

REPORT BY THE HEAD OF AUDIT & INVESTIGATIONS TO THE PERFORMANCE & FINANCE SELECT COMMITTEE ON THE KEY FINDINGS ARISING FROM THE WORK UNDERTAKEN BY INTERNAL AUDIT IN THE 2004/05 FINANCIAL YEAR

This report summarises the key findings arising from internal audit work undertaken as part of the 2004/05 Annual Audit Plan.

The main issues raised are summarised in this report thus providing an overview of the adequacy and effectiveness of internal controls in the areas reviewed during the year across the Council.

Our audit work focused on the reliability of financial and operational information, management controls, the safeguarding of assets, economy and efficiency of operations and review of compliance with relevant statutes and Council policy and regulations.

Detailed reports were issued to service managers and service area directors, head teachers and governing bodies on the results of the individual audits as they were undertaken and completed.

Overall we identified areas where internal controls were either weak or needed to be strengthened.

Detailed below is a summary of the main findings and recommendations made for the audits completed in the 2004/05 financial year.

A. SYSTEMS AUDITS

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><u>Review of Section 17 Rent and Deposits</u></p> <p>Under Section 17 Children Act 1989, local authorities have a general duty to provide a level and range of services appropriate to children in their area who are in need. This review focused on accommodation provided by Social Services under Section 17 for families who do not qualify for housing benefits or accommodation from Housing Services.</p> <p>We made 20 recommendations all of which were accepted for implementation by management</p>	<p>Overall the system for the payment of rents and deposits under S17 of the Children Act 1989 was considered in the main to be unsatisfactory. However the significance of the control issues which prompted the review have reduced considerably because of a reduction in the volume of transactions and as result of changes by central government</p> <p>The main issues arising from the audit were follows:</p> <ul style="list-style-type: none"> - There were no mechanisms to ensure that security deposits paid on behalf of client families were being promptly recovered from landlords on termination or expiry of tenancies; - The arrangements for the authorisation of the payment of supplier invoice were considered to be unsatisfactory. Case workers were not being required to certify that clients were still in the relevant accommodations prior to invoices being authorised for payment; - There appeared to be duplication of work as a result of the maintenance of two payment registers and in some instances, we found that some payments were only being recorded in one of the payments register; - There was a lack of supervisory controls over the work undertaken by the Administrator; - The list of agents and landlords recommended by the Housing Resource Centre had not been formalised nor a standard procedure drawn up for the sourcing of accommodation and rotation of suppliers; - No electrical or gas safety checks were being undertaken in properties prior to families being placed in them; - No checks were carried out by Social Workers to ensure that rents being charged for accommodation were fair or in accordance with the Rent Service guidance; - Inventory checks were not being carried out at the commencement and end of tenancies as a means of ensuring that damages caused by tenants are properly assessed.

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><u>Review of Arrangements for Unaccompanied Minors and Care Leavers</u></p> <p>The main objective of this review was to assess the accommodation and support services provided by Social Services for unaccompanied asylum seeking children under Sections 17, 20, 23 C to E and 24 Children Act 1989. Expenditure on asylum seeking unaccompanied minors is funded by a government grant and the grant (£360 per week per child in 2003/04) is to cover all costs incurred such as accommodation, subsistence, clothing, social work and administration.</p> <p>Internal Audit made 16 recommendations, all of which were accepted for implementation by management.</p>	<p>Overall, a number of systems weaknesses were identified and brought to the attention of management. The main issues were as follows:</p> <ul style="list-style-type: none"> - The charges to be made for services provided by suppliers were not known in advance. We expressed concerns about the possibility of a supplier charging the authority more than a proper rate negotiated and agreed with the London Asylum Seekers Consortium (LASC); - Purchase orders were not being issued when placements were made with LASC and we were unable to find any written agreement in relation to these placements; - Invoices were not certified by Social Workers as confirmation of a placement prior to invoices being paid; - The unaccompanied Minors and Homeless Team assumed that prices invoiced by local providers were correct with no attempt made to confirm that charges made were those negotiated by the Family Placements Service; - There were no written contracts with local providers and no contract period were specified; - The values and periods of local contracts for accommodating unaccompanied minors and care leavers were variable and in many cases uncertain at the outset of the placement; - Service providers were not being required to submit receipts or proof of payment with regards to subsistence and clothing allowances; - Cash payments made by service providers to clients were not being recorded on the payments system (FileMaker Pro) resulting in payment records for individual clients being incomplete; - We were unable to locate some case files and where these were available they were found to include little or no documentation in relation to contracts with LASC or local providers. In addition case files were not being properly maintained.

