

Audit follow up of Carlisle Enterprise Centre

Draft Report Issued: 10 October 2017

Director Draft Issued: 6 November 2017

Final Report Issued: 13 November 2017



Audit Report Distribution

Client Lead:	Building & Estates Services Manager
Chief Officer:	Corporate Director of Governance and Regulatory Services Chief Executive

1.0 Background

- 1.1. This report summarises the findings from a follow up audit of Carlisle Enterprise Centre. This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit Committee on 16th March 2017.
- 1.2. The original audit was carried out in October 2016, resulting in a conclusion of partial assurance and five recommendations. A management action plan was completed detailing agreed actions, responsible manager and implementation dates to address the recommendations (Appendix A). This follow-up report provides an update on progress made against this action plan.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.
- 2.3 The Client Lead was asked to provide an update on progress made implementing the agreed actions. Internal Audit then undertook testing as necessary to confirm that actions have been fully implemented and that controls are working as intended to mitigate risk

Audit Scope and Limitations.

- 2.4 The original scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risk areas:
 - Management of Carlisle Enterprise Centre.
 - Administration of rents and charges.
 - Tenancy at Will Agreements.
- 2.5 It is the responsibility of management to monitor the effectiveness of internal controls to ensure they continue to operate effectively.
- 2.6 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix B**.
- 3.2 Where the findings of the follow up confirm that actions have been successfully implemented and controls are working effectively, the internal audit assurance opinion may be revised from that provided by the original audit.
- 3.3 From the areas examined and tested as part of this follow up review we consider the current controls operating within audit name provide **substantial assurance** (revised from partial assurance).

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**.
- 4.2 The previous audit included five recommendations (See Appendix A) of which:
- Four agreed actions have been successfully implemented.
 - One agreed action has been partially implemented and is work in progress.
- 4.3 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.
- 4.4 **Findings Summary:**

Responsibility for the Enterprise Centre has moved from the Economic Development Directorate to Property Services in the Governance and Regulatory Services Directorate.

Good progress has been made against the action plan, with four out of five recommendations now implemented. Work is in progress for the fifth recommendation which stated that arrangements should be implemented to ensure that management receive regular assurance that all statutory health and safety and building maintenance checks are being undertaken at the Enterprise Centre. It is estimated that this will be fully actioned by the end of November 2017.

Comment from the Corporate Director of Governance and Regulatory Services:
Audit report noted and all relevant actions supported and agreed.

5.0 Audit Findings & Recommendations

5.1 Recommendation 1 – Enterprise Centre Objective (Management)

- 5.1.1** The original audit highlighted that the key actions, target dates and advertising arrangements to deliver the Carlisle Enterprise Centre objective had not been formally documented. The potential risks that impact on the delivery of the Enterprise Centre objective had not been identified.
- 5.1.2** A Carlisle Enterprise Centre Business Plan 2017/18 has been documented and approved by the Corporate Director of Governance and Regulatory Services.
- 5.1.3** The business plan includes key actions, marketing incentives, rent review, risks and monitoring arrangements.

5.2 Recommendation 2 – Scheme of Delegation (Management)

- 5.2.1** It was highlighted previously that the Economic Development scheme of sub-delegation had not been approved.
- 5.2.2** Responsibility for the Enterprise Centre has transferred to the Governance and Regulatory Services Directorate. The Governance and Regulatory Services Scheme of Sub-Delegation to officers was reviewed and approved by the Corporate Director of Governance and Regulatory Services on 9 March 2017.
- 5.2.3** This document states that the 'Responsibility for the discounting of rental figures for tenancies at will granted to new tenants of the Enterprise Centre' is named as the Investment & Policy Manager, and he was to take appropriate advice as necessary from the Building & Estates Services Manager. This needs to be amended to reflect the responsibility changes that commenced on 1 July 2017.
- 5.2.4** The Council's Constitution also details delegated responsibility for land and property management.

5.3 Recommendation 3 – Procedures & Management Checks (Regulatory)

5.3.1 The previous audit recommended that:

- Arrangements are put in place to ensure that all procedures are fully documented and approved by management.
- Management should introduce arrangements to obtain assurance that the expected procedures are being followed and that tenants comply with their Tenancy at Will Agreement and that the correct amount of rent is paid.

5.3.2 Procedures have been documented and approved by management and are fully adopted by the Building & Estates team.

5.3.3 A checklist for unit spot checks and an annual management checklist / approvals have also been documented and adopted.

5.4 Recommendation 4 – Rent Reviews (Regulatory)

5.4.1 Findings from the previous audit concluded that there was no mechanism in place to ensure a consistent approach for setting, calculating and reviewing rent of the units at the Enterprise Centre.

5.4.2 An independent third party has completed a re-evaluation of the rental income achievable from units across the Enterprise Centre.

5.4.3 The business plan includes an annual management check of rent levels.

5.4.4 The Building & Estates Services Manager confirmed that a review is being performed of the process to look at stepped rental increase to those tenants currently paying less than market rent. All new tenants are quoted and will pay the new market rent level.

5.5 Recommendation 5 – Health and Safety / Building Maintenance (Regulatory)

- 5.5.1** The previous audit recommended arrangements should be put in place to ensure management receive regular assurances that all statutory health and safety and building maintenance checks are being undertaken at the Enterprise Centre. Management should consider how these checks and their outcomes should be documented and reviewed and that any remedial actions are undertaken.
- 5.5.2** The Buildings & Estates Services Manager confirmed that a building handbook, incorporating a compliance log and tenant's handbook are currently being drafted to address statutory responsibilities, their scheduling and compliance recording. These documents are being rolled out to all Council operational assets and the programme of work is underway. The Enterprise Centre has been prioritised in this programme and it is expected that the documentation and procedures will be fully in place by the end of November 2017.

