

Previous Recommendations	Responsibility: Business Support Manager	
<p>The Council should implement the agreed outstanding recommendation from Audit Report 08-26, dated July 2009, namely:</p> <p>The Council should reconcile the number of annual rent increase letters due to be sent to tenants and the number of actual letters posted.</p> <p>(Priority 3)</p>		
Rationale		
<p>A reconciliation of the April 2011 rent increase letters posted to tenants had not been undertaken, although the total number of letters printed had been agreed and recorded.</p> <p>Internal Audit were informed that a new reconciliation process had been introduced for tenants' rent statements, although not for rent increase letters.</p>		
Management Response		
<p>We will put this in place for all rent/charge statements, invoices & letters and to all rent groups</p>		
Revised Implementation Deadline:		31 December 2011

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- setting of rents;
- maintenance & reconciliation of the rent debit;
- current & former tenant arrears;
- monitoring and refund of credit balances;
- receipt of rental income; and
- write offs.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit reports.

Performance

Auditors: Keith Jackson and Jack Jones

The fieldwork was performed: August - September 2011

All final Internal Audit reports are presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 11-24
DISABLED FACILITIES GRANTS

Executive Summary

Introduction

The Council's Environmental Health Department processes and awards grants for the adaptation of privately owned housing under the Housing Grants, Construction and Regeneration Act 1996.

Disabled Facilities Grants are available to those people who meet the requirements of the Chronically Sick and Disabled Persons Act, who require adaptations to their property; all grants are means tested. The work requires the recommendation of an Occupational Therapist, and can include facilities such as stairlifts and the replacement of a bath for a flush floor shower. The maximum grant available is £30,000.

The Council used Anchor Staying Put Agency to assist in administering the grant process until it ceased trading in March 2011. Anchor Staying Put charged a management fee of 10% on costs for the first £2,000 of eligible expenditure and a further fee of 7% of the remaining expenditure for each grant awarded. The 2010/11 budget for Disabled Facilities was £1,075,000 with actual expenditure of £726,841; the budget for 2011/12 is £600,000 plus the underspend from 2011/12.

Audit Objectives

An audit of this system forms part of the agreed 2011/2012 programme. The audit objectives were to evaluate and test the internal controls over the administration of the Disabled Facilities grants system. The scope and objectives of the audit were discussed and agreed in advance with Don Faichnie, Housing Team Leader.

Audit work included testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – Substantial Assurance

As a result of the audit we have concluded that while there is a basically sound system, there are weaknesses, which put some of the system objectives at risk. We have made one Priority 2 recommendation, which concerns:

- reviewing the Council's capacity to deliver the budgeted Disabled Facilities Grants to the local population.

In addition, we have made two Priority 3 recommendations which relate to:

Key Points
Substantial Assurance
One important issue.
Two minor weaknesses.

- considering the requirement to formally approve additional works before the work is undertaken; and
- considering the introduction of a formal procedure for applicants to formally agree their financial contribution.

Management Response

We have received a constructive management response from Gary Ormondroyd, Chief Environmental Health Officer and Don Faichnie, Housing Team Leader, accepting one recommendation and partially accepting two recommendations which relate to considering formally approving additional works, and requiring applicants to acknowledge their financial contribution prior to the commencement of works.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Chief Environmental Health Officer	Priority: 2	
<p>The Council should review it's capacity to deliver the budgeted Disabled Facilities Grants to the local population.</p>			
<p>Rationale</p>			
<p>The Council previously used Anchor Staying Put Agency to assist in administering the Disabled Facilities Grant process until it was wound up in March 2011.</p> <p>The Housing Team Leader now has sole responsibility for the administration of the Disabled Facilities Grant budget of £600,000, plus the carryover from the previous year of £348,159. It is possible that approximately 140 grants may require processing within a financial year. Additionally, it should be noted that the processing of approved grants will include pre and post inspections.</p> <p>The Council needs to ensure that the capacity is available to meet the needs of the local population requiring Disabled Facilities Grants; particularly taking into account any proposed departmental restructure.</p>			
<p>Management Response</p>			
<p>Accepted.</p>			
Accepted	Implementation Deadline:	31 October 2011	

Recommendation 2	Responsibility: Housing Team Leader	Priority: 3
<p>The Council should consider the requirement to formally approve additional works prior to commencement.</p>		
<p>Rationale</p>		
<p>Internal Audit selected a sample of fifteen Disabled Facilities Grants approved in 2010/11 and 2011/12 from the 'Master' spreadsheets maintained by the Housing Team Leader.</p> <p>For the sample of 15 grants, Internal Audit identified that additional works had been required in two cases (£565 and £70). In both cases the work had been authorised by the Housing Team Leader after the work had been completed.</p> <p>Without the formal authorisation of additional work prior to the work being undertaken, the Council is exposed to the risk that potential disputes may arise with contractors.</p>		
<p>Management Response</p>		
<p>This recommendation has been considered, however it is felt that it is not reasonable or practical to require the contractor to cease work whilst formal revision of a grant is undertaken to take account of each variation.</p> <p>In both cases, the additional works had been agreed with the Technical Officer employed by Anchor Staying Put, who had supplied Variation Orders in respect of the "extras". In each case, the grant was formally revised to confirm these additional costs as part of the completion procedure.</p> <p>It is common practice to agree such unforeseen extra works on site in order for the work to progress. All grant approval letters inform the grant recipient that "Should you wish to ... carry out extra works, you must inform me in advance."</p> <p>Following the closure of the HIA, contractors know that they must request approval from the Council for extra works when discovered. Appropriate contemporaneous notes are kept on case files. As it is possible that more than one item of extra works could occur on any particular case, the formal revision of the grant is carried out upon completion.</p> <p>This procedure has been in place for many years and there have never been any instances of disputes with contractors.</p>		
Partially Accepted	Implementation Deadline:	No Further Action

Recommendation 3	Responsibility: Housing Team Leader	Priority: 3
<p>The Council should consider the introduction of a formal requirement for applicants to acknowledge their financial contribution prior to the commencement of works.</p>		
<p>Rationale</p>		
<p>Entitlement to Disabled Facilities Grants is subject to a formal 'means' test. Upon completion of this test the applicant is informed of any financial contribution they are required to make towards the cost of the works.</p> <p>For a sample of fifteen Disabled Facilities Grants, Internal Audit identified that payments had been made in 13 cases. A financial contribution from the applicant was required in four of these cases: two cases administered by Anchor and two cases administered by the Council. The applicant had signed to acknowledge the financial contribution due in the two cases administered by Anchor. However, there is no longer a requirement for the applicant to formally acknowledge the financial contribution they are required to make.</p> <p>The lack of formal acknowledgement of the financial contribution due from the applicant could result in disputes between the applicant and Council on completion of works.</p>		
<p>Management Response</p>		
<p>This recommendation has been considered, however the letter and Approval sent to the applicant confirming the amount of grant awarded, clearly indicate any contribution that the applicant has been assessed as being liable for. This procedure has been in place for many years and there have been no instances where there has been any dispute between the applicant and the Council.</p> <p>The cases referred to where Anchor used to obtain the applicants acknowledgement of any contribution was because Anchor, on occasions, had secured further funding from other sources (e.g. Royal British Legion).</p>		
Partially Accepted	Implementation Deadline:	No Further Action

APPENDIX 1

AUDIT FRAMEWORK

Coverage

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- application procedure;
- assessment of works;
- approval;
- completion of work;
- payment; and
- monitoring.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

Performance

Auditor: Steve Crompton

The fieldwork was performed: May 2011

All final Internal Audit reports will be presented to the Council's Audit Committee

APPENDIX 2

CLASSIFICATIONS

Assurance Level

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 11-25
INSURANCE

Executive Summary

Introduction

Under Financial Regulations, the Borough Treasurer is responsible for the Council's insurances. Day to day administration is the responsibility of the designated Service Accountant, while certain aspects relating to leaseholders of Housing properties are dealt with by the Council's Housing Department. Insurance cover is tendered periodically, with policies being renewed each year; the annual premium costs for 2010/11 were approximately £293,000.

The Council's main insurances are placed with Zurich Municipal and brokers JLT; insured risks include employer's liability, public liability, buildings, all risks and terrorism. Premiums, excess charges and claim costs are recharged to services, commercial and residential leaseholders as appropriate.

Audit Objectives

An audit of this system forms part of the agreed 2011/12 programme. The audit objectives were to evaluate and test the internal controls over the system for insurance. The scope and objectives of the audit were discussed and agreed in advance with Lesley Smyth, Service Accountant.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Key Points

Substantial Assurance

One important issue

Five minor issues

Two previous recommendations

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system, there are weaknesses, which may put some of the system objectives at risk. We have made one Priority 2 recommendation, which concerns the valuation of the Council Housing stock for insurance purposes.

In addition, we have made five Priority 3 recommendations, which relate to:

- accurately recharging premiums on leasehold flats covered by the Council's insurance policy;
- including the existing privately insured leasehold flats on the Council's buildings policy;
- invoicing the tenants of shops on Council Housing estates for insurance cover provided by the Council;

- confirming that the Council's interests are adequately protected where it allows tenants of its commercial properties access to the premises before a lease is signed; and
- confirming that commercial properties are fully insured in accordance with standard lease conditions.

Internal Audit also reviewed the three outstanding recommendations made in Audit Report 08-29, dated March 2009. One recommendation has been subsumed in a new substantive recommendation, while two recommendations remain outstanding and concern:

- documenting procedures for all aspects of the insurance function; and
- obtaining written confirmation from Cost Centre Managers of their insurance requirements.

Management Response

We have received a constructive management response from Jane Coles, Business Support Manager and Sue Roberts, Deputy Borough Treasurer accepting each of the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Borough Treasurer	Priority	2
<p>The Council should ensure that its Housing stock is adequately insured by obtaining, or calculating appropriately from market values, up to date building re-instatement costs on which to base the extent of its insurance cover.</p>			
<p>Rationale</p>			
<p>The renewal documents and the insurance cover schedule for annual policies renewed from 1 October 2010 both show that the Council's Housing stock is currently insured for a total value of £99,478,160.</p> <p>Internal Audit reviewed the supporting calculations for this figure, noting the following:</p> <ul style="list-style-type: none"> • The insured value of the Housing stock was derived from valuations produced for accounting purposes as a substitute for re-instatement values. It is understood that the re-instatement cost of the stock has not been assessed independently. • The valuations used were stated as being as at 1 April 2009, rather than 1 April 2010 or a date closer to the renewal date. • Council dwellings are held in the Balance Sheet at a social housing value that reflects the nature of their occupancy; currently calculated as 48% of the full value. There is a further assumption that a home's value is composed of a land element of 20% and a buildings element of 80%. Only the building element needs to be insured. <p>The figures used for insurance purposes were calculated directly from social housing values for each home, by deducting the land element at full value (which is not insured) to produce a value for the building only element. This element was then uplifted to give a full market value for each building; the total of these calculated values was the £99,478,160 provided to the Council's insurer.</p> <p>This calculation appears to understate the building element of the valuation. The full valuation of all homes amounted to £170,419,500, of which the 80% buildings element would be expected to be approximately £136,336,000 rather than the insured figure of £99,478,160.</p> <ul style="list-style-type: none"> • The valuation of leasehold flats for insurance purposes was not reviewed; similar concerns may apply to these properties. <p>These observations suggest that the Council's Housing stock may not be adequately insured. Ideally insurance cover should be based on up to date re-instatement or rebuilding costs obtained from a specific survey; alternatively a robust method of deriving the information from market values could be used if this can be agreed with the Council's insurers.</p>			

Management Response

The Councils external valuer provided housing stock reinstatement values for the insurance renewals of the 1st October 2011.

Accepted

Implementation Deadline:

Implemented

Recommendation 2	Responsibility: Business Support Manager	Priority	3
<p>The Council should ensure that premiums on leasehold flats covered by its insurance policy are recharged accurately to leaseholders.</p>			
<p>Rationale</p>			
<p>Internal Audit reviewed the procedure in place to charge leaseholders of Council flats a proportion of the premiums payable on insurance cover arranged by the Council, a function which has recently been transferred to the Housing Department. Leaseholders are now sent an annual estimated invoice at the start of the year; the invoice includes service charges, ground rent, insurance and repairs. This process excludes the small number of leaseholders who insure their own flats.</p> <p>Internal Audit examined the calculations used to invoice leaseholders for 2011/12 insurance. Premiums had been apportioned over all leased flats, rather than only those where insurance is arranged by the Council. As a result, residents of the latter had been undercharged (by around 6%) while residents of the privately insured properties had been overcharged.</p> <p>In discussion, Internal Audit were informed that the brokers' fees paid by the Council have been apportioned in a different manner from previous years (ie spread over fewer, more relevant policies), resulting in a significant increase to leaseholders. In view of this, the Housing Department is considering reviewing the administration charge which is added to the premiums to determine whether it is realistic; a change to a lower figure would offset the increase in the brokerage apportionment.</p> <p>Following any changes, leaseholders should be advised of the revised charges for premiums and their accounts adjusted accordingly.</p>			

Management Response

The intention is:

- to ensure that all leasehold properties are covered by the council's policy
- that the premiums are correct in relation to the properties reinstatement values
- that the reinstatement value of a leasehold property is accurately apportioned from the current reinstatement value of its block which includes council owned flats and the communal areas
- that all council owned dwellings have current reinstatement values
- to consider bringing leasehold properties under one common policy if it can offer a variance in claims excess amounts (£1,000 for council owned v £25 for leaseholds)

Treasury were supplied with reinstatement values for all properties sold under the 'right to buy' scheme but the information appears not to have been used i.e. a leasehold property sold in 2009 which has a reinstatement insurance valuation of £67,500 but the current premium is based on a valuation of £35,565.

In future we will use this valuation but it means that all valuations must be updated otherwise new leaseholders will be unfairly charged almost double the premium.