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><u>Review of Members' Interests & Gifts and Hospitality</u></p> <p>The purpose of this review was to ensure that the Council has put in place appropriate arrangements for complying with Part 3 of the Local Government Act 2000 which introduced a new ethical framework for local government. Each local authority is required to adopt a code of conduct that sets out the rules governing its members.</p> <p>Internal Audit made 16 recommendations, the majority of which were accepted for implementation</p>	<p>Overall we found the systems for the registration of members' interests and gifts and hospitality to be in the main operating satisfactorily. There were however a number of issues where improvements were required.</p> <p>The main issues were;</p> <ul style="list-style-type: none"> - The declaration forms signed by members undertaking to observe the Code of Conduct did not require members to print their names adjacent to their signatures. For the majority of forms the signatures were often not legible and neither Internal Audit nor the Democratic Services officers could determine which members had signed some of the forms; - With regards to the Notification of Financial and Other Interests, we found that standards of completion of forms varied and noted a number of discrepancies; - With regards to members Declarations at meetings, we found that in some cases some members made declarations of interests at meetings which they had not previously registered; - There were few declarations of gifts and hospitality and some declarations were for trivial items. It was difficult to establish whether the reasons for this was because the acceptance of gifts and hospitality was infrequent or whether members were not always declaring receipts of either; - With regards to the completion of a declaration of related party transactions (required as part of the notes to the Council's annual accounts), it was noted that while all sixty three members had completed a return, some forms were incomplete or inaccurate (e.g. some members did not print their names on the forms, while some forms were not dated or included the wrong date);

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<p><u>Review Of Risk Management</u></p> <p>The review covered an assessment of whether the Authority had in place an appropriate risk management strategy, which has been effectively implemented and strategically managed. It also assessed the extent to which risk management was effectively embedded into the governance and management structure of the Authority.</p> <p>Internal Audit made 20 recommendations, all of which were accepted for implementation by management</p>	<p>Overall, our review identified a number of weaknesses with the Council's risk management arrangements. The findings reflect the position in August 2004.</p> <p>The main issues raised were as follows:</p> <ul style="list-style-type: none"> - The Risk Management Group needed to be more effective and needed to review its objectives and priorities for delivering the Council's risk management strategy; - Although the risk management strategy had been approved by the Corporate Management Team in June 2004, it took too long for the strategy to be formalised (almost two years from the formation of the Risk Management Group) and later than the original timescale of January 2004; - The strategy identified five action points to be completed by August 2004. At the time of the audit none of the action points had been satisfactorily completed; - It was our opinion that the initial communication of the risk management strategy had not been done properly. At the time of the review it was yet to be published on either the intranet or internet; - Progress reports to the Corporate Management Team (CMT) had been made on an adhoc basis rather than formally; - The risk management strategy had not been communicated or presented to the Executive Committee (i.e. to members) for approval; - Proper training on risk management had in our opinion yet to be provided for officers and members; - Although the risk register had been input on a Lotus Notes Database, it was not openly accessible nor was it being updated or communicated in line with good practice; - Financial risks had yet to be joined up with the risk register and were still being managed outside the framework of the risk register.

