

Key Internal Audit Findings in the 2003/04 Financial Year

One of the most valuable services provided by Internal Audit are the recommendations made at the end of each review on how controls can be improved and risks minimised.

Detailed below is a summary of some of the main findings and recommendations made for the audits, which have been completed in the 2003-04 financial year. It should be noted that this Appendix concentrates on those reviews where improvements were recommended rather than those where systems and procedures were generally sound.

A. Financial Audits and Internal Financial Controls

Internal Audit undertook a substantial number of financial audits in units across all of the Authority's Service Areas. Detailed below are the main issues arising from our reviews.

Due to the decentralised nature of the Council's accounting and reporting system – there is a potential risk of non-compliance with accounting standards and financial regulations. There is therefore a need to ensure that financial internal controls across service units/areas are sound. Internal Audit's review of the financial statements of service units includes a review of the adequacy and effectiveness of the internal financial controls as well as the truth and fairness of the figures in the accounts.

All service units/areas have a responsibility for ensuring that their financial systems produce the accurate and timely financial information required to support day to day operational decisions as well as budget and policy decisions.

Internal Audit reviews indicate that while there continue to be improvements in the area of financial internal control and while many units have established appropriate controls to safeguard the assets of the Authority, there are still some areas in which controls need to be tightened or enhanced.

There are also a number of common themes arising from of the financial statements of units and these are detailed below:

1. Concerns that the level of technical skills of some finance officers are insufficient to address the accounting needs of their units.
2. Non-compliance with Financial Regulations (for example - write up of bad debts without appropriate authorisation, schedule of valuable assets not maintained, inadequate controls over banking and cash collection) and some statutory financial regulations (VAT) due to late submission of statutory returns.

3. Payments to self-employed persons without appropriate verification of the tax status of such persons.
4. Inappropriate levels of contract management and monitoring of performance.
5. The failure of management to implement internal audit recommendations to which they have agreed within a reasonable period of time.
6. Internal control procedures within accounting processes and financial systems (this includes income, payment of expenses, and cash management).
7. Concerns about the review of unit financial statements and the procedures by which they are prepared and the lack of effective review by someone other than the person responsible for preparing them.

B. SCHOOLS AUDITS

Internal Audit undertakes the audit of the Authority's school on a three-year rotational basis. During the 2003/04 financial year we visited 19 schools (17 community and 2 foundation schools).

Our audit of schools cover a broad range of issues including the following:

- Review of financial statements, budgeting and budgetary control procedures, financial management, payroll and personnel procedures, VAT and other taxes, school meals, school journeys, unofficial funds, security arrangements, leasing and financing agreements and governance arrangements.

Internal Audit would like to inform members that the majority of the foundation schools continue with their independent external audit arrangements. The terms of reference for the audit of these schools have been set out, copies of which have been sent to all the schools and their auditors. As part of this arrangement, all such schools are required to send copies of the Auditor's Reports and management letters to the Council's Audit Manager for review, once the accounts have been subject to an audit. These schools tend to have annual audits carried out.

Our audits then tend to concentrate on the Council's community schools. Internal Audit found that for the majority of schools visited internal controls were in the main satisfactory. However, our reviews indicate common themes and areas where controls needed to be strengthened or implemented across the range of schools.

The main issues and themes arising from schools audits are as follows:

- In some of the schools, it was noted that there was a lack of adequate segregation of duties due to the size of the schools.
- Budget monitoring and control procedures in some schools were weak.
- In a number of schools, bank accounts both for official and non-official funds were not being reconciled on a monthly basis in line with financial regulations.
- In a number of schools there were weaknesses in controls over petty cash accounts.

- We found that in a number of schools, official orders were not being used when non-utility goods/services were being purchased.
- Our audits indicated weaknesses in controls in a number of schools over the collection of income (in particular school meal income).
- The majority of the schools we visited do not maintain a fixed asset register or a record of their valuable assets.
- We found that a number of schools visited did not have a formal lettings policy.
- We were concerned to note during the course of our audits that some schools were not retaining their accounting records for a period of at least six years in line with statutory requirements and Council policy.
- We found that a number of schools were failing to account for both expenditure and income in the correct financial period.
- We found that invoices in number of schools visited, were not being approved for payment by an authorised signatory.
- The large majority of the schools visited and who had official funds had not had these accounts audited by an independent party in line with Financial Regulations.
- Personnel records are often not complete. While it is understood that most of this information is retained by the recruitment section of the LEA, we feel that it is good practice for copies of all relevant information pertaining to the employment of staff to be retained at the schools both as a point of reference and for record purposes.
- In a number of the schools visited we were concerned to note that some schools had entered into leasing/financing agreements for equipment without seeking advice from the LEA.
- Our audits indicated that VAT is not being reconciled on a regular basis in all cases.
- We found in a few of the schools visited, that transactions were not being recorded on the schools accounting system on a timely basis.
- We found that in a number of schools, there had been non-compliance with the Construction Industry Sub Contractors Tax Regulations.
- In a number of the schools visited, we found instances in which payments were being made directly to individuals by cheque instead of being processed through the school's payroll system.

