

**REPORT BY THE HEAD OF AUDIT & INVESTIGATIONS TO THE AUDIT COMMITTEE ON THE KEY FINDINGS ARISING FROM THE WORK UNDERTAKEN BY INTERNAL AUDIT IN THE 2006/07 FINANCIAL YEAR**

This report summarises the key findings arising from internal audit work undertaken as part of the 2006/07 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.

**Audit Assurance Statements**

In order to assist members with the terminology in our reports:

a) We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
<b>Satisfactory Assurance</b>	While there is a basically sound system, there are weaknesses which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited Assurance</b>	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
<b>No Assurance</b>	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

**Recommendations**

b) We categorise our **recommendations** according to their level of priority.

<b>Priority 1</b>	Major issues for the attention of senior management.
<b>Priority 2</b>	Other recommendations for operating management action.
<b>Priority 3</b>	Minor issues.

Detailed below is a summary of the main findings and recommendations made for the audits completed in the 2005/06 financial year.

**A. SYSTEMS AUDITS**

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><b>1. <u>SX3 (Northgate) Unix Operating System Audit</u></b></p> <p>The purpose of the audit was to examine and evaluate the efficiency and effectiveness of controls in operation within and surrounding the Unix operating system platform supporting the SX3 (Northgate) Application.</p> <p>Audit work undertaken included a review of system wide security policies; trusted users; use of FTP; Analysis of Usernames; analysis of groups; login script file; world writeable files; SUID Permissions; SGID permissions; network services; trusted hosts and disaster recovery arrangements.</p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues arising from the audit were:</p> <ul style="list-style-type: none"> <li>▪ Some improvement to password controls needed, concerning periodic changes.</li> <li>▪ Improved lock out process required.</li> <li>▪ The system had some vulnerabilities from unauthorised external access.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 0          Priority Two 2: 6          Priority Three: 2</p>
<p><b>2. <u>Council Tax Application Review</u></b></p> <p>The purpose of the audit was to examine and evaluate the efficiency and effectiveness of controls in operation within and surrounding the corporate data network.</p> <p>Areas covered in the review included</p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues arising from the audit were:</p> <ul style="list-style-type: none"> <li>▪ Some improvements required to the logging of systems activity and audit trail</li> </ul> <p><b>Recommendations:</b>                      Priority One: 0          Priority Two 2: 2          Priority Three: 0</p>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p>access controls; data input; data processing; output; interface controls; management trail; backup and recovery.</p>	
<p><b>3. <u>BankLine Application Audit</u></b></p> <p>The NatWest BankLine Application System is the Council’s On-Line corporate payments system. BankLine is responsible for the processing of transactions for all of the Council’s corporate payments and inter-account transfers.</p> <p>The purpose of the audit was to examine and evaluate the efficiency and effectiveness of controls in place to ensure that the risks associated with the BankLine Application were being appropriately addressed.</p> <p>Audit work undertaken included a review of access controls; data input; data processing; output; interface controls; management trail; back up and recovery and support arrangements.</p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues arising from the audit were:</p> <ul style="list-style-type: none"> <li>▪ Some improvements were required with regard to user privileges</li> <li>▪ Some improvements were required with regard to the security of paper records</li> <li>▪ Capacity problems were identified with the Server</li> </ul> <p><b>Recommendations:</b>                      Priority One: 0      Priority Two 2: 2      Priority Three: 0</p>
