Derry City & Strabane
District Council

Comhairle
Chathair Dhoire &
Cheantar an tSratha Báin

Derry Cittie & Stràbane
Destrìck Cooncil

Internal Audit of Property Management

Final Follow-up Report

March 2017

Professional Standards

Internal Audit is committed to ensuring high standards of service to Derry City and Strabane District Council. Our work complies with the Chartered Institute of Internal Auditors (CIIA) Code of Practice and Professional Standards and CIPFA Public Sector Internal Audit Standards.

Contents

Executive Summary 3

Introduction 3

Objectives 3

Scope 4

Limitation of scope 4

Basis of Audit Opinion 4

Table showing current position on outstanding recommendations ...6

Appendix (i) System Priority Level 37

Appendix (ii) Classification of Audit Assurance 38

Appendix (iii) Implementation Priority 39

Executive Summary

System Priority: Refer to Appendix (i)	A Failure to implement the recommendations is likely to result in a major failure of a key Council objective, significant damage to the reputation of the Council or the misuse of public funds.	Audit Opinion: Refer to Appendix (ii)	Improvement Needed Significant control weaknesses were noted and recommendations raised. There is considerable risk that the system will fail to meet its objectives.	Implementation Priority: Refer to Appendix (iii)	

Cat	Position at Final Audit Report	Position at Follow-up Audit
A1	16	12
A2	4	4
A3	0	0
Total	**20**	**16**

Introduction

In January 2015, Internal Audit completed an audit of Property Management in Derry City Council. On the basis of the audit work carried out, the controls in place over Property Management provided 'limited' assurance that the system objectives would be achieved. In total, 20 recommendations were made to strengthen the controls in place. Internal Audit has recently carried out a follow up audit to ensure that appropriate action has been taken to implement the recommendations of the initial audit.

Objectives

The objective of this review was to carry out follow up audit work to ensure that appropriate action was being taken to implement the 20 recommendations and that the controls were implemented and in place across DCSDC.

Scope

The audit encompassed a review of:

- Capital Budgets;
- Maintenance Budgets;
- Budgetary Control;
- Planned, Preventative & Response Maintenance;
- Health & Safety;
- Compliance with Legislation;
- Third Party Service Providers;
- External Funding Opportunities; and
- Property Purchases.

Limitation of scope

No limitations

Basis of Audit Opinion

The original audit of Property Management was finalised in January 2015 and found that the controls were in place, satisfactory and no issues were identified in the areas of the audit covering planned preventative maintenance in terms of Health and Safety and compliance with legislation. However, the audit did identify a number of significant control weaknesses in the Property Management system. This resulted in 20 audit recommendations being made and the audit received a 'Limited' assurance rating. The main recommendations related to the management arrangements over the following 20 areas:

1. Budgetary Control;
2. The need to formalise and improve the relationship between Departments and Property Management through the introduction of a 'Client Brief' system, the

provision of 'outline' and 'costed' estimates for Departments by Property Maintenance and the production of a 'working agreement' / 'standards of service' to define the relationship between Property Maintenance and those to whom they are providing their service;

3. Asset Management Strategy / Condition Surveys;
4. Key Performance Indicators (KPI's);
5. Written Procedures;
6. Computerised Property Maintenance System;
7. Segregation of Duties;
8. Raising and Approval of Work Orders;
9. Prioritisation of Work Orders;
10. Prioritisation of Work Orders Performance Management;
11. Pre-Inspections;
12. Specification of Work;
13. Additional Works;
14. Post Inspections;
15. Claims for Payment;
16. Prompt Payment of Invoices and the 30 Day Rule;
17. Departmental checks on Claims for Payment based on the agreed 'Client Brief';
18. Timely issue of Invoices by Contractors;
19. Third Party Service Providers: The Select Panel of Contractors;
20. Compliance with the Purchasing and Procurement Procedures.

This follow up audit concentrated on the action taken by management to implement the agreed recommendations. Internal Audit also tested a sample of recent work orders to ascertain if improvements had been made and whether controls were in place, operating and reliable.
From the 20 agreed recommendations made in the initial audit report, 4 have been fully implemented, 10 have been partially implemented and 6 have not yet been implemented. As a result of the number of outstanding recommendations, this follow up audit has been given the audit opinion of 'Improvement Needed'.
The current position on each of the recommendations, the details of follow up testing and additional recommendations are set out in the 'Recommendations Progress Table' below starting on page 6.

Table showing current position on outstanding recommendations

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
<u>Budgetary Control: Supervisory Control over Estimates System</u> Property Maintenance has recently introduced an estimates system. For each work order created an estimate is entered on the work order. Test 5 identified issues with the budgetary control system from a review of a sample of invoices taken from 'Clipper Event 2014'. This system could be improved with increased supervisory control comparing and reviewing estimates against actual costs. Internal Audit is concerned at the variance between the estimates taken from the work orders compared to the actual invoice values.	Internal Audit recommends a regular evidenced supervisory check on estimates involving a comparison of estimates against actual invoice values (assisted by robust systems for pre-inspection, specification of work and additional works).		February 2015 Priority A1	**Partially Implemented** <u>Internal Audit comment:</u> Generally, follow up testing confirmed that estimates and actuals are now entered on Purchase Orders (POs) by the Technical staff and the property database by Administration.
		Management are to implement a random sampling and review programme with regard to works orders.		<u>Internal Audit comment:</u> Not implemented <u>Management Response:</u> This process has recently commenced with managers randomly sampling orders / invoices for compliance.
		The review process will involve both section and senior managers		<u>Internal Audit comment:</u> Not implemented

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		and include a monthly review of estimated v actual costs.		Management Response: This process has recently commenced with managers randomly sampling orders / invoices for compliance.
		In addition to the above all works orders are now issued centrally with one officer responsible for this process.		Internal Audit comment: Implemented - all work orders are now controlled and issued centrally, however follow up testing identified control issues – see follow up testing section below.
		When an order is requested full details of the works are entered on the P/O together with commissioning officer, facility, nature and extent of works and initial cost estimate.		Internal Audit comment: Implemented – follow up testing found that this control area had improved, however, controls were not always applied consistently. For example, for all 39 orders tested, the PO detailed the commissioning officer, the facility, the nature and extent of the

