

London Borough of Southwark Internal Audit Annual Report



Distribution List

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1 Background and scope

Background to this report

PricewaterhouseCoopers provided the Council's internal audit services during 2006/07. The purpose of this report is to summarise the work that we have undertaken during the year as agreed with the Council and set out in the annual internal audit plan.

This document summarises the findings of our reviews at the time they were undertaken. However, we recognise that management have already taken steps to implement the recommendations raised within our reports.

This report covers the reviews that were undertaken in the period from 1 April 2006 to 10 August 2007 including a few reviews that were brought forward from the previous year.

Acknowledgements

We are grateful for the assistance that was provided to us by Council staff in the course of our work. It was much appreciated.

2 Overall assessment

Objective of Audit Projects

We generally undertake individual projects with one of two objectives in mind. The majority of projects are geared towards providing assurance to management on the operation of the Authority's internal control environment and to make recommendations, and agree actions with management, to further enhance the control environment and the operation of individual controls in practice.

Other projects are geared more towards the provision of specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible.

Internal Control Environment

In the period since 2002 there has been significant change and improvement at the Council and this has been reflected in the CPA rating being reassessed from "weak or 1*" to "good or 3*". Corporate governance arrangements have been strengthened, the quality of services has improved and the overall control environment is now much more robust.

On the basis of the work that we carried out in 2006/07 our overall assessment of the internal control environment within the Authority is that it has continued to improve and, in respect of the areas that we reviewed, it is generally adequate to address the key risks identified.

However, as would be expected, our work did identify a number of issues that we believe management within the Authority needs to address. These are set out in detail in Section III but the general themes include, in particular:

- ensuring full compliance with all financial regulations, policies, procedures and protocols throughout the Authority – we are still finding a number of examples where officers are not following basic, laid down procedures and there remains scope to further improve overall financial discipline and control;
- continuing to work towards making the most effective and efficient use of the SAP systems to generate useful, accurate and timely financial and management information for the Authority – we have identified a number of areas where the full potential of the SAP systems currently in use have not been realised through a combination of a lack of resources, training or practical experience and are continuing to work with the Authority to support this;

More specifically, we identified significant control weaknesses in the following systems and processes that have had an impact on the achievement of the system's objectives (these reviews had an assurance rating of 'moderate - limited' or lower):

- CA20 Management of External Funding and Grants;
- Statutory Inspection of Lifting and Other Equipment;
- MA02 Corporate Income (NNDR and Council Tax);
- HOU02a Coopers Close TMO;
- HOU02e Willow Brook TMO;

- HOU02f Applegarth TMO;
- HOU06 Community Housing;
- ENV07 Recycling;
- ENV10 Management of Leases;
- CSE09 Pension Contributions by Schools; and
- BF07 (HSC04) Locality Teams.

Further details are set out in the following section.

3 Internal audit work conducted

Current year's internal audit plan

Our internal audit work has been conducted in accordance with our letter of engagement, the CIPFA Code of Audit Practice, IIA Auditing Standards and the agreed Internal Audit plan. The Annual Internal Audit plan was agreed with the Authority in 2006.

Overview of work done

The internal audit plan for 2006/07 contained 59 individual projects, in comparison to 38 individual projects in the previous year. However, in response to changes in circumstances, notably the restructuring of the organisation, and through discussion with management, a number of changes have been agreed to the plan designed to respond to emerging risks and ensure the best use of resources.

As a result of these changes, and the inclusion of reviews reported as on-going or at draft report stage in our previous annual report, the total number of projects undertaken in 2006/07 was 63 (excluding Schools). At the time of preparing this report (10 August 2007), the position on these was as follows:

- 38 where the fieldwork is fully completed and the final report agreed and issued;
- 20 where the fieldwork is fully completed but at draft report stage with management responses still awaited;
- 4 where the fieldwork is currently being finalised.
- 1 where the fieldwork has been suspended at the request of management (Section 31 and Pooled Budgets)

There have also been some reviews that have been cancelled or deferred at the request of management and these are summarised at Appendix C. In total 11 projects have been deferred until 2007/08 and 9 projects have been cancelled.

The overall conclusions made in this report have been based on the findings and assessments arising from all of the work that we have performed during the year. This includes those projects where we have yet to receive formal management responses, although it should be noted that we have already informally agreed our findings with officers in the majority of these cases.

Appendix A provides a brief summary of each of the individual projects undertaken by Department and Appendix B contains an analysis of the recommendations we made across Directorates and by priority.

Audit Coverage

The Internal Audit plan has been designed to give assurance for the Council on a rolling basis. All major financial systems are reviewed annually, providing assurance that the key financial controls are operating effectively. Additionally, we carry out a programme of other reviews, both across the Council and within individual Departments, which provides further assurance over the wider control environment.

As a result, the level of coverage within individual Departments will vary from year to year, in line with the needs and the key risks of those Departments. Where we have carried out limited audit work in individual Departments, we have drawn from previous reviews and corporate reviews during the year to give an overall opinion of the control environment within individual Departments. The rolling basis of our internal audit programme provides coverage over a number of years to ensure that all of the key risks facing the Council are being covered.

Opinions

There are five levels of opinion given in relation to each audit. These are:

- High
- Moderate – high assurance
- Moderate assurance
- Moderate – limited assurance
- No.

See Appendix D for a description of each opinion level. This replaces the three levels of opinion given in relation to audits prior to 2006/07. These were as follows:

- Adequate
- Adequate with exceptions
- Inadequate.

These opinions are given in relation to the specific area under review and are based on our assessment of the adequacy and effectiveness of the control environment for that area, and the extent to which the controls are operating in practice.

Summary of key findings

In last year's annual report we noted a number of common themes arising from our work in 2005/06, and our assessment of the progress that the Authority has made on these areas is set out below. We have also identified a number of key themes arising from our work during the year which are also summarised below.

IT issues

The Council has been developing a new IT strategy during the year. Our review of this process identified an inclusive approach but highlighted a number of areas for consideration. These included clarification on how distributed data and systems would be mentioned and the role of the IT function within Southwark.

Northgate went live for Council Tax and Housing Benefits in September 2006, having gone live for National Non-Domestic Rates in the prior year. A key remaining issue for management to consider following the implementation is around ensuring that user access is appropriate and ensuring that written procedures are in place.

Weak password controls were also identified in relation to Serco (the Council's IT provider) servers, CareFirst and e-Payments systems.

In relation to e-Payments, we found the arrangements in place for addressing key risks to the confidentiality, integrity and availability of transaction data received via the internet and processed internally to be inadequate. This partly reflected contract monitoring arrangements referred to above.

Ownership of key financial systems

During 2003/04 process maps were prepared for the Authority's key financial systems and in 2004/05 non

SAP systems were mapped. Further work has taken place during 2006/07 to further map the key financial systems and clarity around responsibilities for the key financial systems and processes is becoming better established.

Relationship between corporate functions and service directorates

During the year, the Council's structure has undergone considerable change with restructuring still ongoing.

Project management and procurement processes have both been strengthened although continued focus is required to ensure that the new arrangements are effectively embedded across the Authority as a whole. Our review of contract management arrangements indicated scope for further improvements across the Authority.

The establishment in 2004/05 of the Financial Governance Team has continued to help to ensure that there is effective financial management throughout the whole organisation. The internal audit plan for 2005/06 included a greater number of cross-Directorate reviews which enabled a broader picture to be taken across the Authority and facilitate the sharing of best practice. This audit approach was continued in 2006/07 and we have continued to work with the Financial Governance Team, and the newly established Audit and Risk Team to establish effective solutions to ensure that recommendations are addressed at an appropriate level across the Authority. In 2007/08 we will be working closely with the newly appointed Head of Audit and Risk to further strengthen the internal control environment across the Authority.

The Financial Governance Team has helped to ensure that there is effective financial management throughout the Authority, and has been active in preparing and issuing guidance. Many of the individual audits within the year include a requirement for reviewing compliance with this guidance.

A number of issues have been identified as part of recent local audits as a result of this work, particularly around recording of information to confirm payment, receipt, and timeliness of authorisation of payments at the purchase order stage. There is a particular need to improve the accuracy of coding against the Authority's Chart of Accounts.

We reviewed the Finance Directorate's Scheme of Management and identified some areas for improvement around the user-friendliness of the document, which may assist compliance in relation to authorisation controls.

Partly in response to the local compliance issues, we have developed our risk-based approach to our selection of business units over the last year. At Management's request we have also started to incorporate data matches identified as part of the National Fraud Initiative exercise within this process. We will continue to develop this in future years, when we propose to continue with a cyclical approach to Business Units, based principally on an analysis of transactions.

Application of procedures and processes

Previously we have reported that there have been problems ensuring that formal processes and procedures were being adhered to within all of the directorates and business units. Financial training within the Authority has reinforced the need for the consistent application of financial procedures and processes. In addition, detailed procedure notes for the main financial system (SAP) are in the process of being updated and made available on the Council's intranet (the Source). Improvements have been evident, with fewer recommendations being raised during the year, and those recommendations being of less significance than those previously. Of the Business Process Review reports prepared and issued for the current year, all were given a rating of either moderate assurance, or moderate – high assurance.

Contract and Project Management

An inconsistency in the approach to contract and project management was noted across Departments visited and the individual contracts reviewed. The level of compliance to the Contract Monitoring guidelines was inconsistent between individual Lead Contract Officers.

In relation to the Housing Benefits and NNDR contract with Liberata, there is scope for the Client Unit to improve its monitoring, for example by ensuring that errors and amendments are processed once they are identified.

Scope for closer monitoring was also identified in relation to e-Payments (ensuring that Serco are addressing the key risks to the ongoing confidentiality and integrity of the system) and HR checks of agency staff by Commensura.