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><u>iWorld Housing Benefits and Council Tax Benefit Application Review</u></p> <p>The objective of the audit was to evaluate the procedures that have been put in place to ensure that there are adequate controls for the security and integrity of the system.</p> <p>The 5 audit recommendations made were agreed for implementation by management.</p>	<p>A number of control weaknesses were highlighted as follows:</p> <ul style="list-style-type: none"> - The authorised signatory list with regards to those with the authority to grant user access rights and maintained by IT, was not up to date. Review of the security request forms and authorised signatory list indicated that of a sample of twelve forms, nine had been authorised by persons not on the list of authorised signatories; - A review of job roles indicated that systems access was either excessive or did not match the roles and responsibilities of the iWorld users; - The iWorld application does not generate security violation logs and there was therefore no audit trail of the actions performed by systems administrators; - Although audit logs are permanently retained, systems administrators had the system access that allows them to delete these logs.
<p><u>iWorld Revenues Applications Review</u></p> <p>The objective of the audit was to evaluate the procedures that have been put in place to ensure that there are adequate controls in place over the security and integrity of the system.</p> <p>Management agreed to implement all of the recommendations made.</p>	<p>The main issues arising from the review are summarised as follows:</p> <ul style="list-style-type: none"> - A review of documents input on iWorld by back office and Customer Services staff was not being carried out as a means of ensuring quality and accuracy; - Weekly exception reports were not retained after corrections had been made and it was therefore difficult to ascertain whether corrective action had been taken to address exceptions reported; - The findings indicated in the review of iWorld HB and CTB Application with regards top access control, and business continuity were also relevant for the iWorld Revenues Application.

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><u>Internet Controls Review</u></p> <p>The objective of the review was to evaluate the procedures that have been put in place to ensure the adequacy of controls for Internet Control.</p> <p>Management agreed to implement all of the recommendations arising from the audit.</p>	<p>The main issues arising from the review are summarised as follows:</p> <ul style="list-style-type: none"> - The current Internet policy had not been reviewed by Legal Services, did not state what the review period of the policy was and did not specifically state who the owner of the policy was; - Access to the firewall is by user id and password, however, authentication was not being used to provide greater security to the firewall; - Although there are four officers with access to the firewall, administration and management of the firewall was dependent on only one key officer. Additionally there was very little documentation in place to assist or support other officers in their roles; <p>The examination of the network (firewall) room, it was noted that: there was a folder with papers which had id server and password written on them; the room was in an untidy state; cables for the network and IT equipment were in an untidy state; no one was sure of when the HFC fire suppression system was last tested/maintained – the label on the gas cylinder indicated 2001; the mode on the control panel for the fire suppression system on the outside of the room had been set to “manual” at a time when the room was not manned.</p>
<p><u>Virus Controls</u></p> <p>The objective of the review was to evaluate the level of controls in place within the Authority for Virus Protection.</p> <p>All of the 8 recommendations made were accepted for implementation by management.</p>	<p>The main issues arising from the review were as follows:</p> <ul style="list-style-type: none"> - There was no formal Virus Policy in place; - There was no formal Council policy on hardware and software purchases and installation; - Reliance is currently placed on the Anti-Virus software to scan any media, software installation or download and on the vendor having the latest anti-virus software; should a PC become infected and require the attention of a technician, there were no housekeeping procedures in place to follow; - Migration was in progress to upgrade automatically all PCs and servers from the installed version 8.0.0 to Symantec’s current Anti-Virus software v9.0.3. However for a sample of PCs examined, we found that there was one NT and one Windows 2000 machines with an older version of 7.0.1 of the anti-virus software; one PC that had definition files dated 8/8/2001; and one PC running F-Secure Anti Virus Software; - Reliance was being placed on the configuration of the network equipment to protect the Council’s network. There was no monitoring or intrusion detection tool in place; - When a virus is detected by the Anti-Virus software on a user’s PC, the user is informed of this by

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
	<p>an automatic message. The user is then required to contact the IT Helpdesk – it is understood however that invariably this does not happen. The icon on the workstation on the Symantec System Centre Console changes to indicate an infection. There is no automatic alert or message sent to 3rd/4th line support nor is the console actively monitored for changes in icons;</p> <ul style="list-style-type: none"> - Although users are required to report virus infections, this invariably does not happen. There was no logging of infections and therefore no review performed to identify persistent offenders or PCs.
<p><u>Acolaid Applications Review (Planning, Building Control, Licensing)</u></p> <p>The objective of the review was to evaluate the controls in place to ensure the security and integrity of the system.</p> <p>All of the 8 recommendations made were accepted for implementation by management.</p>	<p>The main issues arising from the review were as follows:</p> <ul style="list-style-type: none"> - Although the majority of users enter a password to access the system, there were no system enforced password controls in place; - Although users are required to complete a Network Security Form, there was no formal documented user administration procedure in place; - Our review of the list of users indicated that there were users defined in the Network as well as in Acolaid but who had not logged on for over two and a half years; In addition, there were users still defined to Acolaid since April 1999 who had either left the employment of the Council or who had not logged on to Acolaid for considerable periods of time; - There were no security violation logs produced within the system; - No review had been performed of the access levels of individuals and there was no process in place for a periodic review; - Users with “Supervisory” rights have the ability to delete cases; - Although validation checks are in place or input is via a selection from a drop down menu, there are areas of data entry where validation was not being performed. For example, in the Planning Db, there is no validation performed on the date in “Reception Date”, “Application Date” and “Decision Date”. A future date was entered and was accepted; - Although there was a draft Disaster Recovery Plan, it had however yet to be tested and approved;