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				works, however, not all of the 39 orders had written the estimate on the PO. (11 of the 39 did not)
Follow up testing 2016/2017 **Budgetary Control: Supervisory Control over Estimates System** 39 orders were sample tested by Internal Audit: Audit testing confirmed that estimates are now entered on Purchase Order's (PO's) by the technical staff and the property database by Administration but the testing identified that this is not consistently applied: • 11 of the 39 orders did not have the estimate included on the Purchase Order • 12 of the 39 orders did not have the estimate included on the Database Testing identified that, where the data is included, the information from the PO and the actual invoice was input to the database accurately. It was confirmed that access to the database is not restricted therefore other staff could make amendments to the database. **Additional Internal Audit Recommendation:** Internal Audit recommend that Management should explore whether access to these fields on the database can be restricted to Administration staff only. This would provide assurance around the integrity of information which will be used in implementing the original recommendation. Also, staff should be reminded of the need to consistently enter the estimates onto the PO's and the database.				Management Response: Management are at present automating the works order process with in future all works, requests, subsequent works orders etc to be completed electronically. As part of this process maintenance staff must

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
				enter a cost estimate before moving to the next stage in the process. Failure to enter a figure will prevent the officer from completing the works request.
Purchase Orders There is currently a lack of assurance over the comparison of estimates against actual invoices because the system facilitates PO's to be completed after the actual invoice is received. Although this may be for operational reasons, this should not be permitted to happen and is a significant control weakness. A PO is a legal document to confirm DCSDC's intention to purchase supplies or services. Follow up audit testing identified issues such as the following: • PO's for contractors using consecutive PO numbers suggesting that the POs were created after the work was completed. • Two invoices where the work request date on the invoice was before the date on the PO. It was explained that although the Purchase Orders are controlled centrally, the Purchase Orders are being issued in batches of 10 for operational reasons. The paper based system currently in place does not lend itself to the completion of Purchase Orders at the outset. The system is not automated and PO's are held by Administration. Due to the volume of orders along with the urgency of the specification of the work to be completed to the contractors then POs are not completed in a timely manner. If there is an urgency required then often the objective is to have the repair carried out and then complete the PO later. It was explained that Property Management have identified this as an issue and are in the process of automating this area of the system whereby the technical staff will be provided with hand held devices which would facilitate the approval and completion of PO's in a timely manner. **Additional Internal Audit Recommendation:** Internal Audit recommend that management introduce the new automated system for the timely completion of PO's as soon as				<u>Management Response:</u> Work has now commenced on

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possible.				automating this process in discussion with Finance, Procurement and IT. A software provider is presently developing a fully automated ordering and invoicing system. Trials of this system will commence in the next number of weeks.
<u>Budgetary Control: Introduction of a 'Client Brief'</u> Internal Audit also identified control weaknesses associated with the roles and responsibilities between Property Maintenance and Departments. For example, the budget for 'Events' is held by the Development Department, however, there is no formal relationship between Property Maintenance and Departments regarding the property maintenance arrangements. As part of the role of Property Maintenance, the section is tasked with managing work that is required for various 'Events' and will be taken out of the Departmental budgets.	Internal Audit recommends the development of a 'Client Brief' which details the Property Maintenance work required by Departments. This would allow the nature and detail of work to be agreed at an early stage. For example, with regard to the Development Department, Events Management should provide Property Maintenance with the agreed 'Client Brief' providing the relevant event information in a timely manner and get estimates / costings from Property Maintenance. Aggregating work will also allow the Council to demonstrate the move towards	Management have prepared a Client Brief for distribution and use by the Events Team. Events have committed to completing these for all events planned for the 2015/16 year. The receiving officer will review the details on the form and compile a cost estimate based on the information provided. The completed cost estimate will be returned to the events manager for comment and or sign off.	March 2015 Priority A1	**Partially Implemented** <u>Internal Audit comment:</u> The introduction of the Client Brief was implemented and introduced initially in 2015 and Internal Audit was provided with the document template. In July 2016, Internal Audit attended a meeting attended by a number of areas of Council including Property Management, Events and Finance. The purpose was to review the Client Brief

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Audit Testing identified a number of areas where a more formal relationship would improve the control environment. Testing has identified that there is a risk that planned work has not been aggregated and quotations sought in line with Procurement best practice. This was demonstrated through an audit review of a sample of 'Clipper 2014' invoices at Test 5. In this example, the lack of a formal relationship means there is a risk of reactive maintenance taking place rather than planned aggregated spending through quotations and tenders. There is a risk that the relationship between Property Maintenance and those responsible for the Events (and Events budgets) is not formal, leading to potential inefficiencies and potential loss of value for money.	more planned rather than the more costly reactive maintenance.	As more detail emerges regarding the project the cost proposal can be adjusted to reflect this. In addition to the above regular meetings are now scheduled between the maintenance and event teams to discuss and agree actions, budgets, amendments to schedules etc in advance. A separate Client Brief has also been developed and introduced with regard to maintenance projects with an expected cost exceeding £1,500 ex Vat. This will be used to capture key data and form the basis of cost estimates.		document template and associated system. It was explained by management that the Client Brief system was working but was not being consistently applied for jobs over £1500 as was initially agreed. Work is ongoing to develop and improve this area further. <u>Management Response:</u> As discussed above, works are now underway to fully automate the procurement systems and it is intended that the client brief process will become an integral component of this system. The system is being designed so that each step within the process must be complete before moving to the next stage so that for example the client brief must be completed