Financial Management Systems

Financial management across the Authority has improved notably, with good progress having been made on a number of recommendations raised in previous reports. However, there is still some scope for further improvement. The key issues identified from these audits were around financial governance, contract monitoring, IT systems implementation and security, and records management - these have been described in the paragraphs above. The Authority will need to consider the financial risks associated with these points - as an example, where contract monitoring are identified, this could have an impact on the subsidy receivable in relation to Housing and Council Tax Benefits. In addition to these areas, we have raised some specific comments for management to consider around debt management (including timely write-off), which was the subject of focus within our Corporate Income audit this year. Further detail on individual recommendations can be found within Annex 1 to this Report.

Personnel Records Management at Directorate Level

Some missing and incomplete personnel files were identified as part of our Payroll and Human Resources audits. These findings in relation to documentation held at Departmental level and should be addressed as a matter of priority. Management should investigate exceptions to ensure that payments being made to relevant employees are valid.

Further gaps were also identified in relation to documentation of post offer safeguarding checks (in Environment and Leisure) and retention of Data Protection Act training records for staff recently transferred from the Council to the Pearson front office.

Liaison with External Audit

As part of the Managed Audit process we have continued our programme of financial systems audits. This process has been conducted to provide assurance to the Authority on the operation and effectiveness of key accounting systems, as well as the Audit Commission for its external audit of the Authority's accounts.

We are currently working with the Audit Commission to update our audit approach in response to the introduction of new audit standards for external auditors relating to the coverage of "significant" financial systems (ISA 330). This is reflected in our updated Internal Audit Plan for 2007/08.

Results of follow-up work

From January 2007 the Audit and Risk Team have taken on responsibility for the implementation reviews and identifying progress made on recommendations raised through internal audit reports. Prior to this, the responsibility had been taken by the Financial Governance Team. Unless otherwise stated in the scope of the review, we have not followed up in detail recommendations from our internal audit reports.

4 Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to the London Borough of Southwark is as at 10th August 2007. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and of internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses and, if detected, we carried out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

We have carried out sufficient procedure to confirm that we are independent from the organisation and management.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Basis of our assessment

In accordance with the Good Practice Guidance supporting the Government Internal Audit Standards, our assessment on risk management, control and governance is based upon the result of internal audits completed during the period in accordance with the Plan agreed with the Authority in 2006. We have obtained sufficient, reliable and relevant evidence to support the assertions that we make within our assessment of risk management, control and governance.

Access to this report and responsibility to third parties

This report has been prepared solely for the London Borough of Southwark in accordance with the terms and conditions set out in our contract dated August 2002. We do not accept or assume any liability or duty of care for any other purpose or to any other party. However, we acknowledge that this report may be made available to third parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Appendix A Summary of internal audit performance

A – Corporate Audits (Position as at 10th August 2007)

Overall Assessment

The controls in place were generally considered to be adequate for the majority of corporate audits that had been carried out, many of which included working with Departments across the Council. This is indicative of improvements in the Council's overall control environment.

Particular areas to focus on include usage and understanding of the Contract Standing Orders across the Council, the implementation of effective contract monitoring and controls in place over the management of external funding and grants.

Where follow up work has been performed, good progress has generally been made on the implementation of recommendations.

Summary of 2006/07 Reviews

CA01 – Human Resource Management (Final)

Scope

The objectives of this review were:

- To review compliance with the safeguarding procedures and controls in place regarding the recruitment, selection and appointment of staff from a safeguarding perspective in Southwark Council. This part of the audit will concentrate on directorates and sections that employ staff that have access to children and/or vulnerable adults.
- To review the performance management procedures, processes and controls in operation at Southwark Council and the compliance with these procedures.

Overall Assessment

On the basis of our review at the time of our audit fieldwork, an assurance rating of moderate assurance has been given.

We followed up all six high risk recommendations that were raised in the 2004/05 Human Resources safeguarding review (reference 2004/05 CS19). Four of these were found to have been fully implemented, and the remaining two have been partially implemented. The risk rating for the two outstanding recommendations has been reduced to medium.

The outstanding issues were that:

- Documentation of post offer safeguarding checks was found to be adequate across all Directorates

reviewed with the exception of Environment and Leisure (E&L). Within E&L, 15 of the sample of 20 new starters tested did not have all of the following on file; proof of ID, two references and a medical check; and

- All agency workers are sourced through the managing agent Commensura. There is a Service Level Agreement (SLA) in place which states that it is the responsibility of Commensura to ensure that each agency carry out all safeguarding checks as contracted. Commensura audit this specification on behalf of the Authority and provide a report detailing the findings from which any corrective action can be taken. However, the Authority does not verify the Commensura records in relation to this matter.

In addition we carried out a performance management review from which no high risk recommendations were raised. The key findings were that:

- There is no uniform format for employee performance documentation across the Directorates; and
- Across all Directorates, employee performance indicators are not being set in relation to all key Corporate objectives of the Council.

CA09 – Compliance with Chart of Accounts (Draft)

Scope

This review was commissioned following concerns expressed by the Chief Executive, Finance Director, Director of Customer and Corporate Services and Head of Procurement, in relation to compliance with the existing Chart of Accounts.

Concerns have specifically been expressed due to a number of anomalies in the use of the coding structure, which has called into question the validity of some financial information presented in SAP. As a result, Management are not confident in the accuracy of this information, which is needed to demonstrate transparency and enable Management to report against objectives. The information recorded within SAP is particularly significant in relation to the Council's planning, since this will be used to identify potential cost efficiencies which the Council aims to deliver in future years.

Overall Assessment

On the basis of our review at the time of our audit fieldwork, an assurance rating of moderate has been given.

We identified instances of miscoding which affected a range of areas including staff costs, IT, equipment and stationery codes. The issues identified primarily related to costs within similar cost categories, and so would not impact on the Council's statement of accounts.

The instances of miscoding partly reflected issues around the interpretation of code definitions by finance managers and indicates potential scope for reviewing the clarity of guidance. We have recommended that the Council should re-enforce compliance with the existing chart of accounts through training and financial monitoring.

This audit was designed to review compliance with the existing Chart of Accounts. The number of instances of miscoding across similar codes suggests that it may be beneficial for management to consider, as part of a separate exercise, whether there is scope to simplify the existing coding structure. The starting point for such a review should involve considering whether individual codes, particularly those identified as susceptible to miscoding from this audit, are currently utilised.

As our work was conducted on a targeted, sample basis, it is possible that further issues exist and therefore the challenge to management is to reinforce understanding of correct practice.

CA17 – Community Safety (Final)

Scope

The audit focussed on budget setting and business planning processes, income activities (including commissioning arrangements), arrangements to ensure that all grant expenditure incurred by the Council is consistent with the terms and conditions of grant funding, management information and risk management arrangements.

Overall Assessment

On the basis of our review at the time of our audit fieldwork, an assurance rating of moderate assurance has been given.

The key findings identified during this review were:

- Budget monitoring and forecasting procedures for the Safer Southwark Partnership (SSP) projects are not fully compliant with the Southwark Council budget monitoring protocol; and
- There is scope to enhance the level of sophistication of the monitoring of outputs and expenditure incurred by partners.

CA20 – Management of External Grants and Funding (Final)

Scope

The audit focussed on the arrangements in place for managing and monitoring the management of external funding and grants.

Overall Assessment

We identified a number of exceptions where controls were inadequately designed, including:

- Lack of clarity around budget monitoring procedures;
- Failure to integrate information systems or develop alternative means by which information can be easily shared between the Primary Care Trust and Council teams;
- Absence of any risk management procedures; and
- Absence of finalised roles and responsibilities for all members of locality team staff.

CA25a – Grant Claims - Optimum II Grant (Final)

Scope

We reviewed the grant claim for the Optimum II Grant, for the period October 2005 to April 2006 by carrying out all of the tests included in the “summary of checks” as specified in the Project Audit Guidelines (November 2003) which have been provided to us by the London Borough of Southwark.

Overall Assessment

Whilst we were able to trace expenditure for the Optimum II grant, it was noted that periods are not closed off and therefore there was a requirement to verify that individual expenses had been claimed for in the correct year.

CA25b – Grant Claims - Neighbourhood Management Stage 2 (Final)

Scope

We reviewed the grant claim for period January 01 2004 to December 31 2004 in line with instructions provided by the Government Office for London.

Overall Assessment

We certified the grant claim, with no control points raised.

CA25c – Grant Claims - Neighbourhood Management Stage 3 (Final)

Scope

We reviewed the grant claim for period 01 January 2005 to 31 March 2006 in line with instructions provided by the Government Office for London.

Overall Assessment

We certified the grant claim without amendment.

CA25d – Grant Claims - Optimum II Grant (Final)

Scope

We reviewed the grant claim for the Optimum II Grant, for the period April 2006 to October 2006 by carrying out all of the tests included in the “summary of checks” as specified in the Project Audit Guidelines (November 2003) which have been provided to us by the London Borough of Southwark.

Overall Assessment

Whilst we were able to trace expenditure for the Optimum II grant, it was noted that periods are not closed off and therefore there was a requirement to verify that individual expenses had been claimed for in the correct year.

Special Review 2006/07 Report Statutory Inspection of Lifting and Other Equipment (Draft)

Scope

The Council requested that this review be performed following concerns around the systems of control in this area. Under the requirements of various statutes, including the Lifting Operations and Lifting Equipment Regulations 1998 (LOLER) and the Health and Safety at Work etc Act 1974 (HSW Act), certain categories of equipment are subject to periodic inspection by an “independent competent person”. The main providers of such independent expertise have traditionally been insurance companies. As agreed in the Terms of Reference, the scope of this review has been limited to those inspections currently carried out by HSBH.