C. Systems Audits

1. Bridge Park Leisure Centre – Review of Internal Controls

The review covered an assessment of the financial controls at Bridge Park Leisure Centre. The purpose of the audit was to review the systems of controls in place over income collection and banking and make appropriate recommendations. This review was undertaken at the request of the recently appointed Assistant Director.

Main Findings: Overall, our review indicated that there were major internal controls weaknesses over the collection and banking of income at Bridge Park.

The main issues raised are summarised below:

- Debt collection procedures were considered to be ineffective.
- Of the 40 business units located at Bridge Park, 28 are occupied by external customers. We were concerned to note that 18 of the leases were still being negotiated on behalf of Bridge Park by Property Services.
- Some tenants were not being billed for running costs such as refuse collection, water and cleaning because their leases have yet to be standardised.
- Our review indicated that rental charges for some units were not based on fair market rates.
- Procedures for receipting income, counting and security of cash and banking are considered to be unsatisfactory.
- The charges for the hiring room at Bridge Park have not been formally approved and neither had the procedures for doing so.
- The procedures for making bookings for the hire of rooms at Bridge Park are considered to be inadequate.
- Procedures for counting cash receipts/cheques and preparations for banking are considered to be weak.
- It was felt that access to the cash collected from sports activities in the Sports Reception is not restricted to authorised personnel only.
- We also had concerns about the fact that the cashing up and balancing of cash receipts from sports activities is not always witnessed by an independent person.
- Stock management in respect of vending machines is considered to be poor.
- Banking of cash and cheques is not undertaken on a regular basis.
- Cash and cheques for banking are prepared in a location where a number of other officers may be present.

Recommendations: Internal Audit made a number of high priority recommendations, the majority of which were accepted for implementation by management.

2. Review of Parking Enforcement

The objective of this audit was to ensure that the parking enforcement contracts were operating effectively and being properly monitored. Parking Enforcement and notice processing were outsourced to Vinci Park (responsible for the employment of parking attendants and issue penalty charge notices) and Vertex (provide the IT system for processing the penalty charge notices and record payments received from parking offenders).

Streetcare represent the client side of the parking enforcement contracts and deal with all representations made at the Notice – to Owner stage. They also provide

evidence to the Parking & Traffic Appeals Service in accordance with legal requirements.

Main Findings: Overall, we concluded from our review that the management arrangements and procedures for parking enforcement were inadequate. Financial management controls were considered to be weak.

The main issues arising from the audit are summarised as follows:

- Many changes have taken place over the last five years to the service. We found however that the contract variations, which have been made and agreed with the contractor, have not been satisfactorily documented. As a result it was not possible to prove satisfactory compliance with the current terms and conditions of the contract.
- Our review indicated that Client-side (Streetcare) does not effectively supervise the contractor. Examples of the poor management controls include:
 - (i) No checks are undertaken to verify that the number of parking attendants being charged for by the contractor are bona fide staff employed by the contractor.
 - (ii) Neither client-side nor the contractor carry out spot checks on the streets, which we consider to be essential for monitoring service quality in terms of the tickets issued by parking attendants.
 - (iii) Parking attendants are not always on patrol on the streets at times of the day when parking restrictions are in force.
 - (iv) The software package used (by Vertex), Parking Office for Windows is not being used to its full potential, in particular management information, which could be used for monitoring purposes is not being properly extracted from the system.

We made a number of recommendations all of which were agreed for implementation by management. We have been given to understand that a number of these recommendations have already been implemented and we plan to follow-up the implementation of this during the 2004-05 financial year.

3. Homelessness and Temporary Accommodation

The main objective of this review was to ensure that the Council's procedures for managing homelessness and the provision of temporary accommodation were robust and providing value for money.