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><u>Business Continuity Planning Review</u></p> <p>The objective of this review was to evaluate the adequacy and effectiveness of the controls in place to ensure that the Business Continuity arrangements are adequate.</p> <p>Most of the recommendations arising from this review have been accepted for implementation. A high level group has been convened to drive the recommendations forward.</p>	<p>The main issues arising from the review are summarised as follows:</p> <ul style="list-style-type: none"> - While each service area had their individual Business Continuity Plans (BCP), there was however no single BCP in place for the Council encompassing all service areas and there was no documented BCP; - There had been no formal risk assessment carried out concerning Business Continuity; - It was noted that the individual service areas had simply indicated what in their views the critical systems were in terms of the Authority. Although work was in progress to produce service continuity plans and Business Continuity Plans, there were still at individual system and service area levels and not at a Corporate Level of what the Authority regards as its key systems and priorities; - No evaluation had been undertaken on how long the Authority could survive service without its key services. Service continuation work was being undertaken to determine how long the Authority could survive without critical IT systems. However this had not been translated into appropriate back-up and disaster recovery arrangement; - There did not appear to be a designated overall officer with responsibility for the Business Continuity Plan;

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><u>Review of Registers of Interests and Gifts & Hospitality - Officers</u></p> <p>The purpose of this review was to provide assurance that the Council has put in place adequate controls across all of its service areas to protect officers against corrupt influences and/or give the appearance of improper influences in a way that could damage public confidence in the Council.</p> <p>Internal Audit made 12 recommendations in all with the proviso that Human Resources and Diversity take the lead on the implementation of these recommendations. We are still awaiting a response from the unit director.</p>	<p>Our overall opinion was that the controls across the Council were not effective in relation to the declaration and recording of officers' interests and gifts and hospitality.</p> <p>The main issues raised were as follows:</p> <p><u>Registers of Interests'</u></p> <ul style="list-style-type: none"> - None of the service areas maintained registers of officers' interests as required by the Human Resources Standards. They did however keep a copy of the declaration of interests forms completed by officers in their personnel files; - Of a sample of 188 officers selected from across all service areas, we were unable to find any declaration of interest forms for 75 officers either in the officers' personnel files or in the central file maintained by the Human Resources & Diversity Unit; - There appeared to be no checks by senior officers to ensure that the declarations of interests' forms had been properly completed. The forms were not signed as evidence of such a review being undertaken; - Of a sample of 20 employees who had been upgraded to PO1 and above, we were unable to locate declaration of interests' forms for 8 of the officers in the sample either in their personnel files or in the central file maintained by the Human Resources and Diversity Unit; - There appeared to be no formal mechanisms in place to proactively require officers' to periodically update their declarations of interests; - There appeared to be no checks undertaken by managers to ensure that duties and responsibilities assigned to officers do not represent potential conflicts of interests. Reliance is placed on the officers to make appropriate declarations. This was in our view inadequate; - There were no formal mechanism in place for officers graded Scale 6 and above and who want to work for other business or voluntary organisations whilst employed by the Council to obtain prior permission from their managers.

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p>Review of Register of Interests and Gifts and Hospitality - Officers</p>	<p><u>Gifts & Hospitality</u></p> <ul style="list-style-type: none"> - There were no detailed guidance, procedures or standardised documentation for declaring and recording gifts and hospitality as a point of reference for all service areas; - There were inconsistencies in the format of registers of gifts and hospitality maintained across all service areas. Some were kept in the form of a bound book, while others are kept in loose leaf format; - Registers of gifts and hospitality did not appear to be promptly updated or completed in a number of service areas;

B.