Overall Assessment

Key issues found during the review were that:

- In October 2006 four vehicles with tail lifts in use by the Council, were not covered under an up to date statutory inspection. These vehicles were not included on the HSBH schedule of equipment and so were not included in the May 2006 round of inspections;
- Two vehicles with tail lifts were included on the HSBH schedule of equipment, but were not available to have a full inspection in May 2006. These vehicles should have been taken out of use until a full inspection was arranged, but both continued to be used without a full inspection until October 2006;
- An HSBH report dated 12 June 2006 stated that an adjustment was required to five vehicles. All of these adjustments were graded as ‘general’ and so no time limit was given to Southwark Council to carry out these works. However it appears that the report was not received by those responsible for maintaining the vehicles until October 2006 and so the Council could not respond to the comments until that time; and
- Burgess Park Sports Pavilion, containing boiler pressure equipment, was built in December 2005.

Neither the Building Services Team nor the Insurance Team notified HSBH of the new building so that the site could be included in the HSBH schedule of equipment.

Reviews Outstanding from 2005/06

BF01 (CA02) – Corporate Governance (Final)

This review was from the 2005/06 annual plan but was finalised during the 2006/07 reporting period.

Scope

We have reviewed the FMS Directorate's Scheme of Management, in comparison with the Constitution and other internal documents, and benchmarked it against similar schemes from other councils. Potential areas for improving the Scheme have been identified for consideration, prior to rolling it out as a template to other directorates in the Council.

Overall Assessment

The main areas for improvement relate to:

- Inconsistency and duplication in the document, which if addressed, should improve its user-friendliness; and
- Potential omission of activities and lack of detail for tasks that are included, which if addressed should improve the adequacy and completeness of defined responsibilities.

BF02 (CA03) – Customer Service Centre – Implementation, Contract and Service Delivery (Draft)

This review was carried forward from the 2005/06 Audit Plan.

Scope

The Customer Service Centre (CSC) has been set-up by Pearsons who have also been selected to provide front office services on behalf of the Council.

The implementation of the Customer Relationship Management (CRM) solution is considered by management to significantly improve the way the Council works and is organised, yielding significant service improvements and operational efficiencies including consistent record keeping, swift service delivery, innovative ways to communicate with the Council and on-line links to external organisations.

We reviewed the system, considering systems resilience, confidentiality, data protection and system availability.

Overall Assessment

On the basis of our review at the time of our audit fieldwork, an assurance rating of moderate assurance has been given.

We found that the recommendations made in this report should be implemented as a matter of priority to address the following weaknesses highlighted:

- CareFirst passwords can comprise five or fewer characters and are not subject to enforced periodic change, potentially compromising the integrity of the system and the confidentiality of the information processed. Therefore, users should be required to adopt more complex passwords; these should comprise a minimum of 8 characters, one of which should ideally be numeric and subject to enforced periodic change.
- Data Protection Act (DPA) procedures are maintained, but these have not yet been cross-checked to the requirements of the Act to ensure that these are being complied with. DPA procedures should be correlated with the provisions and requirements of the Act to ensure that they are properly aligned

with it, and that the risks of non compliance with the DPA are mitigated as far as possible.

- DPA training records are not retained for all Council staff that recently transferred (from the Council) to the Pearson Front Office. All CSC frontline staff that transferred from the Council to Pearson should be checked to ensure that they have successfully undergone DPA training, and that there is a formal record of the fact.

CA06 – IT Strategy Review (Final)

This review was from the 2005/06 annual plan but was finalised during the 2006/07 reporting period..

Scope

The Council has an existing ICT strategy for the period 2003-06, and was in the process of drafting the strategy for the period 2006-2010. The purpose of this audit was to understand the approach taken by management in the development of the new IT Strategy and the proposals for its implementation, and compare against our experience and understanding of good practice internal controls, governance and risk management.

Overall Assessment

At the time of the fieldwork and on the basis of our review and evaluation:

- The approach to the development of the new IT Strategy was adequate with exceptions as summarised below.
- In general, there was an inclusive approach in place to developing the new strategy in that it was devolved to individual departments for content provision followed by an away day specifically focussing upon obtaining consensus from IT and Department Management for adoption of the new strategy. This is planned for early 2006 and involves an elected Councillor, ensuring an improved alignment of the proposed IT Strategy with the Council's objectives, visions and goals.

A number of issues were identified during the review. These are summarised below:

- it was not clear in either the 2003 Strategy or the proposed new strategy how distributed data and systems would be managed beyond mention of the need for new ways of working;
- beyond Storage Area Networks ('SAN' – for centralized data storage) and Central IT Purchasing there is little mention of a formal technology strategy;
- strategic data planning appears to be embryonic and fragmented;
- the organisation of the IT function is not described in the proposed new strategy;
- there appears to be no mission statement or clear definition of the role of IT within Southwark beyond the context statements;
- it is unclear how mission direction or objectives will be communicated to the IT staff and the wider Council audience other than anecdotally;
- there is little evidence of benefits management / realisation within the projects portfolio or of benefits statements being produced.

BF03 (CA07) – Management of the Capital Programme (Final)

This review was from the 2005/06 annual plan but was finalised during the 2006/07 reporting period

Scope

The review was undertaken in the following stages:

1. Review of Corporate and service procedures relating to the identification and approval of capital projects: We reviewed existing Corporate and Departmental procedures to understand current

identification and approval procedures. This included any policy documents and statutory requirements which specify the investment priorities for each service area.

2. Review of the structures of the service capital programmes: In this stage, we documented the content and structure of the capital programme.
3. Review of processes by which selected projects were identified and approved: Each programme was discussed and reviewed with the relevant programme managers to document how it was identified and approved.
4. Report preparation to highlight actions against above risks: This report sets out current practices and procedures against the above risks as well providing a description of the identification and approval processes used in the different service areas.

Overall Assessment

On the basis of our review at the time of our audit fieldwork, an assurance rating of moderate assurance has been given.

Overall, we found the elements for the effective management and control of the Council's Capital programme were in place at the time of the audit in 2006. However, we also found that, at the corporate level, these were not always implemented as required and the different elements would benefit from a combination of review, updating, streamlining and rationalising.

CA09 – Review of the Implementation of the e-Payments Project (Final)

This review incorporates CA10 – Review of replacement of Academy Cash Collection with Gateway.

Scope

The Council can currently receive payments electronically via the internet through a system which is active in conjunction with 'Government Connect' to provide the secure provision of online services. The payment options allow customers to make electronic payments in respect of council tax, business rates, housing rents, Miscellaneous Debts and Registrars. The software used to facilitate e-payments is currently provided and managed by Software AG, with Serco managing the hardware on which the systems run as part of an outsourcing contract.

The purpose of this audit was to ensure that all payments (and associated data such as customer payment details) received via electronic means are secured from unauthorised viewing or amendment, and that key balances and data sets are updated completely and accurately, and on a timely basis.

Overall Assessment

At the time of the audit fieldwork and on the basis of our review, the arrangements in place for addressing key risks to the confidentiality, integrity and availability of transaction data received via the internet and processed internally are inadequate. The key issues noted from our fieldwork are outlined below, however a significant proportion of our findings have been derived from the fact that Serco, the outsourced provider of the system, have not been able to provide evidence to address our audit challenges:

- The Council does not proactively seek and obtain assurance that Serco are addressing the key risks to the ongoing confidentiality and integrity of the system for which they are responsible;
- Serco did not provide us with evidence to provide any assurance over security risk assessments and operating system and database security controls;
- Weak password controls around the transaction checking application (which provides a view of transactions received); and
- Transaction checking information is displayed through a browser with no encryption in use. Therefore if any hackers are able to gain access to the network, they will be able to read the data.

CA12 – Contract and Project Management (Final)

This review was from the 2005/06 annual plan but was finalised during the 2006/07 reporting period

Scope

The aim of this audit was to review departments' contract monitoring arrangements to ascertain their compliance with certain key aspects of the Council's contract monitoring policy.

Overall Assessment

At the time of the fieldwork, on the basis of our review and evaluation of the Contract Monitoring Arrangements, the controls in place were considered to be inadequate. The controls which were in place were generally operating effectively, but some exceptions were noted.

The main reason for the inadequate assessment was the level of inconsistency in the approach used and the compliance with the Contract Monitoring guidelines both across the Departments we reviewed and also between individual Lead Contract Officers.

B – Managed Audits (Position as at 10 August 2007)

The managed audits cover the key financial systems which may impact upon the annual statements of accounts. These are completed in liaison with External Audit in order to provide an optimum level of coverage with the appropriate level of resource.

Overall Assessment

The financial controls operating within the Authority were generally considered to be adequate on the basis of work completed to date.

Exceptions have been identified in all areas reviewed, and indicate a need for further enhancement of the control environment. Furthermore, the NNDR system has a number of areas identified where improvements are required. This was a new system for the prior year, which has been rolled out for Council Tax during 2006/07.

All recommendations raised relating to Treasury Management have been rated as low risk.

Summary of 2006/07 Reviews

MA01a – Business Process Review – Facilities Management (Draft)

Scope

The central Facilities Management team manages budgets and contracts for corporate cleaning and security, as well as five repairs and maintenance related contracts.

We reviewed the controls in place in relation to budgetary control, goods and service ordering, payments and risk management.

Overall Assessment

No exceptions were noted through our detailed testing of transactions, or budget monitoring procedures. However, two areas were noted where controls could be further strengthened within Facilities Management. Neither of these have been rated as high risk:

- Before a contract payment is authorised by the Facilities Management team, a single check is carried out to ensure that no complaints have been received in relation to the work performed. Although further monitoring of contractor's performance is carried out by SBDS this is not directly linked to the authorisation of contract payments; and
- The Facilities Management team keep a detailed risk log, and key risks are included on the Council risk register. However details such as risk control measures, risk owner or target date have not always been included in the Council risk register.