<p><b>4. <u>Northgate SX3 Housing Application</u></b></p> <p>The Northgate SX3 Application is an integrated system that supports amongst others the Housing Rents System. This</p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues arising from the audit were:</p> <ul style="list-style-type: none"> <li>▪ The use of a generic supervisor account</li> <li>▪ Some improvements required to password controls</li> </ul>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><b>system manages some 9400 tenant accounts with the Council.</b></p> <p><b>The purpose of the audit was to examine and evaluate the efficiency and effectiveness of controls in operation within and surrounding the Northgate SX3 Housing Application.</b></p> <p><b>Audit work undertaken included a review of access controls; data input controls; data processing controls; Output controls; interface controls; management trails; back-up and recovery; support arrangements and change control.</b></p>	<ul style="list-style-type: none"> <li>▪ Some improvements required to back up procedures and Business Continuity Plans</li> </ul> <p><b>Recommendations:</b>                      Priority One: 1      Priority Two 2: 6      Priority Three: 0</p>
<p><b>5. <u>IT Procurement</u></b></p> <p><b>The purpose of the audit was to examine and evaluate the efficiency and effectiveness of controls in operation within and surrounding the procurement of Hardware, Software and IT Systems.</b></p> <p><b>Audit work undertaken included a review of the procedure for hardware procurement; software purchasing and procurement procedures and the procedures and methods of the procurement of corporate Systems.</b></p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues arising from the audit were:</p> <ul style="list-style-type: none"> <li>▪ Lack of an overall policy in purchasing</li> <li>▪ Some weaknesses in purchasing procedures</li> </ul> <p><b>Recommendations:</b>                      Priority One: 0      Priority Two 2: 3      Priority Three: 0</p>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><b>6. <u>IT Software Licensing</u></b></p> <p>The purpose of the audit was to examine and evaluate the efficiency and effectiveness of controls in operation within and surrounding Software Licensing.</p> <p>The audit work undertaken included a review of software policies; software inventory; security; software copyright and Software Licensing procurement.</p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues raised were as follows:</p> <ul style="list-style-type: none"> <li>▪ Improvements were needed with regard to the controls over purchasing software, the location of licences and original disks and documentation.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 0      Priority Two 2: 4      Priority Three: 0</p>
<p><b>7. <u>Leasehold Management</u></b></p>	<p><b>Satisfactory Assurance</b> Findings submitted to BHP Board</p>
<p><b>8. <u>Right to Buy (BHP)</u></b></p>	<p><b>Satisfactory Assurance</b> Findings submitted to BHP Board</p>
<p><b>9. <u>Treasury Management</u></b></p>	<p><b>Satisfactory Assurance</b> Findings submitted to BHP Board</p>
<p><b>10. <u>Main Accounting System</u></b></p>	<p><b>Satisfactory Assurance</b> Findings submitted to BHP Board</p>
<p><b>11. <u>Partnerships</u></b></p>	<p><b>Satisfactory Assurance</b> Findings submitted to BHP Board</p>
<p><b>12. <u>Contract Procurement</u></b></p>	<p><b>Satisfactory Assurance</b> Findings submitted to BHP Board</p>
<p><b>13. <u>Voids</u></b></p>	<p><b>Satisfactory Assurance</b> Findings submitted to BHP Board</p>
<p><b>14. <u>Insurance (BHP)</u></b></p>	<p><b>Satisfactory Assurance</b> Findings submitted to BHP Board</p>
<p><b>15. <u>Housing Benefits – Follow-Up</u></b></p> <p>The purpose of this audit was to review</p>	<p><b>Satisfactory Assurance</b></p> <p>The review of the Housing &amp; Council Tax Benefits system was carried out in the 2004/05 financial year.</p>