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
				and approved by the commissioning section before the maintenance team can progress any of the works requests.
Budgetary Control: Provision of Estimates There is no formal system for the provision of 'outline' and 'costed' estimates by Property Maintenance.	When Client Briefs are received by Property Maintenance, estimates provided could be two distinct types. Property Maintenance initially could provide an 'outline estimate' for work requests made by Departments. This could then be followed with a detailed 'costed estimate' as the work / project requirements become finalised.	As detailed above, a system is now in place with regard to this control measure. A review process will also form part of this process so that estimated costs can be compared against actual costs with explanations sought for any significant variations.	November 2014 Priority A1	**Partially Implemented** Internal Audit comment: As above Management Response: As detailed above the process within the maintenance section are at present being automated. Officers will not be able to close out a works request until a cost estimate has been entered on the form.
Asset Management Strategy / Condition Surveys There is currently no Asset Management Strategy based on formal condition surveys created for decision making for the Corporate body or the Departments on the condition of facilities highlighting where expenditure is required and	Management should set out a clear 'Asset Management Strategy' for Property Maintenance and define a condition survey programme for the properties across the Council. The detail of the condition surveys should be defined by Property Maintenance as a basis for	The Property and Fleet Maintenance Manager is at present drafting an asset Management Strategy for consideration and adoption by the new Council. This strategy will set out the internal arrangements for	June 2015 Priority A1	**Not implemented** Management Response: This strategy is at present being drafted with input from all relevant section leads. This involves documenting and

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
prioritising / managing the 'need' for maintenance. The 6 monthly inspection programme constitutes partial property condition surveys and is a good starting point, however, there is a lack of a clear asset management strategy for Property Maintenance based on regular condition surveys carried out on Council properties detailing the way forward. There is currently a lack of reporting / management information prepared / collated on the inspection programme. There is therefore a lack of assurance on the effectiveness of the current inspection programme. Best practice in property maintenance indicates that public sector organisations work towards a target for 'Planned versus Reactive' Maintenance, for example 70/30 'Planned versus Reactive' Maintenance expenditure. A target and way forward for achieving this should form part of the strategy for Property Maintenance.	managing its assets, for assessing and planning the planned programme and defining need. A Condition Survey provides an assessment of physical property conditions. The condition surveys could for example cover the following: ○ A general building description and location detail ○ The area of the building and type of accommodation / usage / current occupancy ○ A brief history of the building including all recent alterations ○ Any proposals for future use including remodelling or structural alterations ○ Landscaping, external building and works – existing and recommended ○ A coded building component condition survey ranging from very good to very poor ○ The general condition of the structure, the fabric, services,	procession and prioritising works based on condition survey reports. Property Inspections are at present completed on a predetermined 6 monthly schedule, to include the interior and exterior of buildings, cemeteries and parks with officers completing a condition / inspection sheet with defects corrected promptly. In addition routine tests and inspections are completed on fire alarms, emergency lighting, fixed electrical installations, lightening conductors, heating plant, air handling units, lifts, air conditioning units and plant and equipment associated with water systems. Daily recorded inspections are also completed on the public realm scheme and Guildhall Park, a weekly recorded inspection of the street furniture [Bins and seating] on the City walls.		detailing all of the processes, officers responsible, procurement obligations, monitoring, benchmarking and KPI reporting.

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
The Property Inspector explained that as the Property Maintenance Programme has evolved there is a desire to aggregate certain types of defects into more planned maintenance programmes. Currently, there is no way to measure what Property Maintenance is spending on 'Planned versus Reactive' Maintenance.	facilities and fittings ○ A prioritised maintenance programme with detailed estimated costs ○ The current value of the property	Play areas are routinely inspected on a prioritised schedule to include daily, weekly and monthly dependent on the associated levels of risk. The Property and Fleet manager is also at present considering an appropriate range of KPI's as part of this strategy based on best practice models elsewhere. These KPI's will be incorporated into the annual Service Delivery Plan and reported to members on a regular basis.		
<u>Key Performance Indicators (KPI's)</u> There is a lack of KPIs in place to provide evidence on how the service is being managed in line with the objectives of the service and to assist with the management of the associated risks.	Property Maintenance Key Performance Indicators should be developed based on the objectives of the service, for example, the objective of Property Maintenance is to have as much Planned Maintenance as possible and as little reactive maintenance as possible. A KPI would be a target of 70% / 30% 'Planned versus Reactive' Maintenance. Other KPIs for	The Property and Fleet manager is also at present considering an appropriate range of KPI's as part of the Asset Management Strategy based on best practice models elsewhere. These KPI's will be incorporated into the annual Service Delivery Plan and reported to Members on a regular basis	May 2015 Priority A2	**Not implemented** <u>Management Response:</u> As detailed above, this process has commenced with the PM team currently reviewing and documenting all of the processes. It is intended that a draft of the strategy complete with KPI's will be ready

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
	example could cover management of meeting the 30 day payment rule, around completion times for work, percentage of post inspections completed – target 10% and so on.			towards the beginning of April for peer review and comment.
Written Procedures Management have a responsibility to ensure that staff are aware of their day to day operational responsibilities. From an audit perspective, policies and operational procedures must be documented so that management can demonstrate clearly what is expected of staff and staff understand what is expected of them. When documented procedures are in place, management can monitor compliance to ensure that objectives are met and demonstrate that operations are conducted as directed. Internal Audit can then provide independent assurance based on the evidence of the management arrangements in place.	Management should consider producing a detailed procedures manual for Property Maintenance. All relevant staff should be given a copy and be trained in its use. The manual should clearly identify all responsibilities. Management should supervise and monitor adherence to the procedures manual on an ongoing and regular basis. Management arrangements for supervision and monitoring should also be clearly detailed in the procedures manual. Management should also consider the production of a 'working agreement' / 'standards of service' to clearly define the relationship between Property	Currently all of the relevant Management systems are in operation but have not been adequately documented to support the Audit function. Consequently the Property and Fleet Maintenance Manager is at present drafting an asset Management Strategy for consideration and adoption by the new Council. This strategy will set out the internal arrangements for procession and prioritising works based on condition survey reports, risk to property, facility users etc. The strategy will detail the roles and responsibilities of those	June 2015 Priority A2	**Not implemented** Internal Audit comment: It was agreed that written procedures for Property Management operations would be developed as soon as practicable. Management Response: As detailed above this process has commenced with the PM team currently reviewing and documenting all of the processes. It is intended that a draft of the strategy complete with KPI's will be ready towards the beginning of April for peer review and