MA01b – Business Process Review – Cemeteries and Crematoria (Draft report being prepared)

Scope

There is one major cemetery and one crematorium in Southwark, as well as three other official burial sites.

We reviewed the controls in place in relation to income activities, budgetary control, goods and service ordering, payments, assets and risk management.

Overall Assessment

Five recommendations have been raised, none of which have been rated as high risk.

MA01c – Business Process Review – Southwark Sports Ground Club House (Draft)

Scope

Southwark Sports Ground Club House (the Club House) is situated in Southwark Sports Ground, Dulwich Common. The property is used by Southwark Sports Ground Bowls Club (the Bowls Club), which is run on a voluntary basis by former employees of Southwark Council.

We reviewed the controls in place in relation to income activities, goods and service ordering, payments, assets, and terms of ownership of the Club House.

Overall Assessment

We identified six weaknesses, of which one was rated as high risk:

- No contents insurance is held by the Bowls Club, and it appears that the assets owned by the Club are not covered by the Council's insurance (as they do not belong to the Council);

MA01d – Business Process Review – Tourist Information Centre (Final)

Scope

The Tourist Information Centre has been based in the Tate Modern since November 2006. This is a temporary arrangement and no decision has been made with regards to the future location of the service. Prior to the relocation income was generated through the sale of guidebooks and tickets. However, no trading has occurred since the relocation.

Overall Assessment

We identified eleven weaknesses, of which two were assessed as high risk:

- in the past budgets have not been accurately set for each of the expenditure areas within Tourism; high level figures have been set and agreed, but specific activities have not been accurately forecasted. This has resulted in expenditure frequently being coded to an inappropriate budget if this better suits the availability of funds.

For 2007/08 the Tourist Information Centre budget has been rolled forwards from the prior year. We understand that this will be amended to reflect expected activity once a decision has been taken as to the future of the Centre.

- From a sample of 30 expenditure items, supporting documentation could not be provided in one case (the item had a value of £206). We were informed that this transaction was processed by a temporary member of staff, and other documentation processed by this person has also been found to be missing.

MA02a – SX3 Pre-Implementation Health Check (Final)

Scope

The operation of the Council Tax system (CTax) is outsourced to Liberata, who also provide daily management and support of these systems. The Council implemented an SX3 integrated Council Tax and Benefits, which was due to go-live in September 2006.

This audit provided a pre-implementation health check over the key elements that remain in the project life cycle and to ensure that arrangements were developed to identify and mitigate the potential risks in relation to:

- Segregation of Duties
- System Testing
- Interfaces

- Go Live
- System Availability.

Overall Assessment

13 recommendations were raised, of which six were rated as high risk. These were:

- The project should develop a Security Strategy for the new system that includes giving due consideration to how segregation of duties conflicts will be prevented;
- The systems security build should be reviewed, tested and signed-off by a manager with responsibility for and knowledge of the risks and controls for that process area;
- Acceptance criteria for the system should be drafted for review and acceptance by the project board before the approval to go-live is granted;
- A contingency plan that details the alternative or additional actions that could be invoked if a risk becomes an issue during the cutover period should be developed, and should cover all processes and all timeframes of the cutover;
- The timeframe to complete the cutover plan should be accelerated. We also recommended that the project team ensure that the final cutover plan covers all the steps necessary to successfully implement business process on the new system; and
- A test strategy and/or overall quality plan should be developed to ensure that the system will function as intended.

MA02 – Corporate Income (Draft)

Scope

The review was risk based and included testing of key controls. Computer Aided Audit Techniques was used as appropriate, and previous recommendations were followed up where relevant. At the request of the client we placed particular emphasis on reviewing the arrangements in place for Council Tax, as it is a new system whilst NNDR was subject to a lighter touch, primarily due to emphasis placed on NNDR in our 2005/06 review.

Housing Rents, Penalty Charge Notices (PCNs) and Debt Management were also covered.

Overall Assessment

53 recommendations have been raised, of which nine have been rated as high risk. These are:

NNDR

- When an amendment to the listing of properties held by the Valuation Office Agency (VOA) is identified by the Council, they issue a Billing Authority Report (BAR) to the VOA. These are not then monitored to ensure they are acted on;
- Properties can be entered as void on the Northgate system by any member of the NNDR team without authorisation, and voids are managed using a separate spreadsheet, although Northgate has the functionality to do this;
- There is no formal monitoring of accounts that have been suppressed for debt collection purposes;
- Users of Northgate outside of the NNDR team have the system access to authorise refunds; and
- Final workplans for 2007/08 had not been agreed between Liberata and the Client Unit as at 4 April 2007.

Council Tax

- End dates are often not entered for temporary discounts and exemptions. Three exceptions were noted from a sample of twenty where appropriate documentation was not in place to support a discount or exemption that had been applied.

Debt Management

- Three Council Tax write-offs from a sample of 40 tested, and eleven NNDR write-offs from a sample of 40 tested, had been actioned without the appropriate authorisation. In addition 32 of the Council Tax write-offs tested had been actioned prior to the authorisation.

Implementation of Northgate

- User roles were not reviewed prior to implementation. There was no authorisation form on file for one of a sample of four joiners who were given access to the system. Users able to set up and amend access levels included the NNDR Team Leaders, and 19 Client Staff (mostly benefits based), although this was thought to be restricted to the Systems Team; and
- Written procedures have not been put into place following the implementation of Northgate. In particular, there are no documented procedures in place for Council Tax processing.

MA03 – Payroll and Pensions (Draft)

Scope

We reviewed the controls in place over two key financial systems – Payroll and Pensions.

Overall Assessment

Two recommendations raised in this report have been rated as high risk, both relating to missing and incomplete personnel files:

- From a sample of 37 new joiners, there was no P45/P46 on file in three cases, no supporting documentation to verify the start date in one case, and one personnel file could not be located; and
- From a sample of 36 one-off payments, and 32 monthly changes in basic pay tested, one personnel file could not be located and no sickness certificate was held on file to back up periods of absence in three cases.

MA04 – Main Accounting System and Control Accounts (Final)

Scope

This audit was focused primarily on the IT controls in place around the Council's Main Accounting System, and was conducted within the Financial Management Services (FMS) function.

We reviewed the arrangements in place within FMS relating to the effectiveness of IT related controls operating over SAP. In relation to:

- General Ledger Master Data;
- Period End Processes;
- Reporting;
- General Ledger Processing; and
- System Interfaces.

Overall Assessment

The key recommendation raised in this review was to ensure that audit logs are reviewed by management. This recommendation is intended to mitigate the risk of unauthorised changes to the critical SAP tables not being detected.

Good progress has been made in implementing recommendations raised in the previous year.

MA05 – Creditor Payments (Final)

Scope

This audit was a limited risk based review of key controls. Rather than reviewing the accounts payable cycle as a whole, this audit will principally review the arrangements in place within Financial Management

Services (FMS) function relating to the effectiveness of controls operating relating to payments to creditors. We considered transaction processing risks at Business Unit level as part of our Business Process Reviews (MA01).

Overall Assessment

No high risk recommendations were raised in this audit, indicating that systems are generally adequate and operating effectively at a corporate (Financial Management Services) level, where this audit was focused. Good progress has been made in implementing recommendations raised in the previous year, including strengthening of vendor management arrangements.

MA06 – Treasury Management (Final)

Scope

The objective of this review was to confirm the adequacy of controls over treasury management. This was done via testing of management controls and follow up of recommendations raised in last year's report. It was agreed with management that we would not review adherence to the prudential code as part of this review.

Overall Assessment

On the basis of our review, evaluation and testing of Treasury Management, a rating of high assurance has been given. Five recommendations have been raised, all rated as low risk.

A number of examples of strong controls were identified in this review, in particular in relation to specific authorisation and monitoring controls.

MA07 – Housing Benefits (Final)

Scope

The objective of this review was to confirm the adequacy of controls over housing benefits.

Overall Assessment

On the basis of our review, evaluation and testing of Treasury Management, a rating of moderate assurance has been given.

The key findings identified during this review were:

- The Client Unit test a sample of overpayments each month to ensure they have been classified correctly between Local Authority error, claimant error and other reason. 16 of the 30 cases reviewed in July 2006 were identified as being incorrectly classified, however misclassifications are not being corrected once they are noted;
- Changes in circumstances that are received electronically from the Department of Work and Pensions, and are likely to result in an overpayment should be suspended within 72 hours. Of a sample of 30 relevant claims suspended in November 2006, 23 were found to have not been suspended within the required timescale; and
- Rent Officer referrals should be performed every 52 weeks for most private tenants. From a sample of 30 tenants, more than 52 weeks had elapsed since the latest referral in 6 cases (a range of 54-73 weeks).

Reviews Outstanding from 2005/06

MA01c and d – Business Process Review (BPR) – Heritage Unit and Kingswood House (Final)

Scope

The Heritage Unit is part of wider Culture service, which sits within Libraries and Culture section of Southwark's Environment and Leisure Department. It represents a group of services, including the management of two museums, the Local History Library and Kingswood House, recently brought under the Environment and Leisure directorate from the Education directorate.

On the request of management, Kingswood House was treated as a stand-alone BPR, with other elements of Heritage subject to a separate review. This is partly due to the increasingly commercial operations of the museum, the relevant risks of which are discussed in the section below.