FINANCIAL AUDITS & REVIEW OF INTERNAL FINANCIAL CONTROLS

The main objectives of these audits were:

- to ensure that the financial statements of the units show a true and fair view of its state of affairs at the year-end (31 March 2004);
- to ensure that expenditure incurred by the unit is reasonable bearing in mind the services provided by it;
- to ensure that management of the unit has implemented adequate financial and management controls to safeguard the Council's assets and to ensure the efficient, effective and economical use of resources.

Internal Audit undertook financial audits in 17 service units across all of the Authority's Service Areas.

MAIN FINDINGS

While there were 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 in some units.

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

1. The levels of technical skills of some finance officers were insufficient to address the accounting needs of their units;
2. Non-compliance with Financial Regulations in some areas (e.g. the write-off of bad debts without appropriate authorisation or the lack of evidence that adequate steps had been taken to recover such debts prior to their being written off; schedules of valuable assets not being maintained; inadequate controls over banking and cash collection).
3. Payments were still being made by some units to self-employed persons without appropriate verification of the tax status of such persons – this could result in financial loss to authority in the form of fines and penalties and payments for taxes and NIC not deducted at source.
4. Unrealisable assets (old debts) in the books of a number of units and which were not supported by documentary evidence. In a number of units, we found that such debts were not always being properly provided for, even where it was clear that they were unlikely to be recovered.
5. The failure of management to implement internal audit recommendations to which they had agreed within a reasonable period of time – and thus the need of having to repeat the same recommendations after each annual audit.
6. There continued to be control weaknesses in the following areas: lack of adequate segregation of duties; incorrect classification of general ledger expenses; some bank accounts in some units not being reconciled monthly in line with Financial Regulations and as an internal control mechanism; weaknesses in controls around the processing of payments and authorisation of petty cash transactions; payroll statements not reviewed by senior officers or signed as evidence of review; poor or inadequate audit trail.

C. SCHOOL AUDITS

The main objectives of these audits were:

- to ensure that the financial statements of the units show a true and fair view of its state of affairs at the year-end (31 March 2004);
- to ensure that expenditure incurred by the unit is reasonable bearing in mind the services provided by it;
- to ensure that the Headteacher and governing body of the school have implemented adequate financial and management controls to safeguard the Council's assets and to ensure the efficient, effective and economical use of resources.

We made appropriate recommendations to address the control weaknesses identified within our reports. Head Teachers and Governing Bodies continue to indicate that they have difficulties in implementing some of the recommendations. It is our opinion that the failure to implement our audit recommendations increases the risks of public funds being misused and assets not being properly safeguarded

MAIN FINDINGS

Internal Audit found that internal controls were, in the main, operating effectively in ten of the twelve schools. There were some weaknesses within these schools, some of which were common to a number of schools. IN two schools, controls were found to be inadequate. Some common themes were identified:

- 11 of 12 schools had control issues concerning their unofficial fund. These ranged from inadequate record keeping to a lack of independent audit.
- In 6 schools, weaknesses existed in controls over petty cash accounts: some reimbursements were not supported by adequate documentary evidence of expenses (i.e. a valid receipt); inadequate segregation of duties with reimbursements being authorised by the person who was being reimbursed; and reimbursements not properly authorised.
- Security arrangements for cash receipts were inadequate in 4 schools.
- Fixed asset registers or records of valuable assets were not maintained in 2 schools and in a further 7 they were considered to be insufficient in detail.
- In 7 of 12 schools there were issues regarding the control of income. In some schools no formal lettings policies or agreements existed and income records were inadequate.
- In 7 schools, control issues over the certification of invoices were found. These ranged from inadequate authorisation to missing documentation.

MAIN FINDINGS

- A common theme in all schools is the lack of personnel records held at the school. It is common practice for prime records to be retained by the LEA with regard to recruitment. Internal Audit consider that it would be good practice for schools to retain copies of relevant personnel documentation, such as application forms, CRB checks and starter notifications.
- In 4 schools there were concerns regarding the application of the Construction Industry Scheme and Employment Status regulations for individuals.