<b>AUDIT TITLE &amp; OBJECTIVES</b>	<b>MAIN FINDINGS</b>
<p><b>the progress made by Management in the implementation of agreed audit recommendations following our review of the Housing &amp; Council Tax Benefits System in the 2004/05 Financial Year.</b></p>	<p>The final audit report dated June 2006 included an Action Plan with 27 recommendations, 22 of which were accepted for implementation by management.</p> <p>The results of our review were as follows:</p> <ul style="list-style-type: none"> <li>▪ 20 of the 22 agreed recommendations had been implemented and the other 2 were in the process of being implemented at the time of the review.</li> </ul>
<p><b>16. <u>Council Tax – Follow-Up</u></b></p> <p><b>The purpose of this audit was to review the progress made by Management in the implementation of agreed audit recommendations following our review of the Council Tax Systems in the 2004/05 Financial Year.</b></p>	<p><b>Satisfactory Assurance</b></p> <p>The review of the Council Tax system was carried out in the 2004/05 financial year. The final audit report dated March 2006 included an Action Plan with 33 recommendations all of which were accepted for implementation by management.</p> <p>The result of our review were as follows:</p> <ul style="list-style-type: none"> <li>▪ We confirmed that 22 of the 33 agreed recommendations have been fully implemented.</li> <li>▪ One recommendation was in the progress of being implemented at the time of the audit.</li> <li>▪ A further 8 recommendations have been partly implemented and in those cases Management had in our opinion taken action satisfactorily to address the system weaknesses identified.</li> <li>▪ Two recommendations had not been implemented. Management indicated that the reason for this was that it had not been technically feasible to do so. We were satisfied with the explanations that Management provided for not implementing these recommendations and the compensating controls implemented to address the systems weaknesses in relation to these.</li> </ul>
<p><b>17. <u>National Non Domestic Rates (NNDR)</u></b></p> <p><b>The main objective of the audit was to ensure that management have implemented adequate and effective controls over NNDR.</b></p> <p><b>Areas covered in the review included</b></p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues arising from this audit were:</p> <ul style="list-style-type: none"> <li>▪ Of a sample of 12 organisations in receipt of discretionary relief, one had not been approved by the Executive.</li> <li>▪ In 7 of 15 new accounts tested, there was a delay of greater than two months in identifying new occupants and in 5 of these 7 cases, the delay was over 100 days.</li> <li>▪ Improvements were needed in the bank reconciliation process</li> </ul>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p>reconciliation between the debit and valuation list; charitable relief; billing; receipts; suspense accounts; debt recovery action; write-offs; monitoring of collection rates; reconciliation with general ledger; refunds; void allowances and amendments to standing data.</p>	<p><b>Recommendations:</b>                      Priority One: 0      Priority Two 2: 8      Priority Three: 0</p>
<p><b>18. <u>Members Allowances</u></b></p> <p>The main objective of the audit were to give management assurance that controls over members allowances are sound and adequate.</p> <p>The areas covered as part of the review included policies and procedures; instructions issued to members; processing of members' claims; timeliness of submission of claims; review and approval of claims; payment of claims; payroll procedures; budget monitoring and management reporting.</p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues arising from the review were:</p> <ul style="list-style-type: none"> <li>▪ The office procedures manual for the administration of the Members' Allowances Scheme was in our view not sufficiently comprehensive.</li> <li>▪ There was no standard form being used to process members' claims with members' being required to complete a range of different form to reclaim various types of expenses. It was our view that the paperwork needed to be streamlined by the implementation of a standard form.</li> <li>▪ There was no evidence of claim forms and the supporting documentation submitted by members being checked for accuracy prior to being approved for payment.</li> <li>▪ We found a number of instances where members had not submitted their claims for the reimbursement of expenses within the specified time frame.</li> <li>▪ Monthly payroll statements with details of allowances paid to members were not being checked for accuracy.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 5      Priority Two 2: 0      Priority Three: 0</p>
<p><b>19. <u>Cashiers Income Collection</u></b></p> <p>The main objective of the audit was to ensure that management have implemented adequate and effective</p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues arising from the review were:</p> <ul style="list-style-type: none"> <li>▪ A minor improvement was needed in relation to Securicor collection procedures.</li> </ul>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><b>controls over the Cashiers Service.</b></p>	<p><b>Recommendations:</b>                      Priority One: 0      Priority Two 2: 1      Priority Three: 0</p>