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
There are no formal written procedures for the management of Property Maintenance in Derry City Council consequently there is a lack of assurance that management are in a position to effectively supervise or monitor for compliance. There is a lack of assurance that management's policies and desired operational procedures have been documented adequately to ensure that all staff are clearly aware of what is expected of them in order to efficiently achieve objectives.	Maintenance and Departmental budget holders. This would also include the use of a 'Client Brief' as detailed in Test 1 under budgetary control.	within the section and form the basis for the documentation of procedures relating to those undertaking the functions.		comment.
Computerised Property Management System Property Maintenance is managed using a manual works ordering system to process approximately 7000 work orders / invoices per annum without the assistance of an IT system. As there is no computerised / automated system for the management of works orders the process was found to be onerous and cumbersome to manage and track information. There is a risk that there is insufficient	Internal Audit recommend that management implement and configure the new 'Asset Management Software' as soon as practicable. The system should be configured to include the agreed recommendations made in this audit report. The key area would be the more timely processing of work orders, matching and payment of invoices. The system could also facilitate the capture of	Council are at present considering introducing a 'bespoke' asset management system across Council with regard to a range of functions including property maintenance. In consideration of this Council is at present working with a software developer on a pilot basis on this. Officers within property Maintenance are presently	June 2015 Priority A2	**Partially implemented** Internal Audit comment: The Administration Officer advised that there has been some work carried out on this system, for example, it is now used for ordering work by some areas of the Council (Guildhall / Tower Museum / Harbour House / Council Offices Derry and Strabane).

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
management information available to demonstrate that the expected key controls in the Property Maintenance system are in place, operating and reliable. At the time of audit, Internal Audit was informed that "Asset Management Software" had been procured and that an automated system was being developed. Internal Audit has agreed to liaise with providers to ensure system is configured to include required key controls.	information and the management of the key stages in the Property Maintenance life cycle as follows: ○ automated capturing and categorisation of work requests or client briefs ○ automated raising and approval of work orders, ○ prioritisation of automated work orders (eg emergency, urgent, routine, planned preventative etc) ○ automated pre inspections and detailed specification of work ○ budgetary control and effective management of estimates ○ Reporting / communication with clients on estimates / on work in progress / customer care, ○ management of additional works, ○ automated post inspections and sample selections ○ automated management and payment of invoices – matching to work orders, prompt	trailing a version of the software across a range of services and facilities with a report to come to managers for consideration once the pilot has completed. The system aims to capture all details in an electronic format in a seamless process incorporating condition inspections, works order, payments etc. In addition works can be prioritised in terms of urgency with the system identifying priority works. In addition the system will record information in terms of works requested, completed, costs etc enhancing monitoring and reporting of KPI's as outlined above.		<u>Management Response:</u> Training has now been provided to all PM staff and to all premises Managers. It is intended that the system will 'go live' from April onwards.

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
	scrutiny of invoices, arithmetic checks, invoicing linked to the Council's central finance system with secure data / information transfer, o automated contractor performance management, for example, scrutiny of response times and completion dates o demonstrate appropriate management supervision and segregation of duties throughout the life cycle o improved report writing and interrogation of data			
<u>Segregation of Duties</u> Review of documentation demonstrated that there is segregation of duties from whoever specifies work to whoever carries it out and from who checks and approves the payments. Property Maintenance staff sign and date documentation as evidence of review. It was explained that a technical officer was expected to sign the work order, administration officers checked prices and	As orders are captured into the Property Maintenance system, the Council should have control over who can order work from Property Services. Internal Audit recommends that a designated officer listing of who can order work from Property Services is drawn up and agreed with Departments. Only appropriately approved and designated responsible officers should be permitted to order work from Property Services. As the first	Section Management have written to all Heads of Service and asked that they forward details of those authorised to commission works and for which facilities. Only those listed will be able to authorise works for those facilities / services listed against their entry on the database.	March 2015 Priority A1	**Partially implemented** <u>Internal Audit comment:</u> Now in place but needs to be updated for new Council and to include authorising officers for Strabane – see detail from testing below. <u>Management Response:</u> As detailed above the new electronic reporting system will 'go live' from April onwards.

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
calculations when the invoice was received and the Head of Property and Fleet signed / approved the invoices for payment. However, Internal Audit noted that Property Maintenance does not include on the database the section / responsible officers who are ordering work. There is no designated officer listing of who can order work from Property Services.	point in the audit trail and in order to demonstrate appropriate segregation of duties, the responsible officers ordering work from Property Maintenance should be captured into the system. Property Maintenance should then only accept orders from designated officers and this should be reviewed and supervised by the Head of Property and Fleet. (Ref: See also Control of Work Orders).			Discussions have taken place with other sections and agreement reached on who has the authority to commission works. Restructuring has yet to be fully completed and until this process is complete there are a number of 'legacy council' practices / responsibilities that remain. These are however being addressed and closed out.
<u>Follow up testing 2016/2017</u> **<u>Segregation of Duties</u>** Audit testing confirmed that the authorised officers listing originally implemented in 2015 was no longer up to date and did not include authorised officers for Strabane. Also Internal Audit reviewed the contents of the database and noted that the authorising officer was not captured onto the system. Follow up testing also identified cases of maintenance work being carried out to properties which were not the responsibility of DCSDC. Internal Audit found Property work sheets completed by internal staff carrying out work at a Community Centre which Internal Audit was advised was not the responsibility of the Council. Also, follow up testing found work carried out by an external contractor to the value of £1663.30 (excluding VAT) to another Community Centre which Internal Audit was advised was also not the responsibility of the Council. (It should be noted that this order was identified by management and has not been paid. Internal Audit was advised that an explanatory report explaining the circumstances surrounding this work is to be prepared for review by Senior Management). Additionally, Property Management was unable to provide Internal Audit with a full list of Properties that the Council was responsible for in DCSDC				