Overall Assessment

On the basis of our review and evaluation at the time of our fieldwork, we found that the arrangements in place within the four cost centres reviewed within the Heritage Business Unit (including Kingswood House) were *adequate with exceptions*. Key exceptions were as follows:

- The asset register is not up to date or comprehensive; and
- Debtors invoices are not raised through the financial accounting system (SAP) at Kingswood House.

MA01f – Business Process Review – Community Council Administration (Final)

Scope

The Community Council Admin Review focuses on controls that mitigate potential risks, which have been derived from the key control objectives specified in the Business Managers' Handbook.

Overall Assessment

On the basis of our review and evaluation at the time of the fieldwork, we found that the arrangements in place within the Community Council Administration unit were *adequate with exceptions*.

The key issues identified were:

- Copies of invoices could not be located for some payments, indicating scope for improvements in the audit trail for individual transactions;
- Examples of Purchase Orders being raised retrospectively (after the invoice date) were identified.

MA01g – Business Process Review – Community Wardens (Final)

Scope

The Community Council Administration Review focuses on controls that mitigate potential risks, which have been derived from the key control objectives specified in the Business Managers' Handbook.

Overall Assessment

On the basis of our review and evaluation of arrangements in place within the Community Wardens Business Unit, at the time of the fieldwork we found that the arrangements in place were *adequate with some exceptions*.

We understand that Management are in the process of developing controls locally following the restructuring of the service. We have identified various recommendations in this report to assist with this ongoing process, which included reference to financial training for cost centre managers and proposed enhancements to the performance management and reporting process. A key

recommendation we have highlighted in this report is for a Business Continuity Plan to be introduced which covers the Community Wardens scheme.

MA01i - Business Process Reviews - School Cash Handling (Draft)

Scope

This audit focussed on the management controls in place to manage the following identified key risks within a chosen sample of four primary and secondary schools:

- Education Finance may not be aware of all cash collection streams at individual schools. Methods at individual schools may vary and, in some cases, may be inappropriate;
- Accounting arrangements may not be adequate to ensure that cash can be fully tracked through the system through the use of numbered receipts and cash collection and banking records;
- Reconciliations between the cash collected and banked may not be performed promptly and accurately and may not be subject to appropriate review;
- Segregation of duties as regards cash handling may not be adequate to ensure that cash is managed appropriately;
- Cash may not be securely held;
- Cash may not be banked promptly; and
- Debt management arrangements may not be adequate to ensure that cash income due is recovered promptly and completely, wherever possible.

Overall Assessment

On the basis of our review and evaluation at the time of the fieldwork, we found that the arrangements in place within the schools were *adequate with some exceptions*.

We noted some examples of non compliance with the Audit Commission and Ofsted best practice guide, *Keeping Your Balance*. A number of exceptions relating to voluntary funds were identified, generally reflecting a lower level of stewardship in this area. One school, for example, did not maintain a separate voluntary fund account, whilst three schools did not perform regular reconciliations.

It was also found that not all schools are issuing receipts for income collected, including school dinner money, uniform sales and school trips. Accounting records were often insufficient to enable schools to trace individual receipts to accounting records, and vice versa. We have noted an example of good practice in receipting in place at another school (Oliver Goldsmith), which may be possible to extend to all schools.

Other issues were identified from this review relating to: the clarity and consistency of cash limits at schools; the security of cash held and segregation of cash handling duties at one school; and the promptness of banking at one school.

C – Housing (Position as at 10 August 2007)

Overall Assessment

We have identified a number of weaknesses in the Housing control environment, based on the audits completed in 2006/7. Twenty-three exceptions were identified in the Coopers Close TMO report, of which one was categorised as critical to Coopers Close TMO (although not critical to the London Borough of Southwark as a whole) in relation to the risk of inaccurate billing of the TMO's income. Also, twenty-two exceptions were identified in the Willow Brook TMO audit, with the high-risk issues also relating to income management. Our opinion based on the other Housing audits performed is that controls are generally adequate and operating in practice, although some weaknesses have been identified. Examples of such weaknesses include the need to ensure that effective operation of services is not dependent on the knowledge of existing staff, the need to strengthen risk management arrangements and to address weak financial control. We also identified a significant issue where a cleaning contract had been let to a contractor which was not on the Council's approved list.

Summary of 2006/07 Reviews

HOU02a - Coopers Close TMO (Draft)

Scope

This audit has been specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Coopers Close TMO on behalf of the London Borough of Southwark. This audit will review the arrangements in place within Coopers Close TMO relating to the efficiency and effectiveness of controls currently in operation. A review will be made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council

Overall Assessment

Twenty three recommendations have been made about design or operation of controls within the TMO. One, concerned with accurate billing in relation to a significant proportion of the TMO's income, was considered critical to the TMO. In addition, four recommended actions to prevent either potential fraud or loss of income and were considered high risk unless addressed.

HOU2b - Browning EMB (Draft)

Scope

This audit has been specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Browning EMB TMO on behalf of the London Borough of Southwark. This audit will review the arrangements in place within Browning EMB TMO relating to the efficiency and effectiveness of controls currently in operation. A review will be made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

Whilst we found the operation of Browning EMB generally acceptable and effective, we believe that it is too dependant on the commitment and knowledge of the existing staff. We have made a number of recommendations which essentially require the EMB to put its processes systematically in writing and consistently keep records of its assets and progress on its administrative activity

HOU2c - Fair Community TMO (Draft)

Scope

This audit has been specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Fair Community TMO on behalf of the London Borough of Southwark. This audit will review the arrangements in place within Fair Community TMO relating to the efficiency and effectiveness of controls currently in operation. A review will be made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

We found Fair Community Housing to be a well run organisation but which requires a few improvements in its risk management to address potential fraud and over payments.

HOU2d - Tanner House TMO (Draft)

Scope

This audit has been specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Tanner House TMO on behalf of the London Borough of Southwark. This audit will review the arrangements in place within Tanner House TMO relating to the efficiency and effectiveness of controls currently in operation. A review will be made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

Overall, we found a reasonably operated organisation with eight of our 14 recommendations addressing areas of low risk. The two high risk recommendations related to the letting of a cleaning contract to a contractor not on the Council's approved list thus appointed without the benefit of proper risk assessment and the prompt recording of income flows between accounts.

HOU2e - Willow Brook TMO (Draft)

Scope

This audit has been specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Willowbrook TMO on behalf of the London Borough of Southwark. This audit will review the arrangements in place within Willowbrook TMO relating to the efficiency and effectiveness of controls currently in operation. A review will be made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

Willowbrook TMO is a medium-sized TMO compared to other TMO's in Southwark. We have noted 22 recommendations in our report, five of which were considered high risk and significant if not addressed. These all covered key area of income management although all of them can be addressed by the introduction of and adherence to straightforward procedures.

HOU2f - Applegarth TMO (Draft)

Scope

This audit has been specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Applegarth House TMO on behalf of the London Borough of Southwark. This audit will review the arrangements in place within Applegarth House TMO relating to the efficiency and effectiveness of controls currently in operation. A review will be made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

We have made 17 recommendations in relation to Applegarth House TMO of which 7 were considered to leave the TMO open to high risk if not addressed. These covered key areas of financial control in terms of budget setting, payment controls and contractual arrangements although many of these issues will be addressed by the introduction of and adherence to straightforward procedures. However, we note the TMO is a small organisation (£71k in allowances in 2006/07) and would recommend that the support and advice of the Council is sought to provide advice on framing and implementing appropriate arrangements.

HOU2g - Haddon Hall TMO (Draft)

Scope

This audit has been specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Haddon Hall TMO on behalf of the London Borough of Southwark. This audit will review the arrangements in place within Haddon Hall TMO relating to the efficiency and effectiveness of controls currently in operation. A review will be made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

Haddon Hall TMO is a reasonably well-run TMO although a number of areas to be addressed were identified. Two of these, relating to fraud training and providing accurate information to collect service charges from lessees, were considered high risk and were the key in determining the final assurance opinion.

HOU2h - Juniper House TMO (Draft)

Scope

This audit has been specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Juniper House TMO on behalf of the London Borough of Southwark. This audit will review the arrangements in place within Juniper House TMO relating to the efficiency and effectiveness of controls currently in operation. A review will be made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

We found Juniper Tenant Management Co-op to be a well run organisation but which requires an improvements in its risk management to address potential fraud and to maintain an accurate register of assets.

HOU2i - Kennington Park TMO (Draft)

Scope

This audit has been specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Kennington Park House TMO on behalf of the London Borough of Southwark. This audit will review the arrangements in place within Kennington Park House TMO relating to the efficiency and effectiveness of controls currently in operation. A review will be made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

Kennington Park TMO is a small organisation with a similar number of lessees and tenants. Whilst weaknesses in budget management, payment control and fraud prevention were noted, commented on and need to be addressed, it generally operates effectively to meet the needs of its residents. However, we note the TMO is a small organisation (£52k in allowances in 2006/07) and would recommend that the support and advice of the Council is sought to provide advice on framing and implementing appropriate arrangements.

HOU06 - Community Housing (Draft)

Scope

This audit focussed on the following areas:

- Provision of accurate information to the Supporting People Commissioner,
- Voids levels in sheltered housing,
- Assessment of support requirements for new referrals to hostels
- Assessment of applications for rehousing to sheltered accommodation under Choice Based Lettings

Overall Assessment

This audit reviewed the monitoring for Supporting People purposes of the through put of residents in the Council's sheltered housing and supported hostels as well as aspects of access and move-on management.

With regards to sheltered housing, we found apparent inaccuracies in the Supporting People returns and a need to introduce monitoring of demand for the sheltered stock.

With regards to the supported hostels, we found the returns to be accurate but attempts to promote move on of existing residents of only limited success and have proposed a review of both policy and practice.