NPS suggest that valuations could be determined as a desk top exercise provided that Housing can supply up to date descriptions, archetypes & meterage which we are now in a position to do.

***We need a quote for the work, an agreement to spend and budget.**

This year's invoices have all been recalculated and sent out to all leaseholders with the corrected premiums. The brokerage fee has been entirely removed and a nominal admin fee added. In future years we will look at introducing an admin fee across all the annual charges and remove it from the premium.

The brokerage fee itself is excessive.

Accepted	Implementation Deadline:	31 March 2012
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Recommendation 3	Responsibility: Business Support Manager	Priority	3
<p>The Council should:</p> <ul style="list-style-type: none"> a) obtain proof of adequate current insurance cover for all privately insured leasehold flats; and b) after giving suitable notice, include all leasehold flats within its own insurance policies, recharging the premiums to the leaseholders. 			
<p>Rationale</p>			
<p>The Council's standard lease conditions for Housing flats sold under the Right to Buy legislation provide for it to arrange insurance cover for the properties and recharge the cost of the premium to leaseholders. As a result of an oversight several years ago, a small number of leaseholders were inadvertently allowed to arrange their own insurance cover for their flats. As a means of safeguarding the Council's interests, Officers introduced a check to request the householders to provide proof of their cover each year.</p> <p>At the last audit review of insurance arrangements, in 2008/09, Internal Audit identified that information had not been requested from leaseholders for that year. Consequently Internal Audit Report 08-29, dated March 2009, recommended that: "The Council should ensure that details of annual insurance cover are obtained for all privately insured leasehold properties."</p> <p>Internal Audit reviewed the implementation of this recommendation in 2010, when it was observed that proof of cover had not been obtained from leaseholders for 2009/10. At the current review, Internal Audit were unable to confirm whether the particular leaseholders had provided details of their cover since that time.</p> <p>As indicated previously, the operation of two systems for insuring leasehold flats adds to administrative work and can lead to problems. Further, there is a risk to the Council that leaseholders arranging insurance privately may obtain cover that does not cover all relevant risks or that they cancel the insurance after providing details to the Council.</p> <p>It is suggested that the Council should confirm that the leases for these particular flats state that the Council is to insure the properties: if so, it should seek to include such properties within its block policy and recharge the leaseholders accordingly for the premiums. This would require informing the leaseholders and giving suitable notice of the change; in the interim, the existing check of insurance documents should be carried out.</p>			

Management Response

In respect of the privately insured:

Only 4 of 12 privately insured were 'historic' the remainder have been sold or resold in the last 10 years and should have already been included on the council's policy.

Housing have verified 3 private policies, 2 others have asked to transfer to the council's policy. The remainder have been written to again and advised that they will now be invoiced for the council's policy. The 3 remaining private policyholders will be asked to transfer over by 2012 and will be offered pro rata fees to coincide with their renewal dates.

Accepted**Implementation Deadline:****31 March
2012**

Recommendation 4	Responsibility: Business Support Manager	Priority	3
<p>The Council should ensure that the tenants of shops on Council Housing estates are invoiced appropriately for insurance cover provided by the Council.</p>			
<p>Rationale</p>			
<p>Internal Audit reviewed the arrangements for the recharge of premiums for insurance cover on Council Housing shops. It is understood that insurance premiums for 2010/11 have not been charged to the tenants, with the cost being absorbed by the Housing Revenue Account.</p> <p>The Service Accountant has recently passed details of the insured properties to the Housing Department who will decide how to charge shop tenants for 2011/12 and whether to bill them retrospectively for past premiums.</p>			
<p>Management Response</p>			
<p>We have now received a shop premium schedule with updated hazard classes according to occupation. I'm unconvinced that the valuations and therefore the premiums are correct. Some of the flats above the shops are included in the shop leases others are not.</p> <p>We will write to shop tenants and advise them that they will be invoiced for their share from the next policy renewal date –it would be helpful if we could also supply an indicative value.</p> <p>In the meantime NPS say that they could provide correct valuations if they have access to the floor plans & overall external meterage. Housing do not have this information but we will track it down from Estates or otherwise create using inhouse resources.</p>			
Accepted	Implementation Deadline:		30 September 2011

Recommendation 5	Responsibility: Projects and Property Manager	Priority	3
<p>The Council should ensure that its interests are adequately protected where it allows tenants of its commercial properties access to the premises before a lease is signed.</p>			
<p>Rationale</p>			
<p>Internal Audit reviewed a sample of three recent leases of the Council's commercial properties. These are insured by the Council, which recharges the tenant for the premiums. The Council's standard lease conditions require the tenant not to act in a way which would invalidate insurance and to pay premiums within 14 days.</p> <p>For one of the sample, the lease was signed on the tenancy start date; the other two were signed approximately one month after the start dates. Internal Audit were unable to confirm that the Council has adequate documentation to protect its interests in the time between the tenancy starting and the lease being signed.</p>			
<p>Management Response</p>			
<p>The Council's interests are protected by insuring its commercial properties and recharging the cost to the tenants, albeit that may occur later than the tenancy start date but it does always occur.</p>			
Accepted	Implementation Deadline:		No further action

Recommendation 6	Responsibility: Service Accountant	Priority	3
<p>The Council should confirm that its commercial properties are fully insured in accordance with the conditions of its standard lease documents.</p>			
<p>Rationale</p>			
<p>Internal Audit reviewed a small sample of leases for commercial properties. The leases' standard conditions require the Council to insure the properties against a range of risks. Although these risks are broadly covered by the Council's insurance policies, Internal Audit were unable to verify that the cover provided by the Insurers exactly matched that stated in the lease conditions.</p>			
<p>Management Response</p>			
<p>The Councils commercial property portfolio is insured for all of the usual risks associated with buildings of this type. The Council and its insurers are satisfied that the commercial properties are adequately insured and the Council recovers the insurance cost from the tenants. There is no requirement to revisit insurance cover when properties are let to tenants, unless the properties are modified or have a change of use, in which case the Council informs the insurer in case there is a different risk category to apply.</p>			
Accepted	Implementation Deadline:		No further action

Previous Recommendations	Responsibility: Service Accountant	
<p>The Council should implement the following agreed outstanding recommendations from Audit Report 08-29, dated March 2009:</p> <ol style="list-style-type: none"> 1. The Council should ensure that documented procedures for all aspects of the Insurance function are produced. (Priority 3) 2. The Council should consider obtaining a signed schedule, from each Cost Centre Manager at renewal, to confirm the cover required within each Council department. (Priority 3) 		
<p>Rationale</p> <ol style="list-style-type: none"> 1. Internal Audit discussed procedures with the Service Accountant, who has produced a list of headings, a schedule of the insurer for each risk and contact details; however there are no substantive documented procedures. 2. The Service Accountant requests confirmation of the cover required from managers, however their responses are frequently verbal or by e-mails which are not printed and retained. 		
<p>Management Response</p> <ol style="list-style-type: none"> 1. The Councils insurer has provided substantive documented procedures. 2. The insurance renewals of the 1st October 2011 are all substantiated by correspondence from Service Managers and are held by the Borough Treasurer's Department. 		
Revised Implementation Deadline:		<ol style="list-style-type: none"> 1. 31 December 2011 2. Implemented

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas which were agreed as part of the preliminary planning stage:

- insurance cover;
- renewal procedures;
- claims procedures; and
- recharges of insurance costs.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Keith Jackson and Jack Jones

The fieldwork was performed: May 2011

All final Internal Audit reports are presented to the Council's Audit Committee.

APPENDIX 2

CLASSIFICATIONS

Assurance Level

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL

INTERNAL AUDIT FINAL REPORT CR 58

CONSTRUCTION OF LINK ROAD PHASE II - CORNMILL CROSSING TO NORTH ROAD

Executive Summary

Introduction

Internal Audit are required under the Council's Financial Regulations to consider for review all contracts issued prior to the Final Account being paid to the Contractor. The Borough Treasurer, through the Head of Internal Audit will select a sample of contracts for higher scrutiny and reconciliation with the Final Account.

Construction and repairs to the highways of Cumbria are the responsibility of the County Council. The construction of the Link Road Phase 2 - Cornmill Crossing to North Road, was tendered by the County Council. Askam Construction Ltd had submitted the second lowest tender at £1,352,051.82. The tenders were subject to a Tender Assessment (Financial) and quality appraisal, the results of which promoted Askam Construction Ltd, who were therefore selected to complete the work. In order to attract funding and commence the work before January 2010 it was considered appropriate for the Borough Council to take over the role of Employer from the County Council; this was approved by Borough Council Members on 7th August 2009.

To prevent any possible delay the Borough Council appointed the County Council's choice of contractor without any further review. The contractor signed a contract with the Council on the 27th April 2010.

Audit Objectives

The audit objectives were to perform an examination of the interim and final account and associated documentation. Details of the audit methodology are provided in Appendix 1.

Key Points

Substantial Assurance

One important issue

Audit Conclusion – Substantial Assurance

As a result of the audit we have concluded that weaknesses have been identified in the system of control, which may put the system objectives at risk. We have made one Priority 2 recommendation, concerning:

- reporting on variations to the Contract Sum in excess of 10%.

In addition, a small number of issues were identified of either a minor or historic nature.

Management Response

We have received a constructive management response from Steve Solsby, Assistant Director Regeneration, accepting the recommendation.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Assistant Director Regeneration	Priority: 2
<p>The Council should ensure that a report relating to the increased cost of the project is reported to Members at the earliest opportunity.</p>		
<p>Rationale</p>		
<p>The Contractor when submitting the Tender Sum of £1,352,051.82 agreed to complete the works to the specification included in the tender invitation. The contractor completed a 'Tendered Activity Schedule' to support the Tender Sum submitted. The contract was awarded based on a Tender Assessment Sheet (financial) whereby the contractor supplied rates against various job descriptions supplied by the Council. For each job description the Council's estimate of hours had been provided in addition to contractor requirements for manpower overheads, anticipated cost of equipment, adjustments to published lists and fee percentages. The total for Tender Assessment Purposes amounted to £1,541,451.20 which was confirmed as the lowest price.</p> <p>Internal Audit obtained a spreadsheet of the estimated costs for Compensation Events, which confirms a total of £466,316.39; equating to an increase to the Contract Sum of approximately 35%.</p> <p>The Council's Contract Standing Order 20.1 states "Where the cost outcome of any contract varies from the original contract value by more than 10%, a full report of the reason for the variance shall be made to the Executive Committee".</p> <p>A report had not been submitted to Executive Committee reporting this overspend.</p>		
<p>Management Response</p>		
<p>Accepted.</p>		
Accepted	Implementation Deadline:	Immediate

APPENDIX 1

AUDIT FRAMEWORK

Audit Coverage

The review covered the following areas:

- contract / tender process;
- bill of quantities;
- insurance and bond provision;
- additions & omissions, including architects instructions;
- contract meetings;
- extension and completion certification;
- payments, including interim and final certificates; and
- final account.

Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation;
- spot checks on arithmetical calculations;
- verify final account with the cumulative paid; and
- report findings, with relevant and practical recommendations for improvement.

Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed between: June 2010 and October 2010.

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2

CONTRACT PARTICULARS

Contract Title:	Construction of Link Road Phase II, Cornmill Crossing to North Road.
Contract Form:	Engineering and Construction Contract (Second Edition November 1995) ("ECC") incorporating Option A together with ECC secondary options P, R,T and Z ("the Conditions").
Contractor:	Askam Construction Limited
Project Manager	CAPITA Symonds
Quantity Surveyor:	CAPITA Symonds
Tender Sum:	£1,352,051.82
Contract Sum:	£1,352,051.82
Date for Possession:	27 th July 2009
Date for Possession: Revised	17 th August 2009
Date for Completion:	5 th February 2010
Date for Completion: Revised	30 th July 2010
Date of Practical Completion:	30 th July 2010
Delay in Completion:	0 weeks
Extension of Time Granted:	0 weeks
Liquidated and Ascertained Damages provision/paid/received:	Provision: £435.00 per day
Minimum Insurance Cover	£5m Public Liability £*m Employer's Liability (Not Required)
Minimum Bond	£135,205.00 Performance Bond Confirmed.
Retention Amount	Retention 5% to Practical Completion Retention 2.5% During Defects Period Retention : £44,719.66
Submitted Final Account Sum:	£1,788,786.50
Audited Final Account Sum:	£1,788,786.50
Percentage increase / Submitted Final Account against Contract Sum.	32.30%

APPENDIX 3**CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL

INTERNAL AUDIT FINAL REPORT CR 59

PARTIAL DEMOLITION OF A 'DARLINGTON' STEEL PORTAL FRAMED WAREHOUSE & RE-ESTABLISHING STRUCTURE ETC

Executive Summary

Introduction

Internal Audit are required under the Council's Financial Regulations to consider for review all contracts issued prior to the Final Account being paid to the Contractor. The Borough Treasurer through the Head of Internal Audit will select a sample of contracts for higher scrutiny and reconciliation with the Final Account.

The works relate to the construction of the Link Road Phase 2 – Cornmill Crossing to North Road, Barrow in Furness. As part of the enabling work resulting from the activity, it became necessary to carry out demolition work to a property known as “Brady’s Warehouse”. Access to the property following the highway diversion required the realignment of the vehicular entry door and associated roller shutter doors, construction of a new access road to the warehouse, gable wall reconstruction and internal and external paving.

The contract was let at the sum of £121,663.39 to the contractor submitting the lowest tender; Thomas Armstrong (Construction) Ltd. Incurred costs have escalated by 123% to a potential Final Account of £271,622.67.

Audit Objectives

The audit objectives were to perform an examination of the interim and final account and associated documentation. Details of the audit methodology are provided in Appendix 1.

Key Points

Restricted Assurance

One major issue

Four important issues

One minor issue

Audit Conclusion – *Restricted Assurance*

As a result of the audit we have concluded that weaknesses have been identified in the system of control, which may put the system objectives at risk. We have made one Priority 1 recommendation, which concerns ensuring the Final Account submitted by the contractor is fully scrutinised prior to approval for payment.