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
From an audit perspective, capturing the authorising officer on the database on the date the order is made was the start of the audit trail. The current database did not provide the necessary assurance that an authorised officer instigated the need for the work to be carried out. This also weakens the principle of segregation of duties where one person's role complements and yet routinely checks another's. The database should provide the name of all authorised officers so that if required they could confirm that the order was made by them. There was no evidence on the database on who from the authorised officers list had ordered the work. **Additional Internal Audit Recommendation:** Internal Audit recommend that the authorised officers listing should be updated for DCSDC and only those on the list should be permitted to order work. Details of all those who order work should be captured against each order on the database for review and audit trail purposes. Additionally, Property Management should finalise the full list of properties under the responsibility of DCSDC as a matter of urgency. Management should ensure that work is only carried out to these properties.				Management Response: Discussions are ongoing at Directorate and service level on this matter with a definitive list of authorised officers produced in due course. A review of Council properties is also underway although this is taking some time to complete as ownership details etc have to be validated by Councils legal services. As detailed above it is intended that a dedicated software package be installed with this package recording all stages of the procurement process.
Raising and Approval of work orders	Management should consider	The Head of Environmental	March 2015	**Partially Implemented**

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
There is no formal uniform system for the ordering and approval of work orders. Internal Audit found a number of different methods for ordering work for example: ○ phone call or email to the administration section, ○ phone call or email to other officers who hold work order books, ○ orders generated as a result of event planning exercises, ○ orders generated from the property inspection programme ○ orders generated due to statutory checks It is difficult to determine who is responsible for the ordering of maintenance work for Council property and standard documentation is not used to order work.	implementing a uniform system of work ordering. As detailed in the section of this report on 'segregation of duties', Management should designate and appoint authorised responsible officers who can contact Property Services to generate a work order. There should then be standard documentation completed with an evidenced approval by the designated officer. Work orders should be detailed and matched to the work request. Management should demonstrate that only approved work is carried out through regular evidenced checks of work carried out against work ordered. Additionally, work orders should be tightly controlled. Management should ensure that work orders are not written for orders after the work has been completed and the invoice received. If an invoice is received and cannot be matched to a work order, this should be highlighted	Services has recently written to all other service heads asking for details of those officers authorised to commission works and for which facilities. Once received only those officers named on the list will be able to commission and authorise repairs. In addition to the above works orders have now been centralised with one officer responsible for issuing works orders. (See above).Works will be limited to the detail on the Purchase Order. Subsequent works will only be authorised providing the process as detailed above have been followed and be commissioned on a separate Purchase Order.	Priority A1	<u>Internal Audit comment:</u> Now in place but needs to be updated for new Council and to include authorising officers for Strabane – see detail from testing below. <u>Internal Audit comment:</u> Implemented - All work orders are now controlled and issued centrally, however follow up testing identified control issues – see follow up testing sections above on 'Budgetary Control: Supervisory Control over Estimates System and Segregation of Duties. <u>Management Response:</u> Discussions are ongoing at Directorate and service level on this matter with a definitive

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
	and investigated by the Head of Property and Fleet and evidence kept for audit purposes.			list of authorised officers produced in due course. As detailed above it is intended that a dedicated software package be installed with this package recording all stages of the procurement process.
<u>Prioritisation of work orders</u> Property Maintenance work should be based on the nature of the problem and the risk to the property and fabric of the properties owned by Derry City Council. Property Maintenance does not have a prioritisation system for orders received to allow the section to demonstrate that they are effectively and efficiently prioritising orders.	Management should implement a Property Maintenance prioritisation system so that jobs are demonstrably prioritised based on need, consideration of risk and to facilitate effective performance management.	Works are at present are completed on a priority basis. The Asset Management Strategy will clearly define a hierarchy of works with clearly defined timeframes for completions in consideration of the KPI's as detailed above.	June 2015 Priority A1	**Not Implemented** <u>Internal Audit comment:</u> The Asset Management Strategy has not yet been developed to define a hierarchy of works with clearly defined timeframes for completions. <u>Management Response:</u> Drafting of this strategy has commenced and is due for completion April / May 2017

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
<u>Prioritisation of work orders - Performance Management</u> Additionally, there is also a lack of management information available based on the prioritisation of orders.	The Property Maintenance section should use information gathered on prioritisation to monitor performance. Management information should be available on time taken to carry out each job. Completion dates should be compared to the work order dates. There should be a target level of performance in terms of the number of jobs completed to priority coding timeframe.	As mentioned above an Asset management System is at present being trialled within the section and it is intended that the system will enable greater aggregation of data for performance management. The system will detail all aspects of the works requested and rank these in terms of priority. In addition each job must be closed out with any failure to either complete the works or close out the job resulting in the job being escalated upwards to the next management tier.	June 2015 Priority A2	**Not Implemented** <u>Management Response:</u> As detailed above this process has commenced with the PM team currently reviewing and documenting all of the processes. It is intended that a draft of the strategy complete with KPI's will be ready towards the beginning of April for peer review and comment.
<u>Pre inspections</u> In a property maintenance system, the pre-inspection of work orders is important for a number of reasons. Independent pre inspections ensure that work is specified correctly in advance by those technically qualified to do so. When documented, pre-inspections allow	A pre-inspection should be detailed to an extent that it can be clearly matched to the corresponding invoice. Management should consider the introduction of a robust and well documented pre-inspection and approval system to provide independent assurance that all	Currently the relevant section manager, who commissions works, visits the location of the required works and verbally agrees on a specification for the works subsequently captured on the associated purchase order. A system for inspecting the	March 2015 Priority A1	**Partially Implemented** <u>Internal Audit comment:</u> Internal Audit follow up testing found that, generally, there were improvements in the pre-inspection / specification detail included on PO's, and