HOU10 - Arrangements for financing home improvements in private sector (Final)

Scope

The audit focus for this review is on the arrangements in place within the Housing Renewal Unit for the assessment and payment of housing assistance to home owners in Southwark

Overall Assessment

We found the administration of grants to private home owners to be undertaken efficiently and effectively during our audit and have commented accordingly.

We note that, at present, this function is predominantly undertaken by the Housing Improvement Agency (HIA) but will also increasingly be undertaken by the Housing Renewal Team to a different client group in the future.

Special Review - Review of the Housing Building Repairs and Maintenance Contract Procurement Process (Final)

Scope

Focus in Phase 1 of this review:

- Assess the tender submission and evaluation process and comment on its reasonableness and compliance with our understanding of industry norms
- Review the detailed tender submission documentation for Morrison, Kier and SBS (the three contractors) to ensure that it has been completed fully and in line with the ITT (we will not review any of the documentation for the other companies' submissions)
- Check the accuracy of the pricing information within the tenders for all 3 contractors
- Ensure that that pricing information has been input into the evaluation process completely and

accurately

- Check the accuracy and completeness of the evaluation calculation as performed by the Council
- Review the method/quality statements for all three contractors and assess the thoroughness and consistency of the evaluation process
- Ensure the accuracy and completeness of the information included within the report to the Council's Executive dated 5 October 2006
- Comment on the processes that the Council will need to have in place in order to manage the contract in the future and ensure that it is delivering the quality and service improvements envisaged by Members
- Prepare a report setting out the findings arising from our work.

Overall Assessment

On the basis of the combined scores for methodology and price Morrison were considered to have submitted the most economically advantageous tender for each of the four contract areas, with Kier second in each case. Given that the Council required a minimum of 2 contractors to be in place, it was recommended by management that the second placed contractor, Kier, be appointed to contract area 1, where they were the closest to Morrison. Our testing indicates that these recommendations are in line with the evaluation criteria.

Reviews Outstanding from 2005/06

HOU01a – Leathermarket TMO (Final)

Scope

This audit was specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Leathermarket TMO on behalf of the London Borough of Southwark. This audit reviewed the arrangements in place within Leathermarket TMO relating to the efficiency and effectiveness of controls currently in operation. A review was made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

At the time of the fieldwork:

- On the basis of our review and evaluation of Leathermarket TMO, the arrangements in place were inadequate;
- On the basis of our testing, the controls in place were not always operating in practice but were inadequate.

The key issues identified were:

- With the exception of repairs and cleaning, inadequate reconciliation between purchase orders and payment of invoices for goods or services;
- The TMO's voids monitoring controls are not effective as they allow inaccuracies to go undetected.
- Clarity regarding responsibilities for capital service charge collection at the time of the audit;
- The draft business continuity plan should be formalised ensuring that it encapsulates all aspects of the TMO and its disaster recovery arrangements.

HOU01b – Falcon Point TMO (Final)

Scope

This audit was specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Falcon Point TMO on behalf of the London Borough of Southwark. This audit reviewed the arrangements in place within Falcon Point TMO relating to the efficiency and effectiveness of controls currently in operation. A review was made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

At the time of the fieldwork on the basis of our review and evaluation of Falcon Point TMO, the arrangements in place were inadequate. On the basis of our testing, the controls in place were not operating in practice and were inadequate. The key issues identified were:

- The dispute over the amount of service charges which should be paid to the Authority has resulted in leaseholders not being billed until the third quarter;
- Rent arrears are not monitored on a monthly basis Therefore ,the recovery of arrears does not occur in a timely manner;
- All information records are held on 'Excel Worksheets' and the recommended 'CHICKS' system is not utilised;
- The contract management and tendering process is considered to be inadequate;
- There is inadequate budget monitoring;
- All tenants have not been allocated files in-order to adequately maintain documentation and tenancy history;
- An inventory has not been established to record all assets held;
- There are no documented policies and procedures for the reporting of fraud;
- Fraud training has not been provided to staff; and
- There is no business continuity plan.

HOU01c – Two Towers TMO (Final)

Scope

This audit was specifically requested in order to review the adequacy of the operational procedures in the daily management of the landlord obligations by Two Towers TMO on behalf of the London Borough of Southwark. This audit reviewed the arrangements in place within Two Towers TMO relating to the efficiency and effectiveness of controls currently in operation. A review was made of the control mechanisms in place to reduce impact of risk upon the TMO and the Council.

Overall Assessment

At the time of the fieldwork:

- On the basis of our testing, the controls in place were not operating in practice and were deemed to be inadequate.

The key issues identified were:

- Management Committee meetings did not always take place on a monthly basis and were not rescheduled;

- The Estate Manager is an authorised signatory although, as he is involved in the daily management of the TMO including placing and raising orders for goods and services, there is potential for conflict of interest;
- The annual budget had not been set and approved by the Committee and, therefore, was not being adequately monitored;
- Information on voids is held on a notice board rather than being input onto the 'Chicks' system which could result in loss of information if fully recorded or backed up;
- Repair completion dates are not always entered onto the 'Chicks' system, so is not possible to verify if repair jobs were completed within the Government right to repair targets;
- Historic arrears need to be addressed by both the Authority and TMO to establish the total value of inherited arrears, confirm responsibilities for recovery and institute recovery procedures;
- The TMO does not have an inventory to record all assets held;
- Lack of training received for fraud awareness and no appropriate documented policies and procedures on fraud reporting; and
- There is no business continuity plan.

HOU03 – Community Housing Function (Final)

Scope

We were asked to review the adequacy of controls for the following key risks:

- Delays in completing homeless assessment which may lead to increased temporary accommodation (TA) costs
- First-time accessions into temporary accommodation may not be subject to adequate controls
- Lack of proper interface between Homeless Persons Unit (HPU) and TA in referring applicants for temporary housing and advising the results at the completion of their investigation
- Lack of compliance with procedures to evict tenants for reasons other than HPU decisions e.g. due to arrears and breach of tenancies.

Overall Assessment

At the time of the fieldwork:

- On the basis of our review and evaluation of HPU, the arrangements in place were adequate with exceptions.
- On the basis of our review and evaluation of TAs, the arrangements in place were adequate with exceptions;
- On the basis of our testing, the controls in place in HPU were operating in practice and were adequate with minor exceptions; and,
- On the basis of our testing, the controls in place in TAs were operating in practice and were adequate with only exceptions.

HOU04 – Leasehold Management Income (Final)

Scope

The audit will focus on the adequacy of procedures relating to major works service charge collection in avoiding and militating against *potential* risks including but not limited to:

- Guidance and procedures in relation to the billing and collection process of capital charges from lessees and various payments methods may not be followed;
- Billing may not occur in a timely manner or as agreed;
- Payments may not be received by the Authority in a reasonable time or may not be followed up in an efficient manner

Overall Assessment

At the time of the fieldwork:

- On the basis of our review and evaluation of billing and collection of major works service charges, the arrangements in place were adequate;
- On the basis of our testing, the controls in place were operating in practice and were adequate with minor exceptions.

BF06 (HOU02) – Choice Based Lettings (Final)

Scope

Focus of this audit is to review the arrangements in place within the Council to relet a dwelling under Choice-Based Lettings once it has been reserviced to the lettable standard.

Overall Assessment

Overall, we were satisfied that the new “Choice Based Lettings” (CBL) procedures introduced in September 2005 were operating effectively as designed. Procedure notes in some areas, for example void guides, would further enhance controls and ensure consistency of operation. In addition, there are currently no standard benchmarks or Performance Indicators to assess performance of the CBL systems over time. This needs to be addressed to assess and demonstrate operational improvement. On the evidence identified during the fieldwork, however, there was a significant reduction in the time from a dwelling made “offerable” to being let.

D – Children’s Services (Position as at 10 August 2007)

Overall Assessment

Based on the work completed in 2006/7, our opinion is that the control framework around schools is generally adequate. Information provided to us was correct at the time of audit. It is notable that two Education audits have been deferred to 2007/8. Also, only one 'Health' audit was planned under this Directorate in 2006/7. This was changed from Pooled Budgets to Disability Payments mid-year and has been deferred until 2007/8. The 2007/08 plan incorporates a number of reviews within the recently formed Children’s Services Section.

Children’s Services - Education

Summary of 2006/07 Reviews

CSE02 Southwark Schools For the Future (Draft)

Scope

The objective of the review is to test the effectiveness of project and programme management controls within the SSF programme and ensure that they conform to best practice such as PRINCE2, Managing Successful Programmes (MSP) and RIBA.

Overall Assessment

The Southwark Schools for the Future (SSF) programme costs are estimated at approximately £200 million. The programme is set to transform learning in the Borough by ensuring that every secondary school, including special schools, has facilities fit for the twenty first century by 2014. Failure to deliver key objectives will impact on service delivery and could result in major overspends given the size and complexity of the SSF scheme.

CSE03 The Academies Programme Alwyn Girls Academy & Waverly Girls Secondary School Academy

As agreed with Southwark, the intended scope of this review was covered through auditing individual secondary schools transferring to academy status. See the Southwark Schools Annual Report for details (references are SCH87 and SCH54).

CSE05 School Improvements (Final)

Scope

The objective of this review was to review the adequacy of controls surrounding the financial management and operating controls within the School Improvements function (in line with existing business process reviews undertaken).

In addition, we will assess the adequacy of monitoring controls and financial management of school improvement to establish the effectiveness of processes followed to verify and validate improvements achieved.