<p><b>20. <u>Treasury Management &amp; Investments</u></b></p> <p><b>The main objectives of the audit were to give management assurance that controls over TM &amp; Investments are sound and adequate.</b></p> <p><b>Areas covered as part of the audit included; policies and procedures; compliance with statutory requirements including the Prudential Framework; security and authorisation over processing; loans and borrowings; investments; cashflow forecasting; payment and receipting; reconciliations; management reporting; performance management and data security.</b></p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues arising from the review were:</p> <ul style="list-style-type: none"> <li>▪ The Risk Register needed updating to reflect Treasury Risks</li> <li>▪ Improvements were needed to the cash flow and bank reconciliation processes</li> </ul> <p><b>Recommendations:</b>                      Priority One: 0      Priority Two 2: 10      Priority Three: 0</p>
<p><b>21. <u>Manhattan Property Management System</u></b></p> <p><b>The Manhattan Property Management system is responsible for maintaining a record of all the Council’s property.</b></p> <p><b>The purpose of the audit was to examine and evaluate the efficiency and effectiveness of controls in operation within and surrounding the Manhattan</b></p>	<p><b>Satisfactory Assurance</b></p> <p>The main issues arising fro the audit were:</p> <ul style="list-style-type: none"> <li>▪ Improvements were needed to system administration procedures and password security</li> <li>▪ There are no formal procedures for adding, amending and removing users from the system.</li> <li>▪ Improvements were needed to the audit trail process and back up procedures.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 0      Priority Two 2: 14      Priority Three: 0</p>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><b>Property Management System.</b></p> <p>The audit covered access controls, data input, data processing, Output controls, interface controls, management trail, backup and recovery, support arrangements and change controls/</p>	
<p><b>22. <u>Waste Management</u></b></p> <p>The purpose of this review was to assess the progress made against recommendations raised in the Audit Commission’s Waste Management inspection report of 2004-05.</p>	<p>The Audit Commission initially undertook an inspection of the Council’s waste management Service in 2003. The Council was assessed as being a two star Council in relation to the Waste Management Service and a number of recommendations were raised to address the weaknesses identified. A follow up exercise was undertaken by the Audit Commission in 2004-05 to provide an overview of the progress made against these recommendations. Another report was then issued outlining progress and setting out revised recommendations regarding further action required. The Audit Commission are due to undertake another follow-up inspection in 2007-08.</p> <p>It was our opinion that a number of the recommendations raised by the Audit Commission in its last report have yet to be fully implemented and further actions are therefore required in order to do so.</p> <p>The key issues highlighted by the review are:</p> <ul style="list-style-type: none"> <li>▪ There was a lack of documentary evidence available to verify the implementation of a number of the Audit Commission recommendations. The Council may thus be unable to demonstrate to the Audit Commission that the recommendations originally raised have been implemented.</li> <li>▪ The Municipal Waste Management Strategy needs to be revisited and monitored on a regular basis.</li> <li>▪ A number of strategies, frameworks and procedures have not been finalised, approved or implemented.</li> </ul>
<p><b>23. <u>Local Public Service Agreements (LPSA) – Grant Claim Certification</u></b></p>	<p>The review sought to provide assurance to the Chief Executive and the Head of Audit &amp; Investigations with regards to their certification of the LPSA reward grant claim:</p> <ul style="list-style-type: none"> <li>▪ That management had put in place adequate systems for capturing and reporting the performance data on which the LPSA grant claim was is based;</li> <li>▪ That the performance indicators listed in the schedules supporting the LPSA grant claims were fairly</li> </ul>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
	<p>stated and any reservations were reported.</p> <p><b>Internal audit was able to provide the necessary assurance required to enable the Chief Executive to submit the Council’s Claim for the Performance Reward Grant (£5.134m).</b></p>
<p><b>24. <u>Temporary Accommodation</u></b></p> <p><b>The purpose of this review was to follow up on the progress made against the planned initiatives taken to reduce the number of homeless households in temporary accommodation.</b></p>	<p>In January 2005, the Government published its five year strategy, “<i>Sustainable Communities: Homes for all</i>”, which included a commitment to reduce the overall numbers in temporary accommodation by 50% by the year 2010. This is to be achieved by offering a wider range of homeless prevention measures and increasing access to settled homes.</p> <p>At the time of our previous visit in January 2006, the Council was in the process of formalising a plan designed to achieve the 50% target by 2010. Given that the plan had not been finalised at that time, and hence many of the initiatives were only at the planning stage, a formal assurance report was not issued since we were not in a position to be able to provide an opinion on the adequacy and effectiveness of the controls in place. A summary report was therefore issued outlining those initiatives already in place and those which were planned and hence still to be implemented.</p> <p>We issued a further summary report, outlining progress made against the planned initiatives and updating those that were reported on as being in place previously.</p>