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
checks to be performed to ensure that only the work required and specified in advance is carried out and facilitates an effective additional works approval system. Pre-inspections also facilitate an effective post inspection system since work can be more easily compared to what was ordered. From an audit perspective, the monitoring of performance of the effectiveness of a Building Maintenance System is based on a robust and well documented pre-inspection system. In the 6 monthly Property Inspection programme and for some Mechanical and Electrical jobs, a "Property & Fleet Management Remedial Works Job Sheet" is completed. This is completed in addition to the work order sheet and is typed up by the responsible officer. The "Property & Fleet Management Remedial Works Job Sheet" details the facility, the source document, the date received, the contractor, the job number (work order number) and the date issued. Then the "Description of Works" section allows the appropriate detail	work carried out in the Property Maintenance System is based on need. There should be evidence of who instigated the work order, then the work should be clearly specified by a member of staff technically qualified to do so. Additionally, pre-inspections should be linked to a robust estimate system. There should be criteria set to determine when pre-inspections must be carried out, for example, if costs are greater than a certain value then there must be a pre-inspection.	completed works has been in place since 2012 which requires sign off from the section manager, the contractor and the premises manager for a selection of works based on the complexity or/and cost. The existing post completion of works pro-forma shall be adapted to include both the pre and post works inspections. For works in excess of £1,500 ex Vat a Client Brief form shall be completed. Once received by the Property Management Section an officer will prepare a detailed cost estimate of the works which will be signed off by the commissioning officer in advance. For works falling below this threshold detailed estimates must be included on the Purchase Order This process will also be routinely		the inclusion of estimates, however, there is still a need to formally detail the system for pre inspections in written procedures and integrate into the automated system. <u>Management Response:</u> As detailed above this process has commenced with the PM team currently reviewing and documenting all of the processes. It is intended that a draft of the strategy complete with KPI's will be ready towards the beginning of April for peer review and comment.

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
for an effective pre inspection to detail the specification of work to allow effective post inspection and approval of invoices. The "Property & Fleet Management Remedial Works Job Sheet" also has a 'Remedial Works Sign Off' which could facilitate an effective post inspection system. However, there is no formal consistent pre-inspection system in place across property maintenance. Reactive maintenance orders are hand written on the work orders and detailed depending on the nature of the work requested. Standard work orders detail the contractor, the order number, the date, the quantity, the work description, the quantity received; the amount and the date passed. The work order must also be signed as evidence of approval at the bottom. Pre-inspections are currently not linked to a robust estimate system. There is also no criteria set to determine when pre-inspections must be carried out, for example, if costs are greater than a certain value		audited by section management to ensure compliance.		

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
then there must be a pre-inspection.				
<u>Specification of work</u> As detailed above, a system allowing the pre-inspection of work orders is important to ensure that all work is specified correctly in advance. A sub system of pre-inspections is the actual detailed specification of the work. The specification of work orders should be such that each element required for the completion of the work should be specified in advance so that work carried out can be checked and all payments / invoices justified. Explicit specification of work also facilitates a robust system of additional works and post inspections. Audit testing identified a lack of detail on some work orders on the specification of work to be carried out.	Management should carry out a review of the system for the specification of work orders. Management should ensure that each specification details explicitly the actual work required in order to complete the work. This would enable invoices to be checked and certified for approval based on the detailed specification of work. Post inspections and control of additional works should be linked to the pre- inspection and specification of work systems.	As stated above Purchase Orders have now been centralised under one administrative officer who will receive the detail, and cost estimate from the relevant technical Property Manager. This information will be cross referenced against the final invoice.	March 2015 Priority A1	**Fully Implemented** <u>Internal Audit comment:</u> Purchase Orders are now centralised under 'one administrative officer'. Administration receive the detail, cost estimate from the relevant technical officer.
<u>Additional Works</u> Additional works arise when more work is deemed necessary than was originally specified. From an audit perspective, all additional works must	There should be a robust system for the management and approval of additional works. All additional works should be demonstrably approved by the responsible	Works will be limited to the detail on the Purchase Order. Subsequent works will only be authorised providing the process	April 2014 Priority A1	**Not Implemented** <u>Internal Audit comment:</u> Follow up testing did not identify any additional works PO's. Technical

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
be appropriately approved before they are carried out and an additional work order specification prepared. The key risks associated with not having a system for additional works are that work could be carried out which is not required or approved and work order costs escalating unnecessarily without any managerial control. At present, there is no formal system in place to facilitate the independent approval of additional works. When work is ongoing and additional work is required, it is possible to add work on verbally and then this is detailed on the invoice. There is a lack of assurance that additional works are effectively controlled and approved before the work is carried out.	Council officers (and by the Client if the work is specified using a 'Client Brief'). Within the Property Maintenance system there should be a clear audit trail so that management can demonstrate that only the work independently specified is carried out by the contractor and that any extra work is appropriately and demonstrably approved.	as detailed above / below have been followed and be commissioned on a separate Purchase Order.		and Administration staff advised that the extent of additional works had reduced. However, it was confirmed that additional works would not be included on a separate PO. It was agreed that this recommendation will be implemented and included as a requirement in the new written procedures. <u>Management Response:</u> As detailed above, this process has commenced with the PM team currently reviewing and documenting all of the processes. It is intended that a draft of the strategy complete with KPI's will be ready towards the beginning of April for peer review and comment. In addition to the above the introduction of the

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
				electronic works request system planned for April 2017 should eliminate this process.
Post inspections Without adequate post inspections, there is a lack of assurance that the work ordered matches the work carried out. Without this checking mechanism, there is a risk that work is paid for which is not needed or even carried out. From an audit perspective, in a property maintenance system it is important that management is in a position to demonstrate that work carried out can be validated against the initial work order before any payment is made. The best way to facilitate this is through robust pre and post inspection systems. Management explained that post inspections are carried out informally for selected jobs but that there was currently no formal post inspection system. When there is no formal post inspection system, there is a lack of	Management should consider implementing a formal post inspection system where a sample of, for example, 10% of work orders are post inspected with evidence retained. A robust pre-inspection system would assist greatly in the implementation of a formal post inspection system.	A system for inspecting the completed works has been in place since 2013 which requires sign off from the section manager, the contractor and the premises manager for a selection of works based on the complexity and / or cost. The existing post completion of works pro-forma shall be adapted to include both the pre and post works Pro-forma's will be created to capture both the pre and post works inspections. This process will also be routinely audited by section management to ensure compliance.	April 2014 Priority A1	**Partially Implemented** Internal Audit comment: Management explained that post inspections are still carried out informally for selected jobs and there was currently no formal post inspection system. It was confirmed that Post Inspections are not managed using the computerised property maintenance system. There is still a need to formally detail the system for pre inspections in written procedures and integrate into the automated system. There was no evidence available that this

