

Cumbria Shared Internal Audit Service  
Audit Report for Carlisle City Council  
Economic Development Directorate



Audit of Carlisle Enterprise Centre

Draft Report Issued: 20 October 2016  
Final Report Issued: 29 November 2016

## Audit Resources

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## Audit Report Distribution

For Action:	Garry Legg, Investment & Policy Manager
For Information:	Jane Meek, Corporate Director of Economic Development
Audit Committee	The Audit Committee, which is due to be held on 22nd December 2016, will receive the findings and recommendations from this audit.

### Cumbria Shared Internal Audit Service

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# Executive Summary

## 1. Background

- 1.1. This report summarises the findings from the audit of Carlisle Enterprise Centre. This was a planned audit assignment which was undertaken in accordance with the 2015/16 Audit Plan.
- 1.2. Carlisle Enterprise Centre is important to the Council because it is both an economic asset and an income generator. The Centre is a well-established business complex that is managed to promote and support economic growth in the local economy.
- 1.3. Audit testing focussed on discussions and information gathered from the Investment and Policy Manager. All evidence has been examined and evaluated to form an opinion regarding the controls in operation over the Centre.

## 2. Audit Approach

### 2.1. Audit Objectives and Methodology

- 2.1.1. 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. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

### 2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Jane Meek, Corporate Director of Economic Development. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
  - Management of the Enterprise Centre.
  - Administration of rents and charges.
  - Tenancy At Will Agreements.
- 2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

### 3. 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 A**.
- 3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Carlisle Enterprise Centre provide **Partial** assurance.
- 3.3. Follow up of the audit will need to be considered within the City Council's Internal Audit follow up arrangements during 2017/18.

*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. Summary of Recommendations, Audit Findings and Report Distribution

- 4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.
- 4.2. There are five audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. <b>Management</b> - achievement of the organisation's strategic objectives achieved (see section 5.1)	1	1	-
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	2	1	-
3. <b>Information</b> - reliability and integrity of financial and operational information	-	-	-
4. <b>Security</b> - safeguarding of assets	-	-	-

5. <b>Value</b> - effectiveness and efficiency of operations and programmes	-	-	-
<b>Total Number of Recommendations</b>	3	2	-

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- The financial performance of Carlisle Enterprise Centre is regularly monitored and discussed at DMT.
- Arrangements are in progress to implement a new key fob security system at Carlisle Enterprise Centre.

4.4. **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:*

- The Economic Development Scheme of Sub-Delegation to Officers that details the delegated authority assigned to the Investment & Policy Manager has yet to be formally approved.
- There are no procedure notes in place for the preparation and issuing of Tenancy At Will Agreements and for the setting, calculation and review of rents.
- There is no mechanism in place to monitor compliance with incoming tenant process notes and no management checks to ensure there is compliance with the Tenancy At Will Agreements.

4.4.2. *Medium priority issues:*

- Key actions, target dates and potential risks that impact on the delivery of the Enterprise Centre objective have yet to be identified, managed and reported.
- There are no effective arrangements in place for management to receive regular assurances that statutory health and safety and building maintenance checks are being undertaken at Carlisle Enterprise Centre.

4.4.3. *Advisory issues:*

- There are no advisory issues arising.

**Comment from the Director of Economic Development**

I welcome the report and a number of the management actions are already being implemented.

# Management Action Plan

## 5. Matters Arising / Agreed Action Plan

5.1. **Management** - achievement of the organisation's strategic objectives.

● **Medium priority**

Audit finding	Management response
<p><b>5.1.1. Enterprise Centre Objective</b></p> <p>The Economic Development Action Plan 2016 – 2019 details the objective to 'Maximise occupancy of Carlisle Enterprise Centre' and is linked to the Council's priorities. The key actions, target dates and advertising arrangements to deliver the Carlisle Enterprise Centre objective have yet to be formally documented.</p> <p>The potential risks that impact on the delivery of the Enterprise Centre objective have yet to be identified.</p> <p><b>Recommendation 1:</b></p> <p>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.</p>	<p><b>Agreed management action:</b></p> <p>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 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.</p>

**Risk exposure if not addressed:**

- 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.