<p><b>25. <u>Library Services</u></b></p> <p><b>The purpose of this review was to provide management with assurance that internal controls designed and placed into operation in the Council’s Libraries were adequate and effective in order to manage financial and non-financial risks. The Audit looked at Willesden Green and Cricklewood Libraries</b></p>	<p><b>Limited Assurance</b></p> <p>The main issues raised were as follows:</p> <ul style="list-style-type: none"> <li>▪ There was a lack of documentation in respect of orders made by libraries outside of the Supplier Selection process. Whilst the Stock Control Unit undertakes checks on cost and budgetary provision, the libraries themselves do not document the reasons for the specific purchases and Library Managers are not required to approve orders.</li> <li>▪ Library Managers do not receive monitoring reports in relation to budgets for purchasing stock outside of the Supplier Selection process.</li> <li>▪ Stocks delivered to two of the Libraries visited are not securely held at all times prior to being scanned onto the system and added to the shelves. There was also no evidence of stock “in transit” reports being regularly reviewed.</li> <li>▪ There is no formal checking of items either prior to disposal or retrospectively following disposal.</li> </ul>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
	<p>Individual librarians are responsible for selecting items for disposal. There is an increased risk that materials are wrongly disposed of that still have value or that items are misappropriated without being detected.</p> <ul style="list-style-type: none"> <li>▪ There is no formal review of fines and charges that have been waived.</li> <li>▪ One of the libraries visited was not following the Cash Handling Procedures in full thus resulting in weaknesses in recording and banking of income.</li> <li>▪ None of the two libraries visited were sure of what the insurance limits are on their safes. On the assumption the limit is £1,000 then one of the libraries weekly income was generally found to exceed this limit.</li> <li>▪ There is no income generation strategy in place for libraries.</li> <li>▪ There is a lack of documentation with regards to the analysis of performance measures, including explanations for cases where targets are not met, and agreed actions for addressing such areas of poor performance.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 0      Priority Two 2: 10      Priority Three: 0</p>
<p><b><u>26. Pensions Implementation Review</u></b></p> <p><b>The purpose of this review was to review the procedures and controls in place relating to the development of an electronic Pensions Payment facility for the Council.</b></p> <p><b>Areas included as part of the review included: Project management; functional specification; Data conversion; acceptance testing; interfaces; security; production environment; documentation; Training programme; Go live; and the implementation Plan.</b></p>	<p><b>Limited Assurance</b></p> <p>The main issues arising from the review were:</p> <ul style="list-style-type: none"> <li>▪ There was at the time of the audit, no formal project management controls in place. There is thus an increased risk that the development will not be completed as required i.e. in terms of functionality, consistency and timeliness.</li> <li>▪ While there was some documentation describing the current arrangements and an overview of the proposed processing, there was no one, cohesive, encompassing document which provided a complete and detailed specification of the whole facility to be developed. There is an increased risk that the facility may be developed and operate in a manner not expected. This could lead to further delays while the “discrepancies” are resolved.</li> <li>▪ The limited descriptive process documentation had not been formally signed off by all parties and not subject to formal change control. There is an increased risk that queries and disputes regarding operational processing may occur, leading to implementation delays whilst disagreements are</li> </ul>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
	<p>resolved.</p> <ul style="list-style-type: none"> <li>▪ At the time of the review only a specification for the Accounting file had been produced and even this had a number of omissions. There is an increased risk that a file structure may be developed that is not acceptable to the receiving system leading to a need for corrections and delay to the project.</li> <li>▪ While some informal testing had been undertaken, our review indicated that it was not based upon a documented test scenario and the results had not been formally recorded. There is thus an increased risk that such testing may not cover all functional aspects and that problems may not be appropriately addressed.</li> <li>▪ We found that the creation of procedural documentation had yet to be finalised. There is an increased risk that incorrect, untimely or inconsistent procedures may be performed.</li> <li>▪ Detailed processing and procedures had yet to be finalised and therefore general user training had also yet to be provided. In the absence of adequate training delays may be encountered if the processes and procedures are not followed.</li> <li>▪ At the time of the review, the “Go Live” Criteria had yet to be determined. There is an increased risk that potentially vital considerations may be overlooked, leading to implementation problems.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 7      Priority Two 2: 4      Priority Three: 0</p>