Overall, our audit opinion was that the Council's system for managing homelessness and the provision of temporary accommodation was in the main satisfactory. There were however a number of issues which were brought to the attention of management.

Detailed below is a summary of the main issues:

- At the time of the review, the majority of decisions on homelessness were not being made in a timely manner.

- Appropriate checks were not always undertaken to ensure the accuracy of invoices prior to their being processed for payment.
- There was a significant backlog of reconciliations of closed rent accounts.
- Following the successful nomination to temporary accommodation, the system is not always updated with client details to indicate that nominations are no longer required so that such clients can be removed from the short list.
- Although Councils have a statutory duty to protect furniture and goods that are considered to be at risk, our review indicated that Brent Council spends considerably more than the average London borough on the provision of this service.

Internal Audit made a 10 high and medium priority recommendations, most of which were accepted for implementation by management.

4. Payments to Foster Parents

The purpose of this review was to ensure that the system for making payments are adequate, that the payments made fall within statutory limits, that payments are stopped as soon as placements come to an end and that overpayments made to foster parents are promptly identified and recovered.

Main Findings: Overall we found the system for payments to foster parents to be unsatisfactory and internal controls to be generally weak.

The main issues raised are summarised below:

- There are a substantial number of overpayments made to foster parents which due to the age of the debt are unlikely to be recovered.
- Our review indicated that one of the main reasons for overpayments being made was as a result of the Intake and Referral Team not notifying the Finance Team on a timely basis when a placement comes to an end so that payments can be discontinued.
- We are concerned about the lack of a formal policy on how overpayments will be dealt with.
- We were concerned to note that payments to foster parents are not formally reviewed or authorised by those with the knowledge of current placements.
- There was a lack of audit trail in respect of payments made to Independent Foster Agencies. This is because prime documents authorising payments are routinely destroyed once details of placements have been posted on the Filemaker system.

Internal Audit made a number of recommendations, all of which were accepted for implementation by management.

5. Disaster Recovery Planning (IT Audit)

The objective of this audit was to ensure the adequacy of the Authority's Disaster Recovery Arrangements.

The main issues arising from this review are detailed below:

- There has been no Business Impact Analysis (i.e. what would be the impact to the Council if a system is lost) carried out to determine the criticality of every IT system in the Council.
- The Housing and Social Services systems are the only two systems that have priority in relation to Disaster Recovery.
- There is no mention of the Disaster Recovery Team in the Recovery Documentation. The lack of documentation could result in the inability to contact personnel vital to the recovery process, possibly causing extended delays.
- The Disaster Recovery Plan makes no mention of escalation procedures and that senior management should be notified of the disaster situation.
- There have been no subsequent updates to the Disaster Recovery Procedures since 1999.
- There are no formal procedures in place for the Recovery plan to be updated.

Management agreed to implement all of the recommendations arising from this review.

6. E-mail Security and Administration

The objective of this audit was to ensure that management has implemented adequate and effective controls over the use and administration of the Council's e-mail system.

The main issues raised following this review are summarised below:

- The e-mail disclaimer on all outgoing mail from the Council does not attempt to limit the Council's liability for the contents of e-mails sent by employees. The failure to incorporate a suitable e-mail disclaimer increases the risk of the Council facing liability claims on e-mails sent out in its name.
- The passwords requirements for e-mail authentication are not considered to be sufficiently complex nor are password expiry controls in place.

Management agreed to implement all of the medium priority recommendations made. It was also felt that the migration to Lotus Notes 6 would address the systems weaknesses arising from this review.

7. Laptop and PC Security

The objective of this audit was to ensure that management has implemented adequate controls over PC and Laptop controls within the Authority.

Main Findings: In general, the mechanisms in place to enforce PC and Laptop controls were found to be well-documented and available to users.

The main issue arising from this review is as follows:

- There is no periodic account reconciliation to determine the validity of users. The failure to determine the validity of users increases the risk that unauthorised accounts remain established on the system.

Management accepted the implementation of the single recommendation made following this audit.

8. Spectrum Application Review

The objective of this audit was to ensure that management has implemented adequate and effective controls over the Spectrum Receipting System used by the Cashiers Service.

The main issues raised are summarised as follows:

- The user administration process has not been formalised and procedures have not been developed.
- The lockout function for failed logon attempts, although it appears to be set, does not work.
- There are no restrictions on the use of passwords e.g. a combination of alpha and numeric characters are not required and no password history is maintained on the use of previous passwords.
- User access levels detailing the functionality and privilege available is not defined and documented.
- The Spectrum Application is not specifically covered in the Disaster Recovery Plan.