**Responsible manager for implementing:**

Investment &amp; Policy Manager

**Date to be implemented:**

31/03/2017

● **High priority****Audit finding****5.1.2. Scheme of Delegation**

A scheme of sub-delegation that details the Investment and Policy Manager's authorised delegated responsibilities and duties relating to the Enterprise Centre is in place. Audit testing confirmed that delegated authority assigned to the manager as detailed in the scheme of sub-delegation has yet to be approved.

**Recommendation 2:**

Management should set a timescale for the approval of the Economic Development scheme of sub-delegation.

**Management response****Agreed management action:**

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

**Risk exposure if not addressed:**

- 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.

**Responsible manager for implementing:**

Corporate Director of Economic Development

**Date to be implemented:**

Work actively ongoing. To be in place for 1<sup>st</sup> April 2017

**5.2. Regulatory** - compliance with laws, regulations, policies, procedures and contracts.● **High priority**

Audit finding	Management response
<p><b>5.2.1. Procedures and Management Checks</b></p> <p>There are no formal documented procedures in place for the preparation and issuing of Tenancy At Will Agreements. There are process notes that detail a list of steps to guide staff in processing Incoming Tenants however we consider this does not provide enough detail on how to undertake the expected tasks to prepare and issue Tenancy At Will Agreements.</p> <p>Internal Audit were advised that there are no arrangements in place to monitor that the expected steps detailed in the 'incoming tenant' process notes have been followed. We are advised that reliance is placed on the staff to ensure that all information is in place and to raise any concerns/issues.</p> <p>Internal Audit were advised that there are no management checks in place to monitor compliance with the Tenancy At Will Agreement and confirm that the correct amount of rent is paid.</p>	<p><b>Agreed management action:</b></p> <p>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.</p> <p>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.</p>
<p><b>Recommendation 3:</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ul>	

**Risk exposure if not addressed:**

- 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.

**Responsible manager for implementing:**

Investment &amp; Policy Manager

**Date to be implemented:**

31/03/2017

● **High priority****Audit finding****5.2.2. Rent Reviews**

The approach to set, calculate and review the rents of the units at Carlisle Enterprise Centre has yet to be documented. Internal Audit were advised that a rent review had been undertaken early this year, however a record of this review and approval of rents and further changes had not been retained.

**Recommendation 4:**

- 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.
- Management should introduce arrangements to obtain assurance that the expected procedures are being followed.

**Management response****Agreed management action:**

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.

**Risk exposure if not addressed:**

- 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.

**Responsible manager for implementing:**

Investment &amp; Policy Manager

**Date to be implemented:**

31/03/2017

● **Medium priority**

Audit finding	Management response
<p><b>5.2.3. Health and Safety / Building Maintenance</b></p> <p>There are no arrangements in place for management to receive regular assurances that statutory health and safety and building maintenance checks are being undertaken at the Enterprise Centre. At management's request earlier this year a health and safety audit and a fire safety review on the Carlisle Enterprise Centre had been undertaken and reported. Audit testing confirmed that a record is maintained of the progress on implementation of the recommendations contained in these reports and we are advised that this is reported to senior management.</p>	<p><b>Agreed management action:</b></p> <p>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.</p>
<p><b>Recommendation 5:</b></p> <p>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.</p>	<p>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.</p>
<p><b>Risk exposure if not addressed:</b></p> <ul style="list-style-type: none"> <li>• Management are unable to be assured that the required statutory health and safety and building maintenance checks are undertaken.</li> <li>• 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.</li> </ul>	<p><b>Responsible manager for implementing:</b></p> <p>Investment &amp; Policy Manager and Safety, Health and Environmental Manager</p> <p><b>Date to be implemented:</b></p> <p>31/03/2017</p>

## Audit Assurance Opinions

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

	Definition:	Rating Reason
<b>Substantial</b>	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>Recommendations, if any, are of an advisory nature in context of the systems and operating controls &amp; management of risks.</p>
<b>Reasonable</b>	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>
<b>Partial</b>	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 and medium priority matters for address.</p>
<b>Limited / None</b>	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>

## 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 three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

Definition:		
<b>High</b>	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	●	Some risk exposure identified from a weakness in the system of internal control
<b>Advisory</b>	●	Minor risk exposure / suggested improvement to enhance the system of control

## Follow Up Arrangements for Audit Recommendations

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.