Overall Assessment

The review found that the financial management and monitoring controls within the School Improvement function were generally adequate. However, a number of weaknesses were identified in the design of the controls although they are unlikely to have a significant impact on the achievement of the objectives of the School Improvement function. The key issues identified are as follows:

- Laptops allocated to individual staff were not being signed for by the assignee;
- Invoices for services received are not evidenced as checked against requisitions;
- Details of services provided by service providers are not always clearly stated on invoices.

CSE09 Pension Contributions by Schools (Final)

Scope

The objective of the review will be to assess the robustness of the process in place, sample test compliance with the processes by schools and review whether controls are in place within the Pensions Business Unit to identify non-compliance when it occurs.

Overall Assessment

The review found that the control frameworks operated by the schools were considered generally adequate, although some exceptions were identified. In particular, the review found that the school administration officers follow guidance provided by their outsourced payroll provider rather than Southwark Pensions Services in the areas we reviewed.

E – Health and Social Care (Position as at 10 August 2007)

Overall Assessment

Based on the work completed in 2006/7, the overall opinion is that improvement is required to the design of a number of key controls, particularly those surrounding formal policies and procedures, roles and responsibilities and risk management. We also found weaknesses in budget management and monitoring that require addressing. Based on the controls testing we performed, we identified that controls were not operating effectively in practice. It is notable that one audit in this directorate has been deferred to 2007/8, one has been cancelled.

Summary of 2006/07 Reviews

HSC02 - Section 31 and Pooled Budgets (Fieldwork suspended)

Scope

The objective of this audit was to assess the adequacy of controls in place over the management of the Pooled Budget. Issues were noted in relation to year-end accounting treatments in 2005/2006, which led to late identification of an overspend and communication of this by the Council to the PCT. This audit will include an assessment of risks related to this issue, as both the Council and the PCT are anxious to avoid similar situations occurring in future. Furthermore, as the Council is considering implementing more Pooled Budgets, it is vital that an effective and robust example of a Section 31 agreement is in place which can be used as a template for future agreements. Recommendations made as a result of this audit will be targeted at strengthening the robustness of the existing Learning Disabilities Pooled Budget.

Fieldwork is currently suspended due to revision to the Section 31 agreement by the London Borough of Southwark.

Reviews Outstanding from 2005/06

BF07 (HSC04) – Locality Teams (Draft)

Scope

To obtain assurance that controls over the financial management and governance of the integrated structure are in place and are operating in practice.

Overall Assessment

We identified a number of exceptions where controls were inadequately designed, including:

- Lack of clarity around budget monitoring procedures;
- Failure to integrate information systems or develop alternative means by which information can be easily shared between PCT and Council teams;
- Absence of any risk management procedures; and
- Absence of finalized roles and responsibilities for all members of locality team staff.

HSC05 – Responsibilities under the National Assistance Act (Draft)

Scope

The audit will review the adequacy and effectiveness of controls operating over the management, administration and monitoring of National Assistance Act (NAA) responsibilities by the Authority

Overall Assessment

This report is still being drafted and the findings have not yet been agreed fully with the auditee.

F – Regeneration (Position as at 10 August 2007)

Overall Assessment

Reasonable progress has been made in implementing recommendations made in previous audits. However, implementation of some recommendations in relation to property management has been prevented due to delays in implementing a new asset management system. Other than this, controls were generally operating in practice. It is notable that one audit in this directorate has been cancelled.

Reviews Outstanding from 2005/06

RG02 – Property Management and Disposals (Final)

Scope

This audit followed up on the progress made in implementing the recommendations made in our 2002/03 internal audit review and will consider the efficiency and effectiveness of the Council's current property acquisition arrangements, particularly with regard to Compulsory Purchase Order (CPO) powers. Property acquisitions, particularly using CPO powers, were not as prevalent in Southwark at the time of our previous review so have not been covered in our previous internal audit reviews.

Overall Assessment

At the time of our fieldwork, on the basis of our review and evaluation, the progress in implementing the recommendations made in our previous report on property management and disposals (2002/03) has been reasonable. The key issue identified is the continued delay in the implementation of the asset management system, Manhattan. Several recommendations and system enhancements contained in our original report were reliant on the implementation of this system and, as a result, they continue to remain outstanding. Our review of property acquisitions, including CPOs, indicated that the arrangements in place were adequate with exceptions and that the controls in place were generally operating in practice.

G – Environment and Leisure (Position as at 15 April 2007)

Overall Assessment

Whilst some controls were adequate and operating in practice, we have identified a number of areas for improvement. There is scope for the Directorate's to be more robust, particularly where circumstances surrounding the supplier and the size of required services have changed. Weaknesses have been noted in relation to formal documentation of business cases, risk management and formalisation of roles and responsibilities. Furthermore, our work demonstrated that improvements to financial management are required, such as increased integration of financial and operational reviews of existing contracts, budget preparation and monitoring against budgets. It is notable that two audits in this directorate have been cancelled.

Summary of 2006/07 Reviews

ENV07 – Recycling (Final)

Scope

The objective of the review is to test the effectiveness of the project management and the performance of the pilot recycling scheme.

Overall Assessment

The key findings identified during this review were:

- There was no formalised and documented business case in place for the pilot scheme;
- Whilst risks have been identified they have not been formally assessed for likelihood or impact, making mitigating action harder to identify;
- There were no formalised and recorded roles detailing responsibilities for key project staff in relation to the pilot scheme;
- There was only a basic Gantt chart in place as a project plan to control the progress of the pilot scheme. This plan did not contain key information such as the start and end date of the project;
- No formal, detailed budget had been put in place for the pilot scheme;
- For the purposes of costing the pilot scheme, only the additional costs of the recycling enforcement officers, marketing and publicity were included. Costs which are already included in the base budget such as the redeployment of staff and overheads, have not been fully analysed; and
- Reports detailing performance against budget were not produced for the pilot scheme.

ENV10 - Management of Leases (Final)

Scope

The objective of the review is to test the effectiveness of lease management controls within E&L and ensure that procedures are effectively co-ordinated between E&L and Southwark Property.

Overall Assessment

It was not possible during the audit to compile a complete and accurate list of all leases held by the Environment and Leisure Department (E&L). There is a significant lack of communication between Southwark Property and E&L; especially regarding income and repairs and maintenance. The

forthcoming full roll-out of the Manhattan property management system should enable a solution to the majority of issues raised within this report.

ENV12 – Libraries (Final)

Scope

The objective of the review is to test the effectiveness of stock security controls within Southwark Council Libraries.

Overall Assessment

Overall the library stock procedures were found to be effective, however the following issues were noted:

- There are problems with the stock security mechanisms which may be leading to misappropriation of stock. The security tags did not trigger the security alarm in 15 of 55 books, and in two of 14 audio-visual items tested;
- It is not possible to estimate the quantity of stock missing from Southwark libraries. A sample of 30 books that were in stock according to the catalogue was traced to the shelves. Three of these could not be located; and
- Customer addresses are not consistently input into the system in full. This leads to approximately 30 reminder letters for overdue books not reaching customers each week.

Reviews Outstanding from 2005/06

ENV01 – Procurement of goods and services (Final)

This review was from the 2005/06 annual plan but was finalised during the 2006/07 reporting period

Scope

This audit reviewed the adequacy of controls on the Department's purchasing processes and procedures and to determine whether the prescribed procedures in place for procurement are adhered to across the Department.

The review focussed on a range of high and low value purchases as undertaken by the Department within the last two financial years.

Overall Assessment

At the time of the fieldwork:

- On the basis of our review and evaluation of procurement activities within the Department, the arrangements in place were adequate but with some exceptions
- On the basis of our testing, the controls in place were generally operating in practice although, again, some exceptions were noted.

Appendix B Summary Analysis of Recommendations Made in Internal Audit Projects in 2006/07

C – Corporate recommendation, i.e. impacts the Authority as a whole

D – Departmental recommendation, i.e. impacts the Department at a whole

S/R – Specific Risks – recommendation specific to the area under review

Ref	Project Title	Overall Opinion	Position at 10 August 2007	Number of Recommendations											
				Critical			High			Medium			Low		
				C	D	S/R	C	D	S/R	C	D	S/R	C	D	S/R
Corporate Audits															
CA01	Human Resource Management	Moderate assurance	Complete	-	-	-	-	-	-	3	1	-	1	-	-
CA09	Compliance with Chart of Accounts	Moderate assurance	Draft report – awaiting management responses	-	-	-	-	-	-	14	-	-	-	-	-
CA17	Community Safety	Moderate assurance	Complete	-	-	-	-	-	-	-	-	5	-	-	2

Ref	Project Title	Overall Opinion	Position at 10 August 2007	Number of Recommendations											
				Critical			High			Medium			Low		
				C	D	S/R	C	D	S/R	C	D	S/R	C	D	S/R
CA20	Management of External Funding and Grants	Moderate – Limited assurance	Complete	-	-	-	-	-	6	-	-	2	-	-	-
Special Review	Statutory Inspection of Lifting and Other Equipment	Inadequate	Draft report – awaiting management responses	As agreed with Southwark, recommendations were prioritised as: <ul style="list-style-type: none"> • Short Term (3 recommendations raised) • Medium Term (2 recommendations) • Long Term (1 recommendation) 											
Managed Audits															
MA01a	Business Process Review – Facilities Management	Moderate – High assurance	Draft report – awaiting management responses	-	-	-	-	-	-	-	-	1	-	-	1
MA01b	Business Process Review – Cemeteries and Crematoria	Moderate – High assurance	Draft report being prepared	-	-	-	-	-	-	-	-	4	-	-	1
MA01c	Business Process Review – Southwark Sports Ground Club House	Moderate Assurance	Draft report being prepared	-	-	-	-	-	1	-	-	5	-	-	-
MA01d	Business Process Review – Tourist Information Centre	Moderate Assurance	Complete	-	-	-	-	-	2	-	-	8	-	-	1
MA02a	Corporate Income – SX3 Pre-Implementation Health Check	Moderate assurance	Complete	-	-	-	-	-	6	-	-	7	-	-	-
MA02	Corporate Income	Housing Rents and Other Income –	Draft report – awaiting management	-	-	-	-	-	9	-	-	30	-	-	14