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
assurance that only proper payments have been made and that work is being completed to the required specification and standard.				process has been routinely audited by section management to ensure compliance. <u>Management Response:</u> Inspection forms will be included as part of the automated system introduced from April 2017. Section leads will as part of this process randomly inspect and audit the process.
<u>Prompt Payment of Invoices: The 30 Day Rule</u> The NIAO 2013 Report by the Chief Local Government Auditor, Section 7, Prompt Payment states "Public Sector organisations are required to pay invoices promptly. They are bound by the Late Payment of Commercial Debt (Interest Act) 1998 (as amended by the Late Payment of Commercial Debts Regulations 2002). This provides suppliers with a statutory right to claim interest and compensation on late payments of commercial debt. Payment is	The processing of claims for payment / invoices would benefit greatly from an automated processing system as documentation could be processed electronically without the need for the physical movement of documentation between locations. In the meantime, management should ensure that resources are put in place so that invoices are processed in a timely manner and regular monitoring occurs to ensure that invoices are being	It is a condition of award that contractors submit invoices for completed works in good time. Delays in processing invoices only arise when there is an issue with regard to cost, quality of works etc. As detailed above it is intended that the Asset Management System will automate the majority of the processes associated with the Maintenance Section including the commissioning of	April 2015 Priority A1	**Partially Implemented** <u>Internal Audit comment:</u> Internal Audit follow up testing found that 23 out of the 39 invoices sample tested met the 30 day rule. Therefore, Internal Audit would reiterate the original recommendation. Follow up testing confirmed that all 39 PO's / invoices tested were signed as evidence of appropriate checks

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
regarded as late if it is made outside the agreed terms or 30 days after receipt of a valid invoice where no terms are agreed. Internal Audit compared the evidence of first date of receipt of invoices with the date paid. From a sample of 25 invoices reviewed 6 (24%) did not meet the 30 day prompt payment requirement. The current system means that invoices are registered in Central Finance in the Strand Road then sent to Property Maintenance Administration at Skeoge for review and approval then returned again to Central Finance for processing of the payment. There is currently no formal system for the movement of the invoices / documentation and occurs as and when certain officers are visiting the offices. Overall, the current system means that it is a challenge to ensure that the 30 day target is met.	processed and paid within the 30 day rule.	works and processing of invoices thereby reducing delays in payment.		having been carried out by the technical officer and the administration officer. Furthermore, they were also reviewed and signed / dated as authorised by the Head of Environment. However, for a small number of invoices checked (3 from 39) Internal Audit testing found that the contractor rates charged and paid were higher than the panel agreed rates. Although the variances overpaid were not for a materially significant value, it undermines the veracity of the checks carried out. (It should be noted that Property Management Administration contacted the contractor and the overpayment was reimbursed). Internal Audit recommends that

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
				Property management confirm the nature of the checks carried out by the officers involved in the review and processing of the invoices. The nature of the checks should be included in the Property Management Written Procedures. <u>Management Response:</u> Invoices submitted are checked for accuracy by admin staff against agreed rates. Where errors are identified the contractor / supplier is contacted and advised as to the error. In addition to this further checks are carried out by the finance team with corrective actions taken. The process for dealing / processing invoices will be included in the Maintenance Strategy.
<u>Departmental checks on claims for payment based on the agreed 'Client</u>	Departmental budget holders should review that work carried	The Client Brief forms have now been introduced for all works over	March 2015	**Partially Implemented** <u>Internal Audit comment:</u>

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
Brief' Claims for payments are not reviewed by Departments for work carried out on their behalf.	out and the associated claims for payment is reviewed by them to ensure that they are in line with the 'Client Brief' / working agreement / standards of service.	£1,500 ex Vat.	Priority A1	Please see Budgetary Control: Introduction of a 'Client Brief' section above. Administration and Events Management confirmed that for significant events such as 'Clipper' invoices are reviewed by both parties. Work is ongoing to develop and improve this area further. Management Response: Agreed protocols are now in place with regard to events with all expenditure being signed off / approved by the events team in advance
Timely issue of invoices by contractors Another element of the payment system is how long it takes contractors to issue invoices after the work has been completed. Internal Audit compared the date on contractors' invoices to when they	Contractors who do not issue invoices in a timely manner should be contacted and reminded of their responsibility to do so. If this continues, the contractors should be called to a meeting to formally discuss their performance in this area.	It is a condition of award that contractors submit invoices for completed works in good time. Delays in processing invoices only arise when there is an issue with regard to cost, quality of works etc. Contractors appointed in	April 2015 Priority A1	**Fully Implemented** Internal Audit comment: Internal Audit is satisfied that action was taken by management to implement this recommendation. Internal Audit was

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
were first recorded as received by the Council. From a sample of 25 invoices reviewed 5 (20%) did not issue invoices to the Council in a timely manner: In order to ensure that Council can effectively review and scrutinise the invoices of contractors against what was ordered and what work was carried out, contractors are expected to issue invoices in a timely manner.		consideration of the current procurement exercises will be reminded of this obligation with random audits conducted to ensure compliance. A new panel of 25 Contractors, to include general building, civil engineering, mechanical, electrical and painting and decorating works shall be in place from April 2015. Each Contractor shall be presented with a suite of mandatory conditions, across all the services of Properly Management which include prompt submission, of no greater than 1 week, following completion of the works.		provided with evidence of a presentation by the Head of Environment to all contractors on 28th April 2016. The presentation contained details of contractor's responsibilities on PO's and on the accurate and timely submission of invoices. Follow up testing found that, from the 39 invoices tested comparing invoice dates with receipt in finance, 14 were received within 1 week, 13 within one month, 6 were received within 5 to 12 weeks and 5 were received in a time frame greater than 3 months. Internal Audit was provided with the up to date 'Panel of Contractors' and 'Labour Rates' for the period August 2015 to August 2018.