In addition, we have made four Priority 2 recommendations, which concern:

- reporting the increased cost of the project to Members at the earliest opportunity;
- “Instruction documents” making variations to the contract are all properly signed, priced and retained;
- contracts issued for capital projects are reviewed for completeness and include a clause relating to the prevention of bribery and corruption; and

- contract documents are drawn up, signed and sealed, where appropriate, by both parties prior to the contractor taking possession of the site/work commencing.

We have made one Priority 3 recommendation, which concerns ensuring perspective tenderers are consistently provided with the instruction for the completion and return of tenders.

In addition, a small number of issues were identified of either a minor or historic nature.

Management Response

We have received a constructive management response from Steve Solsby, Assistant Director Regeneration, accepting each of our recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Assistant Director Regeneration	Priority: 1
<p>The Council should ensure that the Final Account submitted by the contractor is fully scrutinised prior to approval for payment; and the additional sum claimed by the Contractor is acceptable.</p>		
<p>Rationale</p>		
<p>Contractors submitted a final account (11th March 2010) following confirmation that practical completion has been achieved. The account is usually scrutinised by the Council's appointed Quantity Surveyor or equivalent to confirm accuracy and completeness.</p> <p>Internal Audit obtained the Final Account submitted by Thomas Armstrong Construction Limited's Principal Quantity Surveyor dated 11th March 2010. Practical Completion had been achieved on 22nd July 2009, a delay of 23 days beyond the agreed contract period for completion i.e. 20th April 2009 to 29th June 2009 (a total of ten weeks).</p> <p>It should be noted that the contractor had tendered to complete the work in six weeks; however the Council made provision for ten weeks in the contract document.</p> <p>The Final Account includes a claim by the contractor for additional Preliminary Sums for a period outside the contract period amounting to £19,662.53. Internal Audit have not been provided with any evidence to confirm that an extension to contract document or equivalent had been approved and issued by the Council for the period 29th June 2009 to 22nd July 2009.</p> <p>Internal Audit were also unable to establish whether the Final Account sum had been queried with the contractor.</p>		
<p>Management Response</p>		
<p>The Council were committed to getting the main road contract underway; Thomas Armstrong are competitive. A Quantity Surveyor was not appointed for this contract, however the final account was mathematically checked with the contractor's Principal Quantity Surveyor.</p> <p>An Extension of time was warranted with additional work items, although this was not formally given in writing.</p>		
Accepted	Implementation Deadline:	Implemented

Recommendation 2	Responsibility: Assistant Director Regeneration	Priority: 2
<p>The Council should ensure that a report relating to the increased cost of the project is reported to Members at the earliest opportunity.</p>		
<p>Rationale</p>		
<p>The Contractor when submitting the Tender Sum of £121,663.39 agreed to complete the works to the specification included in the invitation to tender.</p> <p>The Final Invoice claimed work valued at £271,622.67 which equates to an increase on the Contract Sum of 123.26%. Additionally, Internal Audit could not obtain certified instructions to reconcile this large increase.</p> <p>The Council's Contract Standing Order 20.1 states "Where the cost outcome of any contract varies from the original contract value by more than 10%, a full report of the reason for the variance shall be made to the Executive Committee".</p> <p>A report had not been submitted to Executive Committee reporting this overspend.</p>		
<p>Management Response</p>		
<p>The up to date financial position at 16th June 2009, was requested for a report to Executive Committee (e-mail dated 16th June 2009); however this was not taken up. A larger than normal contingency figure was provided against the overall project works to ensure, a number of unforeseen items and additional site clearance works could be carried out in advance of the main works starting. The following additional works have been carried out:</p> <ul style="list-style-type: none"> (i) Changes to road access, very soft ground , increase in construction and changes to original drainage design £32½k; (ii) Additional site clearance items , clearing spoil heaps and various inert materials to facilitate main road works £9k; (iii) Fire protection works to repositioned gable £15k; (iv) Changes to roller shutter door requirements £11k (v) Increase in area to external concrete aprons , required as an agreement of the sale of land from Brady to BBC plus changes to drainage £55k (vi) Extension of time relating to the above works also suspended on southern side due to seagulls / Oyster catchers £23½k; and (vii) Additional depth of concrete and associate removal £3k 		
Accepted	Implementation Deadline:	Immediate

Recommendation 3	Responsibility: Assistant Director Regeneration	Priority: 2
<p>The Council should ensure that "Instruction documents" making variations to the contract are all properly signed, priced and retained.</p>		
<p>Rationale</p>		
<p>The Council will expect contractors to deliver prescribed work at the agreed contract sum. However, in the majority of cases any Provisional Sums and Contingencies will be omitted and replaced by the actual cost of work and specified items. Additionally as work progresses adjustments are necessary due to changes in the original specification or problems encountered during the progress of the works.</p> <p>Any variation to the Contract Sum requires the consent of the Architect or other professional named in the Contract Document as the "Responsible Person". These variations are included in either Architect's/Engineer's Instructions, Compensation Events or Certificates of Client Requirements which document the work to be completed and revised timescale. Such Instructions should be authorised by the "Responsible Persons" signature and priced at the earliest opportunity. The completed instructions should be retained for reconciliation with the Final Account.</p> <p>However, Internal Audit have been unable to locate any variation instructions being issued by the "Responsible Person" other than two requests for quotations to complete additional works. This apparent omission/lack of required documentation is specifically important as the contract costs appear to have increased by over 100%.</p>		
<p>Management Response</p>		
<p>A large number of unforeseen additional works were required. This was communicated with the site representative and priced by their Quantity Surveyor, before approval given to proceed; however this was not formalised.</p> <p>The Council obtained approval from NWDA to proceed with additional items.</p>		
Accepted	Implementation Deadline:	Immediate

Recommendation 4	Responsibility: Director of Corporate Services & Assistant Director Regeneration	Priority: 2
<p>The Council should ensure contracts issued for capital projects include all pertinent clauses.</p>		
<p>Rationale</p>		
<p>The Council's sanction to remove contractors from contracts either at the tendering stage or during the programme phase is determined by clauses included within the contract document agreed by both parties. The inclusion of a clause relating to the prevention of bribery and corruption is one such clause.</p> <p>The Council's applicable Contract Standing Order 16 states "There shall be inserted in every contract a clause empowering the Council to cancel the contract and to recover from the contractor the amount of any loss resulting from such cancellation if the contractor shall have offered or given or agreed to give to any person any gift or consideration of any kind as an inducement or reward for doing or forbearing to do or for having done or forborne to do any action in relation to the obtaining or execution of the contract or any other contract with the Council or for showing or forbearing to show favour or disfavour to any person in relation to the contract or any other contract with the Council or if like acts shall have been done by any person employed by him or acting on his behalf shall have committed any offence under the Prevention of Corruption Acts 1889 to 1916 or shall have given any fee or reward the receipt of which is an offence under the Local Government Act 1972 Section 117."</p> <p>Internal Audit identified that the contract documents did not make reference to the prevention of bribery or corruption.</p>		
<p>Management Response</p>		
<p>This was an ICE Minor works Contract, however time pressure meant it was not identified that the clause relating to the prevention of bribery and corruption was omitted.</p>		
Accepted	Implementation Deadline:	Immediate

Recommendation 5	Responsibility: Director of Corporate Services & Assistant Director Regeneration	Priority: 2
<p>The Council should ensure that contract documents are drawn up, signed and sealed, where appropriate, by both parties prior to the contractor taking possession of the site/work commencing; or without undue delay when in support of "Letters of Intent" or "Official Orders".</p>		
<p>Rationale</p>		
<p>Contracts are put in place to identify the parties involved, confirm the work required, agree cost and time scale for the completion of the works. The contract also states the terms and conditions together with procedures to be followed in the event of dispute.</p> <p>The contract is executed by both parties signing, sealing (where appropriate) and dating the document which may be relied upon in the event of any disputes arising.</p> <p>Internal Audit obtained the contract document and identified it is based on an approved form of Agreement, i.e. ICE Conditions of Contract for Minor Works Third Edition. The dates for commencement and completion were 20th April 2009 and 29th June 2009 respectively, however the agreement was not dated until the 27th April 2010; works had therefore been completed prior to the signing and sealing of the contract relying on the Official Order 60035026 issued 17th March 2009.</p>		
<p>Management Response</p>		
<p>Contract documents were sent to legal for sealing.</p>		
Accepted	Implementation Deadline:	Immediate

Recommendation 6	Responsibility: Assistant Director Regeneration	Priority: 3
<p>The Council should ensure that perspective tenderers are consistently provided with the instruction for the completion and return of tenders; specifically marking return envelopes 'Tender' and the subject to which it relates.</p>		
<p>Rationale</p>		
<p>The purpose of a tendering exercise is to invite contractors to submit their best price based on a specification given. Tender sums submitted by each contractor are not known to the client/other tenderers until the envelopes are opened on an appointed date.</p> <p>The tender envelopes are marked with the date and time of receipt and the officer's initials are added. A receipt is given to persons delivering by hand; envelopes received by post are also recorded in a specific Receipt Book which is consecutively numbered. The receipt number for each package/envelope is marked on the Tender Opening Register prepared before opening commences.</p> <p>The applicable Contract Standing Order 9.2 states "invitations to tender shall state that no tender will be considered unless contained in a plain sealed envelope and endorsed "Tender" followed by the subject to which it relates".</p> <p>Internal Audit obtained the envelopes use to submit the tenders and identified that only one had been endorsed 'Tender' or the subject to which they related.</p> <p>Internal Audit identified that the Consultant Engineer had issued the Forms of Tender requesting that the Tender is returned to Regeneration and Community Services at the Town Hall; however no reference to how the envelope should be marked was stated.</p>		
<p>Management Response</p>		
<p>It was originally assumed that tenders would be below £100,000 / quotation. (Future contracts are likely to be less of an issue, due to electronic tendering arrangements.)</p>		
Accepted	Implementation Deadline:	Immediate

APPENDIX 1

AUDIT FRAMEWORK

Audit Coverage

The review covered the following areas:

- contract / tender process;
- bill of quantities;
- insurance and bond provision;
- additions & omissions, including architects instructions;
- contract meetings;
- extension and completion certification;
- payments, including interim and final certificates; and
- final account.

Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation;
- spot checks on arithmetical calculations;
- verify final account with the cumulative paid; and
- report findings, with relevant and practical recommendations for improvement.

Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed between: October and December 2010.

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CONTRACT PARTICULARS**

Contract Title:	Partial demolition of the end bay of the "Darlington" steel portal framed warehouse and re-establish gable structure along the existing grid line 2. Various additional accommodation works, 2 electrically operated roller shutter doors.
Contract Form:	ICE Conditions of Contract for Minor Works (Not Complete)
Contractor:	Thomas Armstrong (Construction)Ltd
Engineer:	Bleasdale Wand Ltd
Quantity Surveyor:	Not Appointed
Tender Sum:	£121,663.39
Contract Sum:	£121,663.39
Date for Possession:	20 th April 2009
Date for Completion:	29 th June 2009
Date of Practical Completion:	22 nd July 2009
Delay in Completion:	23 days
Extension of Time Granted:	Not Confirmed
Liquidated and Ascertained Damages provision/paid/received:	Provision: £500.00 per day Due: £11,500.00
Minimum Insurance Cover	£5m Public Liability
Minimum Bond	£12,166.00 Performance Bond Confirmed. 10%
Retention Amount	Retention 5% to Practical Completion Reduced to 2.5% prior to the above being confirmed.
Submitted Final Account Sum:	£271,622.67
Audited Final Account Sum:	£271,622.67
Percentage increase / Submitted Final Account against Contract Sum.	123.26% (Estimated)

APPENDIX 3**CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL

INTERNAL AUDIT FINAL REPORT CR 60

BARROW TOWN CENTRE PUBLIC REALM SCHEME PHASE II

Executive Summary

Introduction

Internal Audit are required under the Council's Financial Regulations to consider for review all contracts issued prior to the Final Account being paid to the Contractor. The Borough Treasurer through the Head of Internal Audit will select a sample of contracts for higher scrutiny and reconciliation with the Final Account.

The contract for Public Realm Scheme Phase Two is part of the Barrow Town Centre Improvement Plan. The plan is to enhance and replace previous highway surfaces / street furniture following any necessary repairs to utility supply conduits and drainage pipe work.

Cumbria County Council are responsible for all works related to the public highway and had intended to carry out improvements in Dalton Road, Portland Walk, The Mall, Schneider Square and the "Ginnell" within Barrow town centre. We understand CAPITA are the preferred consultants for all Cumbria County Council highway works and were retained for the Public Realm Phase 2 project, transferred to Barrow Borough Council under a legal agreement. CAPITA provided the management and supervisory responsibilities for the contract relating to the adopted highway. For the works relating to Barrow Borough Council owned land a competitive exercise was undertaken to procure a consultant for the Furness House area; and NPS North West Ltd were initially appointed; however the work was transferred to CAPITA due to operational issues.

For the main contract, five contractors were selected to complete a Quality Statement and an estimated cost model of works, this was part of the assessment process. Three tenderers returned their completed Quality Statements and estimated model of works in two separate envelopes. (A Quality Statement enclosed in envelope "A" and an estimated cost for the model of works in envelope "B". The "B" envelopes were to be opened after the evaluation of the Quality Statements.). The results of the Quality Statement and estimated costs were evaluated and scored by two members of CAPITA staff. Based on predefined quality/cost assessments. The estimated cost of £545,693.87 for the successful tenderer Askam Construction Ltd. was reduced by removing the contingency of £71,177.46 and a sum of £11,245.59 for works, primarily relating to Furness House, which resulted in a contract sum of £463,270.82. However, the final valuation has been returned at £626,880.40, an increase on the reduced contract sum of 35.32%. This increase compares favourably with the increase in funding approved by the Executive Committee 20th October 2010.