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
Recommendation 1: Key actions, potential risks and performance measures/target dates should be identified and documented in support of the agreed Enterprise Centre objective. Once documented, these should be communicated to staff and other stakeholders as appropriate and used to inform team and individual objectives. The actions, risks and performance measures should be regularly reviewed and reported as appropriate.	Priority M	Risk Exposure -Planning is not sufficiently developed to help drive the service forward. -Council priorities are not achieved because there is no effective monitoring arrangement to evaluate and deliver these. -The Council's priorities are not achieved because service risks are not identified or effectively managed.	Business plan to be prepared for the Enterprise Centre relating to the year ahead, detailing key actions and planned activities to support realisation of the Service Plan objective. Risks to realisation of the objective to be detailed through this process but then entered into and regularly reviewed and managed through the Council's Project Server, mirroring the corporate approach. Business plan to be signed off by Director and reviewed each year. The Plan can then be used to inform individual's objectives through the appraisal process. Business Plan is to include a schedule of annual management approvals, evidencing that the need to review for example rents, health and	Investment & Policy Manager	31/03/2017	Yes

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
			safety assessments, robustness of tenancy agreements etc. has been considered and any updates documented along with reasoning to support decisions made. It is also proposed that this same process be used to document any significant outstanding issues at the preceding year end as well as key achievements within.			
Recommendation 2: Management should set a timescale for the approval of the Economic Development scheme of sub-delegation.	Priority H	Risk Exposure -Service objectives are not achieved because there is no formal delegated authority. -Unauthorised decision making and action by staff because there is not an effective scheme of delegation.	The absence of any approval to date reflects that an active review of the scheme of sub-delegation is and has been ongoing for some time, reflecting significant governance and workforce restructures within the organisation. The highlighted issue will be addressed through this ongoing process.	Corporate Director of Economic Development	Work actively ongoing. To be in place for 1 st April 2017.	Yes

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
Recommendation 3: a) Arrangements should be in place to ensure that all procedures are fully documented and approved by management. In approving procedures, management should ensure that they are sufficiently detailed for staff to follow to prepare Tenancy At Will Agreements. b) Management should introduce arrangements to obtain assurance that the expected procedures are being followed. A timescale should be set for the review and approval of these procedures. c) Management should put arrangements in place to obtain assurance that tenants comply with their Tenancy At Will Agreement and the correct amount of rent is paid.	Priority H	Risk Exposure -The Council is unable to demonstrate that staff are clear about management's expectations of how they should prepare and issue Tenancy At Will Agreements. -Management are unable to be assured that staff are following the correct procedures. -Non-compliance with Tenancy At Will Agreements are not effectively identified because there is no mechanism in place to monitor that tenants comply.	Existing procedure notes have already been reviewed and significantly updated to enhance their robustness, including making clear when the procedure note was last updated and approved by management. Unit file spot checks to be undertaken – minimum of 10% of Units Let – and to be clearly documented including sign off within the annual management checklist within the proposed Business Plan. Spot checks to be guided by preparation of detailed procedure note ensuring mandatory aspects of Tenancy Agreement are covered including the rent paid.	Investment & Policy Manager	31/03/17	Yes

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
Recommendation 4: a) Arrangements should be in place to ensure that the approach to set and review the rents of the units at the Enterprise Centre are documented and approved. Once documented these should be communicated to staff. b) Management should introduce arrangements to obtain assurance that the expected procedures are being followed.	Priority H	Risk Exposure -The Council is unable to demonstrate that staff are clear about management's expectations of how they should review and calculate rents. -Management are unable to be assured that staff are following the correct procedures for the setting of rents. -Incorrect decision making due to a lack of understanding of the approach to setting and reviewing rents.	The proposed business plan is to include a schedule of annual management approvals, evidencing that the need to review for example rents, health and safety assessments, robustness of tenancy agreements etc. has been considered and any updates documented along with reasoning to support decisions made. Annual sign off of the business plan will afford assurances that the expected procedures are being followed and any variances documented.	Investment & Policy Manager	31/03/2017	Yes

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
Recommendation 5: Arrangements should be put in place to ensure that management receive regular assurances that all statutory health and safety and building maintenance checks are being undertaken at the Enterprise Centre. Management should consider how these checks and their outcomes should be documented and reviewed and that any remedial actions are undertaken.	Priority M	Risk Exposure -Management are unable to be assured that the required statutory health and safety and building maintenance checks are undertaken. -Sanctions, litigation and reputational damage arising from non-compliance with relevant legislation because staff are unaware of the required statutory health and safety and building maintenance checks to follow.	Arrangements in the form of a comprehensive schedule of statutory responsibilities to be put together along with reporting protocols to ensure that the schedule can function as a log and be updated to indicate that the required actions / checks have been done, with any issues flagged. Required reviews of overarching health and safety and fire risk assessments to be set out in the proposed Business Plan which will require senior manager sign off.	Investment & Policy Manager and Safety, Health and Environmental Manager	31/03/2017	In Progress

Appendix B

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Improvements, if any, are of an advisory nature in context of the systems and operating controls & management of risks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high priority matters for address.</p>
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

Appendix C

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations used; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).