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
				Management Response: All contractors have been advised of the requirement to submit invoices in a timely manner as late submission of invoices may require additional checks and further delay payment. As stated above it is now intended that this entire process be automated and that this will significantly improve payment processes.
Third Party Service Providers: The Select Panel of Contractors The 'Select Panel' of Contractors for Property Maintenance was last appointed for a 3 year contract in the financial year 2009 / 2010 for the period 2009 to 2012. These contracts have now been extended beyond the contract period. There is a lack of assurance that DCC is getting	Internal Audit recommends that Property Maintenance conclude the process of implementing a new 'Select List' of contractors as soon as practicable to demonstrate that the Council is gaining the best value for money in terms of expenditure on external contractors.	Officers are at present evaluating returned submissions with regard to the following Select Panels – Electrical Services, Mechanical Services, Painting / decorating, Civil Engineering Works and General Building The final evaluation report will be taken to the March Service	April 2015 Priority A1	**Fully Implemented** Internal Audit comment: Internal Audit was provided with the up to date 'Panel of Contractors' and 'Labour Rates' for the period August 2015 to August 2018. The Panel of Contractors includes

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
maximum value for money. There are also additional risks of fraud from 'cosy relations' being developed between officers and contractors. Management have informed Internal Audit that the process has been commenced to appoint a new Select List.		Transformation Committee for approval. In addition the following 2 services are also out to tender namely Electrical Testing and Servicing and Maintenance of Gas Boilers.		firms from across Derry City and Strabane District. The 'Panel of Contractors' includes contractors for 'Electrical Testing Services' and 'Servicing and Maintenance of Gas Heating Plant'.
<u>Compliance with the Purchasing and Procurement Procedures</u> The Council has a set of Procurement Procedures which are expected to be adhered to by Property Maintenance. Internal Audit was provided with copies of the procedures for review. Additionally Internal Audit, reviewed a sample of purchases to ensure that the Councils Procurement Procedures were being adhered to. Generally, Internal Audit is satisfied that Property Maintenance strives to ensure compliance with the Procurement procedures and audit testing noted that this was the case in practice. However, Internal Audit identified a number of cases which	Management should ensure that compliance with Councils Procurements Procedure is maintained at all times. Management should consider entering into a more formal relationship with Departments / Budget holders in preparation for when Property Maintenance work is required. Where possible, work to be carried out should be aggregated and put out to tender as early as possible in line with Procurement best practice. It should be a clear objective to ensure that there is as little reactive maintenance as possible.	The majority of works undertaken by the section are carried out by the in-house team and the Panel of Contractors procured on a tri annual basis. Whilst a Planned Maintenance schedule is in place issues arising on a day-to-day basis must be responded to and those considered priority completed. Where larger scale works are required these are taken forward in full consideration of Councils procurement guidelines.	April 2015 Priority A1	**Fully Implemented** <u>Internal Audit comment:</u> Follow up testing found that for the sample selected there was compliance with the procurement procedures. Property Management explained that they were aware of the importance of complying with the procurement procedures although there was no formal process in place to review contractor spend.

Findings Final Audit Report: January 2015	Recommendation Final Audit Report: January 2015	Management Response Final Audit Report: January 2015	Implementation Date And Priority	Current Position March 2017
gave rise to query whether compliance with the Procurement Procedures was being complied with at all times.	However, if there are any instances when the Procurement Procedures cannot be complied with for operational reasons this should be documented and appropriately approved.			Internal Audit recommend that, where possible, spend per contractor is reviewed on a 6 monthly or annual basis to ensure that the procurement procedures are complied with and that quotation / tender thresholds are not being breached. <u>Management Response:</u> Management and the finance accountants are reviewing the process to ensure that procurements remain fully compliant with purchasing obligations.

Appendix (i) System Priority Level

Internal Audit have recently introduced a 'System Priority level' to audit reports. The system priority level identifies the significance of the system under review towards achievement of the Council's objectives.

This will help management to easily identify significant issues at an organisational level.

There are 3 ratings as follows:

Rating	Description
A	Failure to implement the recommendations is likely to result in a major failure of a key Council objective, significant damage to the reputation of the Council or the misuse of public funds.
B	Failure to implement the recommendations could result in the failure of an important Council objective or could have some impact on a key Council objective.
C	Failure to implement the recommendation could lead to an increased risk exposure.

Appendix (ii) Classification of Audit Assurance

Internal Audit have recently reviewed the classification of audit assurance levels. These continue to be based upon the system under review. The 3 new Assurance levels are 'Satisfactory', 'Improvement needed' and 'Major Improvement needed'. The definitions have been reworded to match the new Assurance levels.

The new assurance levels and definitions are as follows:

Level of Assurance	Definition
Satisfactory	*Evaluation opinion:* Overall controls are adequate and effective to provide reasonable assurance that risks are managed. While there may be some issues identified and recommendations raised, this should not significantly impact on the achievement of objectives.
Improvement needed	*Evaluation opinion:* Significant control weaknesses were noted and recommendations raised. There is considerable risk that the system will fail to meet its objectives.
Major Improvement needed	*Evaluation opinion:* Numerous significant control weaknesses were noted and recommendations raised. The system has failed or there is a real risk that the system will fail to meet its objectives.

Appendix (iii) Implementation Priority

Implementation priorities are based upon Internal Audit's opinion on how quickly the recommendations should be implemented, relevant to their importance in the system under review.

There are 3 different priority ratings as follows:

Priority	Description
1	Weakness which should be addressed immediately.
2	Weakness, which is not fundamental but should be addressed in the short term (6 months).
3	Improvement, which represents best practice.

The Action Plan contains the priority both of the system and the recommendation.