It appears there have been several potential weaknesses, which include completeness of tender requirements and notifications to Members. Some of these weaknesses appear to have resulted from decisions made by consultants outside of, or not in compliance with their terms of reference.

Audit Objectives

The audit objectives were to perform an examination of the interim and final account and associated documentation. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that weaknesses have been identified in the system of control, which may put the system objectives at risk. We have made seven Priority 2 recommendations, which concern ensuring:

- selection of contractors to be invited to tender are approved in compliance complies with Contract Standing Orders;
- all documentation/packaging relating to procurement should be retained for inspection;
- contract sums should reflect a realistic expectation of the final outcome;
- contract documentation should be complete and checked for omissions;
- contract documentation reflects accurate data and is signed in a timely manner;
- contractors do not enter Council property without appropriate insurances and Bonds being verified; and
- retention monies should not be released until all outstanding matters are addressed.

Key Points
Substantial Assurance
Seven important issues

In addition, a small number of issues were identified of either a minor or historic nature.

Management Response

We have received a constructive management response from Steve Solsby, Assistant Director Regeneration, accepting each of our recommendations. Additionally stating the makeup of funding made this a difficult project to manage, with different requirements from each funding pot.... There was a ring fenced budget available for the Ginnel, with no contingencies built in by CCC, despite complaining to them quite strongly. The Mall was funded by BBC and WLR via NWDA grant and Furness House was funded directly by NWDA together with additional funding from BBC. The works were further complicated by incorporating art works into the scheme, particularly with the Ginnel but also with the Mall and Furness House.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Assistant Director Regeneration	Priority: 2
<p>Capita Symonds should be requested to explain why they had progressed the tender selection and assessment process; without obtaining Executive Committee approval for the list of all contractors to be invited to tender.</p>		
<p>Rationale</p>		
<p>Five contractors were invited to submit a Quality Statement and an estimated model of works. Internal Audit confirmed that the Executive Committee were requested to approve the appointment of Askam Construction Ltd on 15th October 2009; following the selection and assessment process.</p> <p>The Council's applicable Contract Standing Orders 8.2 states "the selection of persons from whom tenders shall be invited in accordance with Order 6 and Order 7 shall in respect of contracts where the contract sum is estimated to be £100,000 or less shall be delegated to the Chief Executive, or appropriate director and in respect of contracts where the contract sum is estimated to exceed £100,000 be delegated to the Executive Committee".</p> <p>The agreed estimated cost of the works for the contract was stated as £545,693.87 therefore, based on the above the selection of contractors should have been approved by the Executive Committee prior to the tendering process being commenced. Internal Audit were unable to obtain any evidence that this Standing Order had been complied with.</p>		
<p>Management Response</p>		
<p>Accepted. The 2006 Schedule List is out dated. Contractors were selected from previous experience, before moving to the "chest" electronic tendering model.</p>		
Accepted	Implementation Deadline:	Immediate

Recommendation 2	Responsibility: Assistant Director Regeneration	Priority: 2
<p>The Council should ensure that evidence of the “Invitation to Tender” issued to each contractor is retained, together with the Tender Envelopes subsequently returned.</p>		
<p>Rationale</p>		
<p>Internal Audit were informed that invitations to tender were issued to five contractors. It is understood, three contractors returned completed Quality Statements in envelope “A” and estimated model of works in envelope”B”.</p> <p>Despite requests, the envelopes “A” which had been used to return the Quality Statements could not be obtained, therefore processing could not be verified. However, copies of envelopes marked “B”, returned by the three contractors, were obtained and found to have been opened in error together with the Quality Statements; this had been identified and proper processes were followed recording this fact.</p> <p>In addition, the absence of copies of invitation letters prohibited confirmation of the number of contractors invited to tender.</p>		
<p>Management Response</p>		
<p>Accepted, however it is thought invitation to tender letters had been provided.</p>		
Accepted	Implementation Deadline:	Immediate

Recommendation 3	Responsibility: Assistant Director Regeneration	Priority: 2
<p>The Council should ensure that an agreed contract sum is relevant to a realistic final sum.</p>		
<p>Rationale</p>		
<p>The estimated cost of £545,693.87 was amended to reflect a reduced Contract Sum of £463,270.82. The reduction of £82,423.07 was achieved through omitting the contingency provision of £71,177.46 and reducing works primarily on Furness House work valued at £11,245.61. (The contingency provision is for unforeseen expenditure during the course of the works.) However, the Final Account Sum recorded an increase of £163,609.58 over the Contract Sum, an increase of 35.32%. Additional work and funding had been approved by the Executive Committee.</p> <p>The Contract Sum would be expected to include a contingency which would have been omitted in the final account statement. Should this have been adopted it would have reduced the recorded overspend.</p> <p>Internal Audit were unable to establish the reason for removing the contingency provision: and therefore reducing the estimated cost by such a significant proportion.</p>		
<p>Management Response</p>		
<p>Accepted. The award for engineering works does not include contingency. The contingency was contained within the Client's overall budget.</p>		
Accepted	Implementation Deadline:	Implemented

Recommendation 4	Responsibility: Assistant Director Regeneration & Director of Corporate Services	Priority: 2
<p>The Council should ensure contract documentation is complete and contains all the necessary clauses for its protection.</p>		
<p>Rationale</p>		
<p>The Council selected an ECC Framework Contract to be carried out under the terms and conditions of the Engineering and Construction Contract (ECC), Third Edition, published in June 2005.</p> <p>This format of contract document selected by the Council constitutes documentation completed by the employer and the contractor, together with guidance notes and an estimated cost of model works. However, Internal Audit were unable to obtain copies of certain clauses referred to in paragraphs of the contract document adopted by the Council. Selected forms of contract should only be used in their entirety to ensure both parties accept all conditions prior to signing and sealing of the document.</p> <p>This type of contract varies from the traditional JCT and ICE contract documentation which provides for monetary values of conditions/requirements to be easily accessed and errors/omission identified prior to signing by both parties.</p> <p>The Council's relevant Contract Standing Orders 15.1 states "every contract which exceeds £5,000 shall where considered appropriate by the Chief Executive or appropriate Director provide for liquidated damages to be paid by the contractor in case the terms of the contract are not duly performed."</p> <p>This contract document does not include such a requirement. Internal Audit calculated the date of Practical Completion to have been 9.6 weeks after the Contract date for completion. A review of Client Requirement documents may suggest the possibility of and extension of five/six weeks to be applied. However, the Council will not be able to claim compensation for the remaining period; as the required claim is not included.</p> <p>Additionally, Council Standing Order 15.2 states "the Council shall require and take sufficient security for the due performance of every contract estimated to exceed £150,000. This security shall be in the form of a Bond provided by a duly recognised Bank or Guarantee Company approved by the Borough Treasurer. In limited cases a parent company guarantee may be acceptable subject to approval by the relevant Director or Borough Treasurer".</p> <p>The Contract document does not appear to record such a requirement and a Bond was not taken up by the Contractor.</p> <p>The Council has therefore been at risk for the period of the contract.</p> <p>Finally the contract documentation provided does not appear to address the Council's requirement relating to the Prevention of Bribery and Corruption which it requires to be inserted into every contract document.</p>		

Management Response

Accepted. There was a mistake, error, or omission in producing the contract documents.

This has been highlighted in PCA and requested by letter at least twice.

Accepted

Implementation Deadline: Immediate

Recommendation 5	Responsibility: Director of Corporate Services & Assistant Director Regeneration	Priority: 2
<p>The Council should ensure contract documentation reflects accurate data and is signed in a timely manner, i.e. prior to commencement of works.</p>		
<p>Rationale</p>		
<p>Internal Audit reviewed the Contract Document relating to the Public Realm Phase 2 project between Barrow Borough Council and Askam Construction Ltd.</p> <p>Section (B) of Recitals stated the date of the contractor's tender offer as 27th April 2010. Although testing of the receipt of tenders confirmed the actual date was the 1st September 2009.</p> <p>The acceptance letter dated 19th January 2010 acknowledged the attendance by the contractor at the Pre-Start meeting in the Town Hall on the 14th January 2010. Works were commenced following the issue of three Purchase Orders. However, the Contract Document was not dated until the 15th July 2010, one week prior to Practical Completion and two months after the original completion date.</p> <p>The findings therefore demonstrate an error within the contract relating to the date tenders are received; and a significant delay in finalising contracts documents to the extent this was not complete until after the date the works were due for completion.</p>		
<p>Management Response</p>		
<p>Accepted.</p>		
Accepted	Implementation Deadline:	Immediate

Recommendation 6	Responsibility: Assistant Director Regeneration	Priority: 2
<p>The Council should ensure that contractors are only permitted to commence work following receipt of evidence that the required Public Liability Insurance cover and Bond are in place.</p>		
<p>Rationale</p>		
<p>The Council's letter confirming acceptance of the contractor's tender in paragraph 4 stipulates "Your contractor's insurances including Public Liability Insurance and Employers Liability Insurance must be received before commencing work on site".</p> <p>Internal Audit obtained documentary evidence of the contractor's insurance cover which was not adequate to comply with the contract document requirement of a minimum cover of £10m for Public Liability.</p> <p>The Instructions for Tendering and Guidance Notes 11 Insurance Queries: "A contract will not be awarded to a tenderer until their existing or proposed insurances have been verified". The omission of the contractor's insurance details had not been taken into account by the consultants during their assessment. This omission may have lead to their tender being rejected. The Assistant Director of Regeneration and Community Services was then required to request the contractor's insurance details and Bond arrangements in the letter of intent dated 19th January 2010. This Letter of Intent, dated after the contract start date, also stated:</p> <p>"that the Performance Bond and the Construction Phase Health and Safety Plan must be received prior to taking possession of the site, and, in respect of the Construction Phase Health and Safety Plan, approval must have been received from the CDM Co-ordinator. Your Contractor's insurances including Public Liability and Employers Liability Insurance must be received before commencing work on site."</p> <p>The Assistant Director of Regeneration followed up his request for the documents on two further occasions on 2nd March 2010 and 20th April 2010. It should be noted that the Contractor took possession of the site on 11th January 2010. Internal Audit have been informed that CAPITA staff may have accepted that a Bond in place relating to the Link Road 2 contract would be sufficient. This decision should only be made at a very senior level within the Council and documented. The contractor's Public Liability Insurance was confirmed at £5m; the contract documentation states a requirement for £10m.</p> <p>It is important that where the Council gives clear instructions and conditions that they are upheld by both Council and consultants' staff. There could be a risk to the Council where contractors are entering Council property and land without the appropriate insurance cover in place.</p>		

Management Response

Accepted.

Accepted

Implementation Deadline:

Immediate

Recommendation 7	Responsibility: Assistant Director Regeneration	Priority: 2
<p>The Council should consider withholding any retention relating to the Public Realm 2 project until such matters as liquidated and ascertained damages reviewed.</p>		
<p>Rationale</p>		
<p>From records obtained by Internal Audit it is estimated that the Council will have retained £15,672.01 from payments made to the Contractor.</p> <p>Contracts should not be awarded until a proper calculation of a Liquidated and Ascertained damages daily/weekly rate has been completed. This rate would normally be inserted in the Contract Document, and in the event of the contractor not attaining the Contract date for completion, a simple calculation is performed and the sum deducted from any retention. This may be challenged by the receipt of properly certified Extension Certificates/Revision to Completion Date Certificates.</p> <p>However, authorised certificates varying the contract completion date have not been provided to Internal Audit.</p> <p>The works were completed on 23rd July 2010 and requests from the contractor to extend the contract date for completion date 14th May 2010 would normally be considered for approval by the Council during the period of the works.</p>		
<p>Management Response</p>		
<p>Accepted.</p>		
Accepted	Implementation Deadline:	Immediate

APPENDIX 1

AUDIT FRAMEWORK

Audit Coverage

The review covered the following areas:

- contract / tender process;
- bill of quantities;
- insurance and bond provision;
- additions & omissions, including architects instructions;
- contract meetings;
- extension and completion certification;
- payments, including interim and final certificates; and
- final account.

Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation;
- spot checks on arithmetical calculations;
- verify final account with the cumulative paid; and
- report findings, with relevant and practical recommendations for improvement.

Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed between: September 2010 and February 2011.

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CONTRACT PARTICULARS**

Contract Title:	Barrow Town Centre Public Realm Scheme Phase II
Contract Form:	ECC Framework Contract to be carried out under the terms and conditions of the Engineering and Construction Contract (ECC), Third Edition, published in June 2005.
Contractor:	Askam Construction Ltd
Architect:	Not Recorded in the Contract Document
Quantity Surveyor:	Paul Cooper-Dykes Askam Construction Ltd
Tender Sum: Contract Sum:	£619,947.96 (Estimated theoretical model of works) £463,270.82 (Tender Value)
Date for Possession:	11 th January 2010
Date for Completion: Amended date for Completion	14 th May 2010 2 nd July 2010
Date of Practical Completion:	23 rd July 2010
Delay in Completion:	3 weeks
Extension of Time Granted:	Extension of Contract Date for Completion not recorded.
Liquidated and Ascertained Damages provision/paid/received:	Provision: £0.00 per day Not included in Contract
Minimum Insurance Cover Required	£10m Public Liability £10m Employer's Liability Contractor's liability: £5m Public Liability £10m Employers Liability
Minimum Bond Required	10% of Contract Sum. Bond not arranged
Retention Amount	Retention 5% to Practical Completion Retention 2.5% During Defects Period Released prior to the above being achieved.

Submitted Final Account Sum:	£626,880.40
Audited Final Account Sum:	£626,880.40
Percentage increase / Submitted Final Account against Contract Sum.	35.32%

APPENDIX 3

CLASSIFICATIONS

Assurance Level

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL

INTERNAL AUDIT FINAL REPORT CR 61

HEATING, VENTILATION & AIR CONDITIONING SERVICING

Executive Summary

Introduction

Internal Audit are required under the Council’s Financial Regulations to consider for review all contracts issued prior to the Final Account being paid to the Contractor. The Borough Treasurer through the Head of Internal Audit will select a sample of contracts for higher scrutiny and reconciliation with the Final Account. In addition, service contracts may be included for review within the annual coverage.