Ref	Project Title	Overall Opinion	Position at 10 August 2007	Number of Recommendations											
				Critical			High			Medium			Low		
				C	D	S/R	C	D	S/R	C	D	S/R	C	D	S/R
		Moderate Assurance NNDR and Council Tax – Moderate - Limited assurance	responses												
MA03	Payroll and Pensions	Moderate assurance	Draft report – awaiting management responses	-	-	-	-	-	2	-	-	14	-	-	5
MA04	Main Accounting System and Control Accounts	Moderate - high assurance	Complete	-	-	-	-	-	-	2	-	-	1	-	-
MA05	Creditor Payments	Moderate - high assurance	Complete	-	-	-	-	-	-	1	-	-	1	-	-
MA06	Treasury Management	High Assurance	Complete	-	-	-	-	-	-	-	-	-	-	-	5
MA07	Housing Benefits	Moderate assurance	Complete	-	-	-	-	-	1	-	-	4	-	-	1
Housing															
HOU02a	Coopers Close TMO	Moderate - low assurance	Draft report – awaiting management responses	-	-	1	-	-	4	-	1	13	-	1	3
HOU02b	Browning EMB	Moderate - high assurance	Draft report – awaiting management responses	-	-	-	-	-	-	-	-	5	-	-	1
HOU02c	Fair Community TMO	Moderate - high	Draft report – awaiting	-	-	-	-	-	1	-	-	3	-	-	-

Ref	Project Title	Overall Opinion	Position at 10 August 2007	Number of Recommendations											
				Critical			High			Medium			Low		
				C	D	S/R	C	D	S/R	C	D	S/R	C	D	S/R
		assurance	management responses												
HOU02d	Tanner House TMO	Moderate assurance	Draft report – awaiting management responses	-	-	-	-	-	2	-	-	6	-	-	6
HOU02e	Willow Brook TMO	Moderate - low assurance	Draft report – awaiting management responses	-	-	-	-	-	5	-	1	13	-	-	3
HOU02f	Applegarth TMO	Moderate - low assurance	Draft report – awaiting management responses	-	-	-	-	-	8	-	-	7	-	-	2
HOU2g	Haddon Hall TMO	Moderate assurance	Draft report – awaiting management responses	-	-	-	-	-	2	-	-	3	-	-	2
HOU2h	Juniper House TMO	Moderate - high assurance	Draft report – awaiting management responses	-	-	-	-	-	1	-	-	2	-	-	-
HOU2i	Kennington Park TMO	Moderate assurance	Draft report – awaiting management responses	-	-	-	-	-	3	-	-	5	-	-	1
HOU06	Community Housing	Moderate - limited assurance	Draft report – awaiting management	-	-	-	-	1	-	-	1	3	-	-	2

Ref	Project Title	Overall Opinion	Position at 10 August 2007	Number of Recommendations											
				Critical			High			Medium			Low		
				C	D	S/R	C	D	S/R	C	D	S/R	C	D	S/R
			responses												
HOU10	Arrangements for financing home improvements in private sector	High assurance	Complete	-	-	-	-	-	-	-	-	1	-	-	2
Environment															
ENV07	Recycling	Moderate - limited assurance	Complete	-	-	-	-	-	3	-	-	4	-	-	-
ENV10	Management of Leases	Moderate - limited assurance.	Complete	-	-	-	-	1	1	-	-	5	1	-	1
ENV12	Libraries	High assurance	Complete	-	-	-	-	-	-	-	-	-	-	-	3
Children's Services															
CSE02	Southwark Schools For the Future	Moderate assurance	Draft report – awaiting management responses	-	-	-	-	6	-	-	3	-	-	1	-
CSE 05	Schools Improvements	Moderate assurance	Complete	-	-	-	-	1	-	-	2	-	-	-	-
CSE09	Pension Contributions by Schools	Moderate - limited assurance	Complete	-	-	-	-	2	-	-	4	-	-	2	-
Reviews brought forward from 2005/06															
BF01 (CA02)	Corporate Governance	Not Applicable	Complete	22 areas for improvement were raised. As agreed with Southwark these were not prioritised in the standard way.											
BF02 (CA03)	Customer Service Centre – Implementation, Contract	Moderate assurance	Draft report – awaiting	-	-	-	-	-	-	-	-	2	-	-	1

Ref	Project Title	Overall Opinion	Position at 10 August 2007	Number of Recommendations											
				Critical			High			Medium			Low		
				C	D	S/R	C	D	S/R	C	D	S/R	C	D	S/R
	and Service Delivery		management responses												
BF03 (CA06)	Management of the capital programme	Moderate assurance	Complete	-	-	-	-	-	-	8	-	-	2	-	-
BF06 (HOU02)	Choice Based Lettings	Moderate - high assurance	Complete	-	-	-	-	-	-	-	-	2	-	-	-
BF07 (HSC04)	Locality Teams	Moderate – Limited assurance	Draft report – awaiting management responses	-	-	-	-	-	4	-	-	1	-	-	-
Reviews that were in progress at the time of the 2005/06 annual report															
CA06	IT Strategy Review	Adequate with some exceptions	Complete	-	-	-	-	-	2	-	-	4	-	-	1
CA09	Review of Implementation of E-Payments Project	Not applicable	Complete	-	-	-	1	-	-	-	-	2	-	-	-
CA12	Contract and project management	Inadequate with exceptions	Complete	1	2	-	1	7	-	2	6	-	1	-	-
MA01c & d	BPR – Heritage Unit and Kingswood House	Adequate with exceptions	Complete	-	-	-	-	-	2	-	3	4	-	-	-
MA01f	BPR – Community Council Admin	Adequate with exceptions	Complete	-	-	-	-	-	-	-	1	2	-	-	1
MA01g	BPR – Community Wardens	Adequate with some exceptions	Complete	-	-	-	-	2	2	-	-	4	-	-	1
MA01i	BPR – School Cash Handling	Adequate with some	Draft report – awaiting	-	-	-	-	-	-	-	-	7	-	-	-

Ref	Project Title	Overall Opinion	Position at 10 August 2007	Number of Recommendations											
				Critical			High			Medium			Low		
				C	D	S/R	C	D	S/R	C	D	S/R	C	D	S/R
		exceptions	management responses												
HOU01a	Leathermarket TMO	Inadequate	Complete	-	-	-	-	-	4	-	-	5	-	-	2
HOU01b	Falcon Point TMO	Inadequate	Complete	-	-	3	-	-	8	-	-	3	-	-	1
HOU01c	Two Towers TMO	Inadequate	Complete	-	1	3	-	-	12	-	-	2	-	-	1
HOU03	Community Housing Function	Adequate with some exceptions	Complete	-	-	-	1	-	8	-	-	6	-	-	-
HOU04	Leasehold Management Income	Adequate with some exceptions	Complete	-	-	-	-	-	1	-	-	4	-	-	-
ENV01	Procurement of goods and services	Adequate with some exceptions	Complete	-	-	-	3	3	-	2	5	-	1	-	-
RG02	Property management and disposals	Adequate with exceptions	Complete	-	-	-	-	-	2	-	-	3	-	-	2

Appendix C Summary of Deferred and Cancelled Projects





Year	Deferred to 2007/08	Cancelled
2006/07	<ul style="list-style-type: none"> • CA04 - Partnership Arrangements • CA05 Approved Supplier Listing • CA22 - Grants to Voluntary Organisations • BF04 (MA01h) - Business Process Review – Plasc Data Flow • HOU03 - Management of TMOs • HOU09 - IWorld, Security and Segregation of Duties • CSH03 Pooled Budgets (Replaced by Disability Payments) • BF05 (EDU01) - SEN Budget Monitoring Review • HSC01 - Corporate Governance of Structural Changes to Health & Social Care • CSE01 - Children’s Centres – Revenue • BF08 (RG01) - Regeneration Schemes – Elephant and Castle 	<ul style="list-style-type: none"> • CS11 - Internet and Intranet Security • CA11 - Corporate Governance and Anti-Fraud Arrangements • HOU04 - Housing Management – Customer Service Centre Performance Monitoring • HOU08 - Major Repairs • HOU11 - Housing Management and Area Offices Code • HSC03 - CareFirst System • RG06 - Transport for London Borough Spending Plans • ENV05 - Market Trading • ENV08 - Buildings Maintenance

Appendix D Annual assurance levels and risk ratings

Annual assurance statements

Level of Assurance	Description
High	We will provide 'high' assurance in our annual opinion where we have only identified low and medium rated risks during the course of our audit work on business critical systems.
Moderate	We will provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations and / or the number of medium rated risks is significant in aggregate. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.
Limited	We will provide 'limited' assurance in our annual opinion where we have identified high or critical rated risks during our audit work on business critical systems, but these risks are not pervasive to the system of internal control <u>and</u> there are identifiable and discrete elements of the system of internal control which are adequately designed and operating effectively. Our assurance will therefore be limited to these elements of the system of internal control.
No	We will provide 'no' assurance in our annual opinion where we have identified critical rated risks during the course of our audit work on business critical systems that are pervasive to the system of internal control or where we have identified a number of high rated risks that are significant to the system of internal control in aggregate.

Definition of risk ratings within our individual audit assignments

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> • the efficient and effective use of resources • the safeguarding of assets • the preparation of reliable financial and operational information • compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.
 Medium	Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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