Management of the Cashiering Service accepted the majority of the recommendations for implementation. It is understood that some of the recommendations have since been implemented.

9. NNDR Application Review

The main objectives of the audit were to ensure that management has implemented adequate and effective controls over the NNDR Academy System.

The main issues raised following the review are summarised as follows:

- User Administration procedures exist for Capita (external contractor who manage the IT system on behalf of the Council) based staff, however a list of authorised signatories is not current. In addition, user administration procedures have yet to be developed for Council based staff.
- A review has not been undertaken of user access as a means of ensuring that all users have appropriate user privileges.

- Formal procedures for secure management of remote access to the application have not been developed.
- There is no requirement to construct a password with a combination of alpha and numeric characters.
- There is currently no formal policy in place for reviewing and monitoring the logs generated on the Academy system.
- Our audit tests indicated that unauthorised amendments could be made to the Masterfile.
- There is currently no Business Continuity Plan in place.

Management accepted the majority of recommendations made and where they did not give reasons for not doing so. It is understood that some of the recommendations have since been implemented.

10. Epicor Applications Review

The objective of the audit was to ensure that management has implemented adequate controls over the Epicor Systems which is the main financial accounting system for Environment and the Corporate Centre.

The main issues arising from the review are summarised as follows:

- There is a lack of segregation of duties between the roles of Systems Administrator, Data Base Administrator and users.
- Password controls are weak overall.
- Audit tests indicated that user accounts are not locked after three failed attempts and the lock out function has not been set.
- There are no formal and documented user administration procedures in place.
- Security logs are not being generated.
- The Epicor Application is not specifically covered in the Council's "*Business Continuity Plan*".

Management of the audit agreed to implement the majority of the recommendations made. It is understood that a number of these are in the process of being implemented.

11. Council Tax and Housing Benefit IT – Management Audit

The main objective of this review was to ascertain whether there are adequate procedures in place to provide a secure and well managed IT service for the Council.

The provision of IT Systems for Housing Benefits and Council Tax is managed by an outsourced arrangement with CAPITA. This review was undertaken at a time when CAPITA and the Council were in a period of transition and attempting to resolve a number of security and contractual issues following the handover by EDS.

The main issues arising from the audit are summarised as follows:

- No permanent staff member has been assigned with the responsibility for monitoring the CAPITA contract. A consultant was carrying out this role.
- Performance monitoring meetings and their activities are yet to be established.
- At the time of the audit, service trends and performance, although covered by the contract specification, had not been fully agreed.
- Our audit indicated that customer service surveys are yet to be carried out.
- A number of security issues causing concern to both the Council and Capita are still under discussion and were still unresolved at the time of the audit.
- Our review indicated that there were a number of users on the list provided for the audit that had left.
- Although there are adequate recovery plans in the West Malling site (CAPITA), there is no formal disaster recovery plan in place in the Council.

In management's response to the draft audit report, it indicated that some of the control issues raised had already been addressed or were in the process of being implemented.

12. Oracle Application and Operating System Review

The objective of the review was to ensure that management has implemented adequate and effective controls over the Oracle Payables Application and Operating System. This system operates within the Housing Service

Main Findings:

- The keypad code for the server room has not been changed for number of years.
- The uninterruptible Power Supply (UPS) on the Unix server is not being tested and there are no plans for tests to be undertaken.
- There was no evidence of fire detection systems or fire extinguishers within the server room.
- Our audit indicated that 31 usernames are not assigned to an Owner.
- There is no lock out function on Oracle if the user inputs an incorrect password on logon.
- Security violation reports are not produced.
- Audit trails are switched on although the Systems Administrator was not aware of the exact audit settings in place.

All but one of the audit recommendations were accepted for implementation by management.

13. Internet Payments

The objective of the audit was to ensure that management has implemented adequate and effective controls over the Internet Payments System.

Main Findings:

- There is currently no Disaster Recovery Plan or Business Continuity Plan in place for the NonStopGov server or the Internet Payments service.
- The documentation in relation to the internal payments system is yet to be brought together in a single location to provide a single reference guide.
- The Web server is not configured to enforce some important security controls such as password history, user lock out etc.

A number of recommendations were made to address the systems weaknesses identified.