The contract for Heating, Ventilation & Air Conditioning Services to Council owned (non-housing) properties was to be the first procurement exercise utilising an electronic process introduced within the Council. The facility known as the “Chest” offers an electronic automated method of procurement which may be to the benefit of the Council, particularly in savings made in advertising and administrative costs. It is also expected to attract prospective tenderers from a larger area due to the web-based advertising ability.

The procurement and management of this service contract was selected for audit review based on the value of the contract sum (over the term) and expected extension for a further two years; in addition it was the first time the Chest had been utilised for the complete contract letting/procurement exercise.

Audit Objectives

The audit objectives were to evaluate the contract letting process and review management arrangements for the maintaining of the ongoing service provision. Details of the audit methodology are provided in Appendix 1.

Key Points
Substantial Assurance
Three important issues
No minor issues

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that weaknesses have been identified in the system of control, which may put the system objectives at risk. We have made three Priority 2 recommendations which concern ensuring:

- pre qualification evaluations are performed by an agreed minimum number of staff, and related external reports are submitted for approval: and supporting records in all instances retained;
- that the process of opening electronic tenders continues to be attended by an appointed tender opening panel; and
- all contract documentation is completed accurately and in a timely manner.

Management Response

We have received a constructive management response from Richard Hennah, Technical Services Manager, and Ola Oduwole, Director of Corporate Services, accepting each recommendation.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Director of Corporate Services/Technical Services Manager	Priority: 2
<p>Where the PQQ evaluation process is performed as part of the procurement process; the Council should consider:</p> <ul style="list-style-type: none"> • a minimum number of staff are involved in the scoring process, • where this function is performed externally a formal evaluation report is submitted to the responsible senior officer; and • in all instances appropriate supporting scoring sheets are signed and retained. 		
<p>Rationale</p>		
<p>The Council utilised a Pre Qualification Questionnaire (PQQ) mechanism as part of the tendering process, to assist in compiling a shortlist of suitable contractors to be invited to progress to the formal tender submission stage.</p> <p>The process was conducted utilising the electronic procurement tender facility the “Chest”, through which expressions of interests were sought and subsequently Pre Qualification Questionnaires were issued to responding contractors.</p> <p>Completed questionnaires were returned by eleven contractors for assessment, however this process had been performed by only one member of staff, who then invited the three highest ranked firms to be invited to submit formal tenders.</p> <p>The involvement of only one Council officer may not provide sufficient transparency and objectivity for this part of the selection process. Ideally a number of officers would be involved, providing diversification of experience. Alternatively there may be occasions where this function is undertaken by a firm of consultants as part of a project management arrangement, where a formal report of their selection should be provided. In all instances scoring sheets or other similar evidence should be signed and retained to support the selection and decision making process.</p>		
<p>Management Response</p>		
<p>It is accepted that policy and procedure outlining the number and expertise of a PQQ evaluation panel depending on value and criteria would be beneficial. Practice has introduced a minimum of two officers to the short listing as more officers have become familiar with this process.</p> <p>On this occasion short listing was completed by one officer, it should be noted that from the eleven companies expressing an interest and submitting a PQQ, seven were forwarded to the shortlist stage and invited to tender. At the tender stage only three of the seven submitted a final tender while two others opted out and a further two did not indicate their intentions.</p> <p>The Tender documents were then evaluated by a panel of three including a member of management team.</p>		

The PQQ matrix lists why the five unsuccessful companies were judged not suitable to tender.

Accepted	Implementation Deadline:	Implemented
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Recommendation 2	Responsibility: Director of Corporate Services/Technical Services Manager	Priority: 2	2
<p>The Council should ensure that the process of opening electronic tenders continues to be attended by an appointed tender opening panel, with the only access to the electronic security seal (password) held by a member of Democratic Services.</p>			
<p>Rationale</p>			
<p>The electronic procurement facility, the Chest can be utilised to advertise available contracts; issue and receive procurement documentation, whilst recording all activity within the system, including time and individual access activity. The system will automatically lock the area receiving tenders until the time determined within the invitation to tender document. (During this period the system can disclose the number that have been received, but not the tenderers' details.)</p> <p>On an appointed day, following the closing date/time for tenders to be submitted, the same level of diligence should be exercised as for tenders received by mail or personal delivery. Whereby an opening panel witness the release/opening of the tenders and subsequently signs each Form of Tender submitted and also the Tender Opening Register against the recording of each tender received.</p> <p>Internal Audit were informed that the Heating, Ventilation and Air Conditioning contract was the first to be let utilising the Chest and administrative processes had not always been followed. However, from brief review, later tendering processes appear to have followed the Council's Standing Orders for this area of activity.</p>			
<p>Management Response</p>			
<p>Following the adoption of the e portal, subsequent tenders of; £100,000 and above have been opened during the trial by a member of management team (Please see CDM Co-ordinator contract), following which passwords have been provided to democratic services to secure the tender opening process, (see Waterside access road contract).</p> <p>This has now been documented in the revised standing orders and purchasing guide.</p>			
Accepted	Implementation Deadline:	Implemented	

Recommendation 3	Responsibility: Director of Corporate Services/Technical Services Manager	Priority: 2
<p>The Council should ensure that all contract documentation is appropriate, accurate and completed in a timely manner.</p>		
<p>Rationale</p>		
<p>The form of contract adopted, in this particular example, in conjunction with the utilisation of the Chest, consisted of four sections which were brought together for signing and where appropriate sealing.</p> <p>This particular contract consisted of:</p> <ul style="list-style-type: none"> • Contract Particulars • Special Terms and Conditions • Standard Terms and Conditions • Completed Tender (except to the extent that the Tender has been included in the Contract Particulars). <p>However, Internal Audit were unable, at the time of the review, to confirm that the required contract document had been signed by both parties. Enquiries confirmed that the contract document is currently held by the Director of Corporate Services, and will not be signed until certain procedural matters are resolved. (It should be noted that the work commenced 1st February 2010 under a Letter of Intent only, for a two year period with the possibility of a further two year extension.)</p> <p>The unresolved matters should be addressed without further delay and the contract signed, sealed and recorded in the Contract Register.</p> <p>It is in the Council's interest to complete and agree contract documentation, where possible prior to contractors taking possession of Council property including the commencement of services. A Letter of Intent is a short term vehicle to avoid delays in commencing work on site and would not normally be still in place twelve months into a contract period.</p>		
<p>Management Response</p>		
<p>It has been agreed by management team that for future contracts excluding property and those where performance bonds are required that the exchange of an award of contract notice via the chest or hard copy will be sufficient.</p> <p>On the occasion of this contract we did endeavour to compile all of the salient contract information into hard copy and although this is complete they have not been signed and exchanged By Barrow Borough Council although they have been by the contractor. This may now not be required.</p>		

Following the conclusion of the standstill period and no challenges the following confirmation of award notification was submitted via the e portal. This is viewable under notifications for the contract.

Confirmation of Award

* Body:

Dear Mark,

Award of Contract for Heating, Ventilation and Air conditioning.

On 20th September we communicated our intention to award a contract to your company for servicing and maintenance of heating, ventilation and air conditioning, subject to there being no legal challenges being raised during the standstill period, applied in accordance with the Public Contract Regulations 2006 and procurement best practice.

I am pleased to confirm that we are now able to conclude the contractual arrangements and formally award a contract.

Once again, I would like to thank you on behalf of Barrow Borough Council for expressing your interest in the contract and for the time taken in the preparation of your tender documents. Barrow Borough Council looks forward to a successful working relationship with your organisation.

Yours sincerely

Richard Hennah,
 Technical Support Manager,

Accepted	Implementation Deadline:	Implemented
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APPENDIX 1

AUDIT FRAMEWORK

Audit Coverage

The review covered the following areas:

- contract / chest tender process;
- bill of quantities;
- insurance;
- planned preventative maintenance / reactive charges; and
- payments

Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation utilising Chest Procurement;
- spot checks on arithmetical calculations;
- verify payments; and
- report findings, with relevant and practical recommendations for improvement.

Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed between: January and February 2011.

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CONTRACT PARTICULARS**

Contract Title:	Heating, Ventilation & Air Conditioning Service Contract.
Contract Form:	The Agreement in respect of the provision of the Services consisting of the following listed documents which shall be read as one document. In the event of ambiguity, conflict or contradictions between these documents the conflict will be resolved according to the following order of priority: <ol style="list-style-type: none"> 1 the Contract Particulars 2 the Special Terms and Conditions 3 the Standard Terms and Conditions 4 the Tender except to the extent that any element of the Tender has been included in the Contract Particulars.
Contractor:	Integral UK Ltd
Architect:	Not Applicable
Quantity Surveyor:	Not Applicable
Tender Sum:	£63,310.80 per annum
Contract Sum:	£63,310.80 per annum
Date for Possession:	1 st February 2010
Date for Completion:	31 st January 2012 with possible extension
Date of Practical Completion:	Not Applicable
Delay in Completion:	Not Applicable
Extension of Time Granted:	Not Applicable
Liquidated and Ascertained Damages provision/paid/received:	Not Applicable
Minimum Insurance Cover	£10m Public Liability £10m Employer's Liability
Minimum Bond	Not Applicable
Retention Amount	Not Applicable
Submitted Final Account Sum:	Not Applicable
Audited Final Account Sum:	Not Applicable
Percentage increase / Submitted Final Account against Contract Sum.	Not Applicable

APPENDIX 3**CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT CR 62
SUTHERLAND STREET - DEMOLITION

Executive Summary

Introduction

Internal Audit are required under the Council's Financial Regulations to consider for review all contracts issued prior to the Final Account being paid to the Contractor. The Borough Treasurer through the Head of Internal Audit will select a sample of contracts for higher scrutiny and reconciliation with the Final Account.

The works relate to the demolition of properties in the Sutherland Street area of Barrow in Furness and in conjunction with the group repair scheme within the approved North Central Renewal Area. The residential properties owned by the Council (odd numbered) had been vacant for a considerable time and the Council's Executive Committee approved their demolition.

The contract was let at the sum of £139,889 to the contractor submitting the lowest tender; Forshaw Demolition Limited. Costs have risen by 3.82% to an agreed Final Account of £145,228.98.

Audit Objectives

The audit objectives were to perform an examination of the interim and final account and associated documentation. Details of the audit methodology are provided in Appendix 1.

Key Points
Substantial Assurance
Two important issues

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that weaknesses have been identified in the system of control, which may put the system objectives at risk. We have made two Priority 2 recommendations, which concern:

- contracts issued for capital projects should include a clause relating to the prevention of bribery and corruption; and
- ensuring that contract documents are drawn up, signed and sealed, where appropriate, by both parties prior to the contractor taking possession of the site/work commencing

Management Response

We have received a constructive management response from Ola Oduwole, Director of Corporate Services, accepting each of our recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Director of Corporate Services	Priority: 2
<p>The Council should ensure that contracts entered into for capital projects include a clause relating to the prevention of bribery and corruption.</p>		
<p>Rationale</p>		
<p>The Council's sanction to remove contractors from contracts is determined by clauses included within the contract document agreed by both parties. The inclusion of a clause relating to the prevention of bribery and corruption is one such clause.</p> <p>The Council's applicable Contract Standing Order 17 (September 2008) states "There shall be inserted in every contract a clause empowering the Council to cancel the contract and to recover from the contractor the amount of any loss resulting from such cancellation if the contractor shall have offered or given or agreed to give to any person any gift or consideration of any kind as an inducement or reward for doing or forbearing to do or for having done or forborne to do any action in relation to the obtaining or execution of the contract or any other contract with the Council or for showing or forbearing to show favour or disfavour to any person in relation to the contract or any other contract with the Council or if like acts shall have been done by any person employed by him or acting on his behalf shall have committed any offence under the Prevention of Corruption Acts 1889 to 1916 or shall have given any fee or reward the receipt of which is an offence under the Local Government Act 1972 Section 117." This requirement is also confirmed in current Contract Standing Order 12 (December 2010).</p> <p>Internal Audit identified that the documents for this contract did not make reference to the prevention of bribery or corruption.</p>		
<p>Management Response</p>		
<p>The action point is already contemplated in the light of new legislation, The Bribery Act 2010.</p>		
Accepted	Implementation Deadline:	Immediate

Recommendation 2	Responsibility: Director of Corporate Services	Priority: 2
<p>The Council should ensure that contract documents are drawn up, signed and sealed, where appropriate, by both parties prior to the contractor taking possession of the site/work commencing.</p>		
<p>Rationale</p>		
<p>Contracts are put in place to identify the parties involved, confirm the work required, agree cost and time scale for the completion of the works. The contract also states the terms and conditions together with procedures to be followed in the event of dispute.</p> <p>The contract is executed by both parties signing, sealing and dating the document which may be relied upon in the event of any disputes arising.</p> <p>Internal Audit obtained the contract document. The dates for commencement and completion were 13th September 2010 and 3rd December 2010 respectively, however the agreement was dated and sealed on the 4th November 2010; works had therefore been commenced prior to the signing and sealing of the contract.</p> <p>Internal Audit could not locate a letter of intent between the Council and the contractor to cover the intervening period; however a letter of appointment was produced dated 8th June 2010.</p> <p>The Council may wish to consider, as a way of resolving such matters, arranging a meeting where the Council and Contractor could sign/seal at the same time.</p>		
<p>Management Response</p>		
<p>The Council endeavours to facilitate the execution of contracts by both parties before commencement of works.</p> <p>Contemporaneous execution of contracts by both parties is not always practical as some contractors have their head offices/company signatories located out of the Furness area.</p> <p>The Council will continue to engage with contractors to ensure that proper contract documentation is in place before the contracts starts.</p>		
Accepted	Implementation Deadline:	Immediate

APPENDIX 1

AUDIT FRAMEWORK

Audit Coverage

The review covered the following areas:

- contract / tender process;
- bill of quantities;
- insurance and bond provision;
- additions & omissions, including architects instructions;
- contract meetings;
- extension and completion certification;
- payments, including interim and final certificates; and
- final account.

Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation;
- spot checks on arithmetical calculations;
- verify final account with the cumulative paid; and
- report findings, with relevant and practical recommendations for improvement.

Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed between: May and August 2011.

All final Internal Audit reports are presented to the Council's Audit Committee.

APPENDIX 2

CONTRACT PARTICULARS

Contract Title:	Sutherland Street Demolition.
Contract Form:	JCT Intermediate Building Contract 2005, Revision 2:2009
Contractor:	Forshaw Demolition Ltd
Engineer:	Arcus Consulting LLP
Quantity Surveyor:	Arcus Consulting LLP
Tender Sum:	£139,889.00
Contract Sum:	£139,889.00
Date for Possession:	13 th September 2010
Date for Completion:	3 rd December 2010
Date of Practical Completion:	28 th January 2011
Delay in Completion:	8 weeks
Extension of Time Granted:	8 weeks
Liquidated and Ascertained Damages provision/paid/received:	Provision: £350.00 per week Due: £nil
Minimum Insurance Cover	£1m Public Liability £5m Employer's Liability
Minimum Bond	Below Threshold
Retention Amount	Retention 5% to Practical Completion Reduced to 2.5% prior to the above being confirmed.
Submitted Final Account Sum:	£145,228.98
Audited Final Account Sum:	£145,228.98
Percentage increase / Submitted Final Account against Contract Sum.	3.82%

APPENDIX 3**CLASSIFICATIONS****Assurance Level**

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT CR 64
MARSH STREET – GROUP REPAIRS

Executive Summary

Introduction

This contract relates to the group repairs of 17 properties in the Marsh Street area of Barrow in Furness, as part of the Housing Market Renewal Programme within the North Central Area. The residential properties within the programme relate to 190 to 222 Marsh Street (even numbers). The works consist of front elevation improvements, re-roofing with chimney stack works and reconstruction of rear boundary walls.

The contract was let in the sum of £315,667.00 to the contractor submitting the lowest tender; Thomas Armstrong Limited. A saving of 6.27% has been achieved on the contract resulting in a Final Account of £295,878.96.

Arcus Consulting were appointed to provide professional services for the initial Group Repair Scheme in Sutherland Street, following a tendering exercise which resulted in a fee of 4.43% of the works cost. The works at Marsh Street were added to the consultancy contract at the same terms and conditions.

Audit Objectives

Internal Audit are required under the Council's Financial Regulations to consider for review all contracts prior to the Final Account being agreed with the Contractor. The Borough Treasurer through the Head of Internal Audit selected this contract for higher scrutiny and reconciliation with the Final Account.

Key Points
Substantial Assurance
One minor issue

The audit objectives were to perform an examination of the interim and final account and associated documentation. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – Substantial Assurance

As a result of the audit we have concluded that while there appears to be a basically sound system of control, a weakness has been identified, which may put the system objectives at risk. We have made one Priority 3 recommendation, which concerns retaining full tender submissions on the project file.

Management Response

We have received a constructive management response from Chris Jones, Housing Renewal Manager, accepting the recommendation.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: Housing Renewal Manager	Priority: 3	
<p>The Council should ensure that a complete copy of each tender is retained with the project file.</p>			
<p>Rationale</p>			
<p>Each contractor invited to tender for the works was required to provide a Form of Tender and a Schedule of Rates against stated volumes, together with details of their Preliminary Costs.</p> <p>As part of the service delivery Internal Audit are obliged to verify the Contract Sum and to reconcile this to the Final Account. In completing these requirements it was identified that the project file did not include all the Schedule of Rates and Preliminary Costs documents received from tenderers. This omission on the project file prevented Internal Audit from completing a reconciliation of the additional costs claimed by the successful contractor.</p>			
<p>Management Response</p>			
<p>I agree that it is desirable to retain this information on the project file. However, the information is passed to the contract administrators as a matter of course, and forms part of the basis for the tender evaluation report.</p> <p>The information is readily available from the contract administrator, and as such the risk to the project is low.</p>			
Accepted	Implementation Deadline:	Immediate	

APPENDIX**1****AUDIT FRAMEWORK****Audit Coverage**

The review covered the following areas:

- contract / tender process;
- bill of quantities;
- insurance and bond provision;
- additions & omissions, including variation to contract instructions;
- contract meetings;
- extension and completion certification;
- payments, including interim and final certificates; and
- final account.

Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation;
- spot checks on arithmetical calculations;
- verify final account with the cumulative paid; and
- report findings, with relevant and practical recommendations for improvement.

Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed between: July and August 2011.

All final Internal Audit reports are presented to the Council's Audit Committee.

APPENDIX 2

CONTRACT PARTICULARS

Contract Title:	Marsh Street Group Repairs
Contract Form:	JCT Intermediate Building Contract 2005, Revision 2:2009
Contractor:	Thomas Armstrong Ltd
Engineer:	Arcus Consulting LLP
Quantity Surveyor:	Arcus Consulting LLP
Tender Sum:	£315,667.00
Contract Sum:	£315,667.00
Date for Possession:	6 th September 2010
Date for Completion:	11 th February 2011
Date of Practical Completion:	18 th February 2011
Delay in Completion:	5 weeks
Extension of Time Granted:	5 weeks
Liquidated and Ascertained Damages provision/paid/received:	Provision: £700.00 per week Due: £nil
Minimum Insurance Cover	£1m Public Liability £5m Employer's Liability
Minimum Bond	10% of the Contract Sum £31,566.70
Retention Amount	Retention 5% to Practical Completion Reduced to 2.5% prior to the above being confirmed.
Submitted Final Account Sum:	£295,878.96
Audited Final Account Sum:	£295,878.96
Percentage increase / Submitted Final Account against Contract Sum.	-6.27%

APPENDIX 3

CLASSIFICATIONS

Assurance Level

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

AUDIT COMMITTEE	Part One (D) Agenda Item 12
Date of Meeting: 15th December, 2011	
Reporting Officer: Policy Review Officer	
<p>Title: Performance Management</p> <p>Summary and Conclusions:</p> <p>Provide Members with the performance report for the first half of 2011/12.</p> <p>Recommendations:</p> <p>Members are invited to consider the report and determine whether further action is required.</p>	

Report

Performance Indicators

There are a number of national indicators and local indicators where it is appropriate to report data on a quarterly basis. I did not present a performance report to this committee in September to allow Members to focus on the final accounts but the information was circulated to Members on 4th October 2011. The data for the first two quarters for the local indicators are now presented in table 1 and the national indicators are in table 2. I have attached the Q1 figures at **Appendix 20**.

- Collection of Council Tax and National Non Domestic Tax has increased compared to the same period in 2010/11.
- The average number of day's sickness absence per member of staff has improved compared to the same period in 2010/11.
- There has been an increase in the number of violent crimes which mainly due to a significant increase the number of cases of "assault without injury", "assault with less serious injury and public disorder offences.
- There has been a reduction in the number of acquisitive crimes including household burglaries and robberies.
- There has been a decrease in the number incidences of racial violence and the number of hate crimes reported.
- There has been a marginal reduction in the amount of waste generated and volume of and percentage of recycling has improved. I have included the tonnage of recycling because the recycling reward scheme payments are based on percentage and tonnage.

Table 1: Local indicator for first half 2011/12

Indicator	Description	2010/11	2011/12	Change
9	Percentage of Council tax collected	56.89	57.08	↑
10	Percentage of NNDR collected	61.57	62.31	↑
12	Average number of days sick per member of staff	4.46	3.72	↑
126	Number of burglaries per 1000 households	2.35	1.72	↑
127a	Violent offences per 1000 population	8.66	9.57	↓
127b	Robberies per 1000 population	0.13	0.08	↑
128	Vehicle crimes per 1000 population	1.83	8.93	↑
218a	Percentage of abandoned vehicles removed within 24 hours	66.6	100	↑
	Number of incidences of racial violence	17	12	↑
	Number of incidences of racial Damage	0	0	→
	Number of hate crimes	23	22	↑

Table 2: National Indicator for first half 2011/12

Indicator	Description	2010/11	2011/12	Change
NI 191	Residual waste per household	451	446	↑
N1192	% of waste recycled, composted	38.62	39.36	↑
	Tonnage of recycling	5787	5831	↑

Background Papers

Nil

Performance Indicators for Q1 2011/12

There are a number of national indicators and local indicators where it is appropriate to report data on a quarterly basis. The quarter 1 figures for the local indicators are in table 1 and the quarter 1 figures for the national indicators are in table 2.

- Collection of Council Tax and National Non Domestic Tax has increased compared to Q1 2010/11.
- The average number of day's sickness absence per member of staff has improved compared to the same period in 2010/11.
- There has been an increase in the number of violent crimes which mainly due to a significant increase the number of cases of "assault without injury".
- There has been an improvement in the number of acquisitive crimes including household burglaries and robberies.
- There has been a decrease in the number incidences of racial violence and the number of hate crimes reported.
- There has been a marginal reduction in the amount of waste generated and recycling has improved.

Table 1: Local indicator for Q1 2011/12

Indicator	Description	2010/11	2011/12	Change
9	Percentage of Council tax collected	29.23	29.54	↑
10	Percentage of NNDR collected	32.43	33.79	↑
12	Average number of days sick per member of staff	2.52	1.73	↑
126	Number of burglaries per 1000 households	4.45	4.01	↑
127a	Violent offences per 1000 population	6.82	7.37	↓
127b	Robberies per 1000 population	0.10	0.08	↑
128	Vehicle crimes per 1000 population	1.37	0.70	↑
218a	Percentage of abandoned vehicles removed within 24 hours	100	75	↓
	Number of incidences of racial violence	15	11	↑
	Number of incidences of racial Damage	0	0	→
	Number of hate crimes	21	21	↑

Table 2: National Indicator for Q1 2011/12

Indicator	Description	2010/11	2011/12	Change
NI 191	Residual waste per household	142	133	↑
N1192	% of waste recycled, composted	37.6	39.9	↑

AUDIT COMMITTEE	Part One (D) Agenda Item 13
Date of Meeting: 15th December, 2011	
Reporting Officer: Policy Review Officer	
<p>Title: Annual Governance Statement</p> <p>Summary and Conclusions:</p> <p>Provide Members with an update on the progress being made against recommendations Annual Governance report for 2011.</p> <p>Recommendations:</p> <p>Members are invited to consider the progress being made and determine whether further action is required.</p>	

Report

The Annual Governance Statement was presented to the Audit Committee at its meeting in July and updated in September 2011. One of the key control issues identified in the statement was the Internal Audit report IT 44. The Council has now responded to this report and it is attached as **Appendix 21**.

The Council has now received a draft ICT disaster recovery plan and is reviewing how to implement the recommendations. I will provide a hard copy of the report at this meeting.

Preparation for the 2012 Annual Governance Statement has started and I will report progress to this committee on a quarterly basis.

Background Papers

Nil.

BARROW BOROUGH COUNCIL

INTERNAL AUDIT FINAL REPORT IT 44

IT General Controls – Implementation Review

Executive Summary

Introduction

Internal Audit has developed an audit programme, covering general IT controls. The programme was based upon guidance provided by the Audit Commission, who defined 4 key areas of review – Data Centre and Network Operations, System Software Acquisition, Change and Maintenance, Access Security and Application System Acquisition, Development and Maintenance. The 4 key areas have been sub-divided into 13 control areas.

Completion of this audit enables Internal Audit to express an opinion on a wide area of IT activity, and helps to satisfy External Audit requirements for an assessment of IT general controls.

Audit Objectives

Internal Audit performed a review of the previous Audit Report IT 42, dated December 2009. This review forms part of the agreed 2010/2011 programme.

The objectives of the audit were discussed and agreed with Mick McKinnell, the IT Manager, at the start of the audit.

Key Points
Restricted Assurance
Previous recommendations:
One major issue
Sixteen important issues
Five minor issues

Audit Conclusion – *Restricted Assurance*

One Priority 1 recommendation, twenty-nine Priority 2 recommendations and six Priority 3 recommendations were made within the original report. Of those, two recommendations have been implemented, twelve have been overtaken by events and twenty-two recommendations remain outstanding and are detailed in this report.

Management Response

We have received a constructive management response from Mick McKinnell, the Council's former IT Manager and Richard Hennah, Technical Support Unit Manager, providing further comment and revised implementation deadlines for the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

Recommendation 1	Responsibility: IT Manager	Priority: 1
<p>A member of the IT team dedicated to IT Disaster or an external consultant should undertake a project to introduce effective IT Disaster and User Business Continuity Plans, which would include:</p> <ul style="list-style-type: none"> • User agreement on suitable recovery times for key systems. • Agreement between IT and Users on timescales for recovery of key application systems. • An estimate of the cost of disaster arrangements to meet user recovery requirements. • Issue of an IT Disaster Strategy to deliver user requirements. • User documentation on actions required to continue business while the system is unavailable. • Production of an IT Disaster Recovery Plan stating actions required by IT, prior to, during and subsequent to an IT Disaster. • Rigorous testing of plans on a regular basis. 		
<p>Rationale</p>		
<p>Currently an IT Disaster Plan, including local business plans, does not exist to enable the timely recovery of IT services, systems and communications, following a serious IT incident.</p> <p>This has been raised in previous IT General Control Audits. It is a key security issue; the impact of a serious IT incident without suitable contingency plans would seriously disrupt every aspect of the Council's business for many months.</p> <p>In order to progress this important area it is suggested that a member of staff is allocated the work as a dedicated project or a consultant is appointed to deliver a solution.</p> <p><i>Partially Implemented. IT Disaster Planning is an additional option offered by external consultants as part of the implementation of a new back-up and recovery strategy, currently being implemented.</i></p>		
<p>Management Response</p>		
<p>The recently completed back up and recovery project provides much improved capability for the recovery of IT systems. IT Recovery Plans will now be prepared on the basis of the new arrangements.</p> <p>An IT consultant has assessed IT disaster recovery arrangements and developed a disaster recovery plan. The implementation of this plan is on-going.</p>		
<p>Revised Implementation Deadline:</p>		<p>31 December 2011</p>

Recommendation 2	Responsibility: Technical Support Unit	Priority: 2
<p>The ground floor glass windows, providing access to server and communications rooms from the public street, should be reinforced with security guard protection.</p>		
<p>Rationale</p>		
<p>There are external windows to both the server room and communication room on the ground floor of the Town Hall. The server room window has frosted glass, and communications room has plain glass.</p> <p>There is a risk of break-in to the rooms and vandalism to the servers. The result would be severe disruption of and interruption to business.</p> <p>Protecting the computer room equipment by installing window guard protection would significantly reduce the risk, at a minimal cost.</p> <p>The current position provides inadequate physical security to network and server equipment and is in breach of the Code of Connection.</p> <p><i>The Technical Support Unit will aim to implement by 30.9.10.</i></p>		
<p>Management Response</p>		
<p>This was reinforced in August 2010</p>		
<p>Revised Implementation Deadline:</p>		<p>Implemented</p>

Recommendation 3	Responsibility: IT Manager	Priority:	2
<p>The Council should ensure a procedure is documented relating to the regular checking of all UPS equipment. (For key servers, there should be server controllers within the UPS to provide automatic closedown out-of-hours.)</p>			
Rationale			
<p>The risk review undertaken by IT Services identified that current software does not allow automatic close-down of systems should there be a power failure out-of-hours. In addition, there are no written procedures to ensure that the UPS equipment is checked on a regular basis, although some of the UPS equipment self check.</p> <p>Without the above controls and disciplines, there is a danger of business disruption, caused by the failure to achieve a controlled closedown, following a power failure.</p> <p><i>Through discussion with the Networks Team Leader we were informed that this recommendation has not been implemented.</i></p>			
Management Response			
<p>A project to rationalise UPS equipment is on-going and will be completed by 31st December 2011</p>			
Revised Implementation Deadline:			30 June 2011

Recommendation 4	Responsibility: IT Manager	Priority:	2
<p>IT Services should overhaul the server room and all redundant kit and unnecessary furniture should be removed.</p> <p>Once the server room is clear consideration should be given as to whether it is feasible to move the communications equipment into the server; alternatively, if a move is too costly, a small cooling device (e.g. domestic cooler) could be installed within the comms room.</p>			
<p>Rationale</p>			
<p>The Internal Audit review identified that there is no loose cabling in the vicinity of the IT processing area, except behind certain server boxes. However, there appears to be redundant equipment and spare desks in the server room. An overhaul of the room would provide more space, and possibly enable the communications equipment to be moved to the server room, addressing the concern of overheating in the comms room; subject to a cost evaluation of the transfer. Alternatively a small domestic cooler would help reduce heat in summer.</p> <p><i>Internal Audit viewed the server room; some equipment had been removed, although there was still some redundant kit. In addition, the comms room, where cabling removal is taking place, has boxes and redundant equipment. There is no cooling device in the comms room. The Technical Support Unit will monitor temperature in comms room and if found to overheat will take action to control temperature.</i></p>			
<p>Management Response</p>			

TSU have confirmed the cooling is adequate.

Surplus kit has been removed but note that this now needs action again (as further servers have been decommissioned).

The removal of redundant equipment is on-going and is being managed by the IT Technical Support Team Leader. Some of the redundant equipment still contains data and a secure temporary storage area has been identified within the server room.

Revised Implementation Deadline:	31 May 2011
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Recommendation 5	Responsibility: IT Manager	Priority:	2
<p>IT Services should reconsider their back-up strategy to only store weekly tapes in a remote location.</p>			
<p>Rationale</p>			
<p>Current Council procedure requires back-up media is stored in a relatively secure remote safe on a weekly basis. However, the major issue is that if an IT incident severely damaged the server room area, the data on the recovery tapes could be up to a week old. Therefore, the frequency of this control measure may benefit from formal management review.</p> <p><i>A new back-up strategy is to be introduced in 2010. This may involve saving to disk and then electronically transmitting to a remote site.</i></p>			
<p>Management Response</p>			
<p>Use of remote disc storage did not form part of current solution due to additional cost. It remains a possible future option but for the present, one set of tapes per weekly cycle is considered adequate.</p>			
<p>Revised Implementation Deadline:</p>			<p>No Further Action</p>

Recommendation 6	Responsibility: IT Manager	Priority:	2
<p>IT Management should ensure that Cisco network management facilities are introduced as part of the project being undertaken with CAE IT Services on IP addressing.</p>			
<p>Rationale</p>			
<p>The Council only has limited monitoring and diagnostic software in place, which is provided within the windows operating system. Effective monitoring tools and diagnostic software will enable any problems on the network to be identified swiftly and corrective action taken. Work planned with CAE IT Services to resolve IP addressing issues, associated with Code of Connection requirements, should result in the introduction of Cisco Network Management Monitoring tools.</p> <p><i>The proposed exercise with CAE relating to IP addressing has been delayed.</i></p>			
<p>Management Response</p>			
<p>The IP Address changes are taking place during period November 2010 to January 2011. Network tools have been purchased and are being introduced as part of the project.</p> <p>The Council has revised its position and will now be using Cable and Wireless Routing Rules this will be completed by December 2011</p>			
<p>Revised Implementation Deadline:</p>			<p>30 April 2011</p>

Recommendation 7	Responsibility: IT Manager	Priority:	2
<p>The Council should ensure a record is maintained of key measures of IT performance, such as Internet and email availability.</p>			
<p>Rationale</p>			
<p>The Council does not currently have procedures in place to report on system performance. Such reporting and monitoring of usage and performance could be useful in providing management with an objective picture of current network performance.</p> <p><i>We were informed by the Networks Team Leader that the Council's WebSurf security software could be used to provide the necessary information.</i></p>			
<p>Management Response</p>			
<p>The Council has systems in place to monitor disruption to IT service delivery. IT performance will be monitored and reported to Management Board quarterly on an exception basis.</p>			
<p>Revised Implementation Deadline:</p>			<p>31 March 2011</p>

Recommendation 8	Responsibility: IT Manager	Priority:	2
<p>The Council firewall should provide “logging” which records external access to the internal network and highlights attempted security breaches. Copies of such reports should be provided to the IT Department.</p>			
<p>Rationale</p>			
<p>The Council firewall is managed externally by CAE IT Services. The Council has not received any details of centralised logging to collate security events and threats for security analysis. Without such controls and the provision of associated information in place, there are increased risks to the Council’s IT environment. It is understood that a project is underway with CAE IT Services which will deliver security logs and alerts.</p> <p><i>We were informed by the Networks Team Leader that the Council’s security software could be used to provide the necessary information.</i></p>			
<p>Management Response</p>			
<p>A system and event logging system (Juniper STRM) has been introduced, being one of the requirements of the GC Code of Connection.</p>			
<p>Revised Implementation Deadline:</p>			<p>Implemented</p>

Recommendation 9	Responsibility: IT Manager	Priority:	2
<p>The Networks Team Leader should undertake a risk assessment relating to the resilience of communications links between the Town Hall and remote sites.</p>			
<p>Rationale</p>			
<p>Key Town Hall applications are used mainly by the Services based at the Town Hall. There are a number of remote sites, such as the Cemetery, Museum, TIC and Neighbourhood Services, which use data and telephony links to the Town Hall. In addition, there is a link to South Lakeland District Council for the provision of mutually shared services.</p> <p>However, there is little resilience in terms of links to remote sites and in view of the increasing importance of IT communication, particularly the link to SLDC.</p> <p>A regular risk assessment should be undertaken to assess whether the implementation of more resilient communications is justified.</p> <p><i>Through discussion with the Networks Team Leader we were informed that this recommendation has not been implemented.</i></p>			
<p>Management Response</p>			
<p>The risk assessment has been completed and documented.</p>			
<p>Revised Implementation Deadline:</p>			<p>31 December 2011</p>

Recommendation 10	Responsibility: IT Manager	Priority:	2
<p>The IT Department should undertake a network risk assessment to identify the major threats, and describe the controls in place or plans to address the threats.</p>			
<p>Rationale</p>			
<p>The Council does not have a specific network security risk assessment document, although there is reference to this within the information security policy.</p> <p>The Information Security Policy for IT Services states 'Network access control will be documented' but does not cross-reference this to a document.</p> <p>A risk assessment helps to ensure that a consistent and efficient approach is adopted to network security.</p> <p><i>Through discussion with the Networks Team Leader we were informed that this recommendation has not been implemented.</i></p>			
<p>Management Response</p>			
<p>The risk assessment has been completed and documented.</p>			
<p>Revised Implementation Deadline:</p>			<p>31 December 2011</p>

Recommendation 11	Responsibility: IT Manager	Priority:	2
<p>IT Services management should produce a formal report showing required and actual privileges allocated to IT Services staff.</p>			
<p>Rationale</p>			
<p>Within the Borough Council's IT Services it has been the practice (as reported in the 2006 IT General Controls audit) that a group system administration account be used. However, the use of group ID/passwords increases the risk of unauthorised access, and reduces accountability by not identifying individual users.</p> <p>Every user, with system privileges, is now given his/her own ID, and appropriate privileges are allocated. The next step is to ensure that no use is made of the group system user account, by changing the password and not disclosing the new password.</p> <p><i>Through discussion with the Networks Team Leader we were informed that this recommendation has not been implemented.</i></p>			
<p>Management Response</p>			
<p>The "System Administrator" account has been removed and new individual accounts and passwords are in place.</p>			
<p>Revised Implementation Deadline:</p>			<p>30 June 2011</p>

Recommendation 12	Responsibility: IT Manager	Priority:	2
<p>There should be an access control policy/user registration procedure for remote access to the Council network. All remote user access should be protected by strong authentication, e.g. one time password token.</p>			
<p>Rationale</p>			
<p>Access for remote users to the Council network is via the web. A remote access control policy does not exist, and access is not supported by strong authentication (token).</p> <p>External remote users, can be based anywhere and cannot be controlled in the same way as internal users. Therefore, a remote access policy will help to prevent unauthorised access, and strong authentication greatly reduces the threat of hacking.</p> <p><i>The Council is considering using a third party strong authentication product via Liberata.</i></p>			
<p>Management Response</p>			
<p>Remote access arrangements have been strengthened in line with GC Code of Connection requirements. Access will be permitted via RSA keys and this is currently being piloted. Policy will be amended by December 2011 and will be issued to user with the RSA key.</p>			
<p>Revised Implementation Deadline:</p>			<p>31 March 2011</p>

Recommendation 13	Responsibility: IT Manager	Priority:	2
<p>The Council should identify a member of staff to manage the full implementation of the TrackIT Helpdesk software, or alternatively the work should be allocated to an outside contractor.</p>			
<p>Rationale</p>			
<p>The helpdesk software TrackIT was obtained by the Borough Council in 2007/08 and parts of the system relating to inventory of assets have been implemented. However, as yet the helpdesk aspects have not been implemented. This software is critical to the effective delivery of the IT service and to provide monitoring to ensure standards are maintained.</p> <p><i>Through discussion with the IT Manager we were informed that this recommendation has not been implemented.</i></p>			
<p>Management Response</p>			
<p>The Council has made a commercial decision to replace the TrackIT system with Space work open source software and this is now being implemented.</p>			
<p>Revised Implementation Deadline:</p>			<p>Partially Implemented</p>

Recommendation 14	Responsibility: IT Manager	Priority:	2
<p>The IT Manager should agree with CAE IT Services a service agreement covering the management and maintenance of the Council firewall. This should include the associated security and documentation requirements.</p>			
<p>Rationale</p>			
<p>Firewall Support is provided to the Council by CAE IT Services. CAE have issued a support agreement to the Council's IT Services, which covers general IT support and advice, although the firewall duties were not specified. Such information is needed to ensure adequate security over the firewall.</p>			
<p><i>Through discussion with the IT Manager we were informed that this recommendation has not been implemented.</i></p>			
<p>Management Response</p>			
<p>A service level agreement is in place with CAE for managing change control and technical issues. CAE are developing firewall rules in a Business Rules format and this work is on-going.</p>			
<p>Revised Implementation Deadline:</p>			<p>31 July 2011</p>

Recommendation 15	Responsibility: IT Manager	Priority:	2
<p>All users should be requested to confirm that they will abide by the requirements of the Data Protection, Code of Connection and Borough Council; as documented in the Council's Information Security Policy and associated policies; and that electronic communication and Internet access may be intercepted and monitored.</p> <p>The most effective way to achieve this would be for confirmation on-line, on an agreed date and then periodically (possibly annually or when there is a change to the policy).</p>			
Rationale			
<p>New documentation associated with the Code of Connection has been issued; and all staff with access to GSi are required to sign a new usage form. It is also understood that all new staff will also be required to sign this form, although this process has not as yet been implemented.</p> <p>An effective way to protect the integrity and confidentiality of the Council's information is to make sure that all staff understand the IT Security requirements and are signed up to meeting these requirements.</p> <p><i>The IT Manager stated that new staff and all staff required to access GSi sign a new usage form. However, this does not cover all existing users. The use of on-line usage acceptance has, as yet, not been adopted.</i></p>			
Management Response			
<p>It security forms part of the employee induction process and existing staff have all signed the Induction Record Form.</p> <p>The Council has recently raised awareness of IT security using the "Bobs Business" software package and all staff have completed the assessment.</p>			
Revised Implementation Deadline:			30 April 2011

Recommendation 16	Responsibility: IT Manager	Priority:	2
<p>The Information Incident reporting procedures, referred to in the Council's Information Security Policy, should be produced, issued and enforced.</p>			
<p>Rationale</p>			
<p>There is reference to Incident Reporting within the Council's Information Security Policy. However, the process has not as yet been implemented, e.g. production of full incident reporting and analysis procedures, use of a log to record incidents, etc.</p> <p>Without such documentation there is a potential weakness to the Council's Information Security procedures.</p> <p><i>We were informed that this recommendation has not been implemented.</i></p>			
<p>Management Response</p>			
<p>A recording system is now in place and the procedure is being reviewed to reflect the changes.</p>			
<p>Revised Implementation Deadline:</p>			<p>30 June 2011</p>

Recommendation 17	Responsibility: Technical Support Unit	Priority:	2
<p>All cabling both within and outside the Council premises should be checked to confirm it is still in use. Redundant wiring should be removed. Live wiring, particularly outside the building or public areas inside the building, should be housed within appropriate conduit. Additionally, all wiring should have clear identification marking.</p>			
<p>Rationale</p>			
<p>There is loose wire on the outside of the building, in a public area by windows close to reception, and in the cellar area, where the large number of wires has caused the cabling to spill outside the conduit.</p> <p>It is understood that some of the cabling is no longer in use. Excessive wiring is untidy and sometimes results in wiring overflowing from the protective conduits. Where live wiring is outside the building or in public areas within the building it is vulnerable to damage. It may be difficult to identify purpose of some cabling and therefore whether it is still needed, indicating the need for identification marking on all cabling.</p> <p><i>Internal Audit were able to confirm that wiring located externally to the building had been removed. Technical Support intend to review and where appropriate remove much of the cabling, particularly in the cellar area, which relates to redundant telephony wiring.</i></p>			
<p>Management Response</p>			
<p>Completed</p>			
<p>Revised Implementation Deadline:</p>			<p>31 March 2012</p>

Recommendation 18	Responsibility: IT Manager	Priority:	3
<p>The Council should ensure the problems associated with WSUS (Windows Server Update Services), which impacts on patching of PC and server software are addressed. Additionally, there should be a written protocol covering patching of software.</p>			
<p>Rationale</p>			
<p>Internal Audit identified that an issue currently exists associated with patching with the PC WSUS server, which the Council's IT Services are currently trying to address. However, and additionally, the process is not supported by a formal written procedure.</p> <p><i>The Networks Team Leader stated that problems associated with WSUS regarding patching had now been resolved. However a written protocol on patching of software has, as yet, not been produced.</i></p>			
<p>Management Response</p>			
<p>Accepted, written protocol to be produced.</p>			
<p>Revised Implementation Deadline:</p>			<p>30 September 2011</p>

Recommendation 19	Responsibility: IT Manager	Priority:	3																								
The IT Manager should review current entry rights to the server room, with a view to limiting access to those who use the server room on a regular basis.																											
Rationale																											
Entry to the Council's server room is by card and access permissions are restricted to staff approved by the IT Manager. There is a report Net2, which identifies who has access to the server room; this is reviewed by the IT Manager on a quarterly basis, the most recent being March 2009. The following currently have access:																											
<table border="1"> <thead> <tr> <th>Department</th> <th>Number</th> </tr> </thead> <tbody> <tr> <td>Admin Services</td> <td>6</td> </tr> <tr> <td>Admin</td> <td>5</td> </tr> <tr> <td>Admin</td> <td>14</td> </tr> <tr> <td>Directors Office</td> <td>1</td> </tr> <tr> <td>Personnel</td> <td>1</td> </tr> <tr> <td>Fire</td> <td>1</td> </tr> <tr> <td>FTS</td> <td>1</td> </tr> <tr> <td>Audit</td> <td>1</td> </tr> <tr> <td>Community Services</td> <td>1</td> </tr> <tr> <td>Design Services</td> <td>1</td> </tr> <tr> <td>Total</td> <td>32</td> </tr> </tbody> </table>				Department	Number	Admin Services	6	Admin	5	Admin	14	Directors Office	1	Personnel	1	Fire	1	FTS	1	Audit	1	Community Services	1	Design Services	1	Total	32
Department	Number																										
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Design Services	1																										
Total	32																										
A key objective of computer room security is to restrict entry to a minimum number of staff, who require access to undertake their duties. The most effective control would be achieved by restricting access to IT management, IT staff who explicitly require access, the Audit Manager for inspection purposes, two or three admin staff who support IT operations duties and emergency access.																											
Management Response																											
Access rights have been reviewed and the number of staff with access has been significantly reduced.																											
Revised Implementation Deadline:			31 May 2011																								

Recommendation 20	Responsibility: IT Manager	Priority:	3
<p>The process for managing visitor access to the restricted server room area should be documented and/or referred to in the Information Security Policy.</p>			
<p>Rationale</p>			
<p>There is a log in the server room for visitors and an internal memo to IT staff re computer room visitors. The control is not documented.</p> <p>In order that this control is consistently enforced IT should document the procedure or include reference to it in the Information Security Policy.</p> <p><i>Procedure not in place. There are few entries in the visitors book and there have been a small number in 2010. There are a range of external support staff using the room and their details should be entered.</i></p>			
<p>Management Response</p>			
<p>As a result of the review of access rights (risk 19) the number of unaccompanied visitors entering the server room has been significantly reduced. The introduction of a separate policy is not necessary and use of the visitor's book is deemed to be adequate.</p>			
<p>Revised Implementation Deadline:</p>			<p>31 May 2011</p>

Recommendation 21	Responsibility: IT Manager and Technical Support Unit	Priority:	3
<p>Staff accessing the server room should be advised only to use the fire fighting appliances, if they have been formally trained. (Fire notices should be consistent with this instruction.) Alternatively, all staff could be provided with a fire fighting awareness session by those responsible for Health and Safety.</p>			
<p>Rationale</p>			
<p>The fire notice within the server room indicates that for minor fires the appliances should be used. However, a member of IT staff trained in fire safety, expressed the view that appliances should only be used by trained individuals, as without training there is an increased risk to the safety of staff.</p> <p><i>The IT Manager stated he had raised the issue with the H & S Officer but had not received a reply. The Technical Support Unit Manager stated that the matter would be resolved over the next few months.</i></p>			
<p>Management Response</p>			
<p>This has been discussed with the Health and Safety adviser and agreed that the server room is covered under the Council's Fire Safety Procedure and additional fire training is not required.</p>			
<p>Revised Implementation Deadline:</p>			<p>31 March 2011</p>

Recommendation 22	Responsibility: Technical Support Unit	Priority:	3
<p>IT Services should check the “power switch” to establish whether it controls server room power. If so it should be labelled; if not the method of isolating the server room and switching off the power should be established.</p>			
<p>Rationale</p>			
<p>It may be necessary to isolate the Council's server room and switch off the power, should a minor incident, such as a fire, occur.</p> <p>There is a switch in the server room located by the windows, the purpose of which is uncertain, but may be a power-off switch.</p> <p><i>Internal Audit visited the server room with the IT Manager. The switch remains but is not identified as a power-off switch, and there appears no other switch. Therefore still to be resolved.</i></p>			
<p>Management Response</p>			
<p>The power which referred to has been identified as supporting the telephone system and has now been labelled as such. The main power switch for the server room is in the cellar and is labelled and referenced in the fire safety isolation procedures.</p>			
<p>Revised Implementation Deadline:</p>			<p>31 March 2011</p>

APPENDIX 1

AUDIT FRAMEWORK

Coverage

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- Physical Security
- Operating Procedures and Staff Training
- IT Disaster and Business Continuity
- Network Management
- IT Helpdesk and IT Service Performance
- PC Procurement, Management and Control
- Management of Internet Access and Email
- Management of Contractors
- Information Asset Management and Classification
- System Planning and Acceptance, and Change Control
- Project Management
- Service Support Agreements
- Application Systems Access Control

Methodology

The key procedures followed were:

- determine specific management objectives for each area under review; and
- report findings, with practical recommendations for improvement where appropriate.

Performance

Auditor: David Widger

The fieldwork was performed: July 2010.

All final Internal Audit reports will be presented to the Council's Audit Committee.

APPENDIX 2

CLASSIFICATIONS

Assurance Level

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

AUDIT COMMITTEE		Part One (D) Agenda Item 14
Date of Meeting: 15th December, 2011		
Reporting Officer: Policy Review Officer		
<p>Title: Risk Management</p> <p>Summary and Conclusions:</p> <p>Provide Members with the latest version of the Council's risk register for 2011/12.</p> <p>Recommendations:</p> <p>Members are invited to consider the report.</p>		

Report

The Audit Committee has responsibility for monitoring the Council's risk register on a quarterly basis to ensure that risks are being reviewed appropriately.

The risk register was reviewed by Management Board on 9th December and the following amendments were made:-

Risk 6: impact of pay review, the mitigating action has been changed to "funding is still available to undertake the pay review and it will be revisited in 2012/13.

Risk 14: Impact of a large influx of inexperienced Members has been removed because it is no longer relevant.

The updated risk register is attached as **Appendix 22**.

Background Papers

Nil

	Threat	Likelihood	Impact	Score	Impact	Mitigating actions	Contingency actions	Responsible Officer
1	The Council faces £5M budget deficit for the period up to 2015	5	5	25	The Council fails to address the budget deficit resulting in the Council having insufficient funds to deliver its statutory duties and contracted services	The Council has set a budget to achieve the savings for 2011/12. The council will undertake a comprehensive spending review in 2011/12 to identify future savings reduce with the deficit	The Council will use some of its reserve funds to reduce the impact on service delivery and the pace of change.	Chief Executive and Borough Treasurer
2	Impact of the Council's comprehensive spending review on delivery of services	5	4	20	The spending review will challenge all services and if it is not properly managed may result in a loss of staff moral and customer confidence. The Council will endeavour to avoid or minimise compulsory redundancies	The service review will reflect the Council's updated key priorities. Some reduction in service is inevitable given the size of the budget deficit The Council will give a clear statement on priorities and will establish effective internal and external consultation and communication processes.	The Council will use its reserves to control the pace of change to suit the of the organisation and the community	Chief Executive and Borough Treasurer
3	Impact of redundancies and recruitment freeze on service delivery and staff.	5	4	20	Voluntary redundancies and vacancies may result in short-term pressure on service delivery with consequential impact on staff moral and customer satisfaction	Business critical posts will be exempt from the recruitment freeze. Any significant impact on service delivery will be communicated internally and externally pending the outcome of the spending review.	The Council's policy is to avoid or minimise compulsory redundancies. The Government has provided a transition grant to meet the costs the redesign of service delivery and any redundancy costs therefore it will not impact on Council Tax payers.	Chief executive and Director of Corporate Services

4	The Government intends to introduce a self-financing regime for the future management of the Housing Revenue Account.	5	4	20	The introduction of self-financing will result in the Council being burdened with additional debt to replace the existing HRA subsidy system	Mitigating actions: The Housing Manager and Borough Treasurer will look to model the financial impact of the proposals as they become clearer and take necessary action to maintain services within the resources that will be available.		Colin Garnett, Housing Manager
5	Failure to deliver Waterfront Barrow regeneration programme	4	4	16	This will damage the profile of barrow as a place to live and work. There will be a loss of local confidence and ineffective use of private sector resources	The Council has allocated sufficient capital funding to complete the site assembly. The Council and its partners have applied for Regional Growth Funding to support this project.	The project can progress in phases subject to the availability of funding.	Director of Regeneration and Community Services
6	Impact of pay review	4	3	12	Potential staff unrest. Increase in staff costs. Failure to agree the outcomes of the job evaluation process.	Funding is still available to undertake the pay review and it will be revisited in 2012/13.	An equal pay audit has been undertaken and no significant risks have been identified.	Director of Corporate Services
7	Council fails to achieve recycling targets	4	3	12	There will continue to be a shortfall in the budget unless the Council achieves a 40% recycling rate.	The Council continues to develop its recycling service to increase the amount of waste recycled. Any changes resulting from the implementation of the county wide waste strategy will need to be costed	The Council will continue to monitor county wide waste projections and will adapt its waste collection service appropriately.	Director of Regeneration and Community Services
8	The economy remains depressed	3	5	15	This will has a significant impact on the Council's revenue streams and may result in a larger than anticipated deficit	The Council will endeavour to maximise income streams and reduce costs	The Council monitors the budget on a regular basis and can review service delivery if required	Management team

9	Failure of external partner, service providers or contractors	3	5	15	This is likely to result in the suspension of some service while alternative service providers are identified	The Council monitors the position of service providers through regular client meetings and will undertake regular credit checks on our contractors	The Council retains the intellectual property and assets that will support continuity of services	Management team
10	The Council incurs significant uninsured losses	3	4	12	This could have a detrimental impact on the Council's reserves and its reputation	The Council risk management arrangements will minimise uninsured losses.		Borough Treasurer
11	Level of sickness worsens	4	3	12	A significant increase may impact on the Council's capacity to deliver services.	The Council has put a number of measures in place to maintain the current relatively low levels. The impact of elevated levels would only be moderate.		Director of Corporate Services
12	Not having appropriate governance arrangements in place	2	5	10	The Council may lose focus on the purpose of the authority and the wider outcomes for the community	The Council continues to monitor and strengthen its governance arrangements. These include: Audit and scrutiny functions. Treasury management Asset management Resource management Performance management Risk management		Director of Corporate Services
13	Failure to maintain H&S arrangements	2	5	10	Members of the public and Council employees could be put at risk by Council operations	The establishment of the Technical Services Team and the Health & Safety Management Board has strengthened the Council's H&S arrangements.		Director of Corporate Services
14	Council election and new system of administration	3	3	9	A large influx of inexperienced Elected Members may impact on the pace of change required to deal with the budget deficit.	Deleted December 2011		
15	Failure of ICT systems	1	4	4	Failure of ICT systems may adversely affect service delivery	The Council is prepaing a disaster recovery strategy.		Director of Corporate Services