<p><b>27. <u>Disaster Recovery</u></b></p> <p><b>The purpose of the audit was to examine and evaluate the efficiency and effectiveness of controls in operation within and surrounding the Disaster Recovery Plan for the Council’s IT Systems.</b></p> <p><b>Audit work undertaken included a review of critical business functions; disaster risk assessment; contact details; disaster escalation procedures; emergency action</b></p>	<p><b>Limited Assurance.</b></p> <p>The main issues arising from the review were:</p> <ul style="list-style-type: none"> <li>▪ A formal Disaster Recovery Plan for the network and critical systems is required although it was noted that several projects are already underway to facilitate adequate recovery.</li> <li>▪ A review of the list of critical systems was required</li> <li>▪ Improvements were needed to the testing of particular systems</li> </ul> <p><b>Recommendations:</b>                      Priority One: 1      Priority Two 2: 4      Priority Three: 0</p>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p>procedures; salvage procedures; disaster recovery procedures; temporary arrangements; finance provisions; disaster recovery plan testing and data backup</p>	
<p>28. <u>Rent Arrears</u></p>	<p><b>Limited Assurance</b> Findings submitted to the BHP Board</p>
<p>29. <u>Criminal Record Bureau Disclosure Checks</u></p> <p>The review was undertaken to ensure that the Council has put in place appropriate systems of control which minimise the risk of harm to children and vulnerable adults in its care and the subsequent reputation damage inherent in any failure of child/vulnerable adult protection procedures.</p>	<p><b>Limited Assurance</b></p> <p>The main issues arising from the review were as follows:</p> <ul style="list-style-type: none"> <li>▪ A corporate policy is required covering CRB checks</li> <li>▪ Some service areas were checking posts which may not be subject to check</li> <li>▪ There was a wide variance across service areas in the level of compliance with the CRB Code of Practice. There was some good practice which in our view could form the basis of a Corporate Policy.</li> <li>▪ Some improvements were needed in the checking of identity of staff subject to a check.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 8      Priority Two 2: 3      Priority Three: 6</p>
<p>30. <u>Receivership &amp; Appointeeship</u></p> <p>The purpose of this review was to provide management with assurance that internal controls designed and placed into operation in the Council's Libraries were adequate and effective in order to manage financial and non-financial risks.</p>	<p><b>Limited Assurance</b></p> <p>The main issues arising from the review were:</p> <ul style="list-style-type: none"> <li>▪ Procedures had not been reviewed since 2001.</li> <li>▪ Receivership Referral Forms had not been completed for all clients for the sample tested.</li> <li>▪ There was no evidence of notification to creditors of change of address on some client files.</li> <li>▪ The safe was inadequately insured.</li> <li>▪ There was no evidence on file as proof of client bank accounts being closed.</li> <li>▪ Sample reviews of client files were not being undertaken on a periodic basis to check the validity and</li> </ul>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
	<p>appropriateness of client expenditure incurred.</p> <ul style="list-style-type: none"> <li>▪ No reconciliations were being completed between the Court of Protection’s annual financial statement of the client’s fund and the Council’s own records of the client’s fund.</li> <li>▪ Reconciliations of each individual clients were not being undertaken to confirm that all income due had been received.</li> <li>▪ The Receivership bank account is currently a non-interest bearing account. .</li> <li>▪ The Tax Returns for clients for the 2005/06 financial year had not been completed although the clients would be responsible for the payment of any penalties imposed by the Revenue as a result of delays in submitting tax returns. Where Tax Returns are not submitted on time, the Council will be subject to financial penalties.</li> <li>▪ There was no evidence of the annual Court of Protection returns being reviewed by another officer prior to submission.</li> <li>▪ Reconciliations between the expenditure made from the Social care main account and the funds within the Appointeeship bank account had not been completed during the course of the year. In addition the 2005/06 reconciliation had still to be completed.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 4          Priority Two 2: 8          Priority Three: 0</p>
<p><b>31. <u>Income Collection Registrars</u></b></p> <p><b>The main objective of the audit was to ensure that management have implemented adequate and effective controls over income collected by the Registrars Service.</b></p> <p><b>The areas covered as part of the review included: policies and procedures; income collection; processing and recording of income; reconciliations; cash</b></p>	<p><b>Limited Assurance</b></p> <p>The main issues arising were:</p> <ul style="list-style-type: none"> <li>▪ The income procedures manual which was still in draft at the time of the audit was in our view inadequate and needed to be amended to reflect other financial systems and procedures within the service.</li> <li>▪ We were concerned that the cash till used within the general office did not have a facility for using till rolls.</li> <li>▪ Controls over cash handling were in our view inadequate. A number of officers could be responsible for manning the tills at any time during the day without being required to sign in or out of the system.</li> <li>▪ There was a lack of segregation of duties between officers responsible for the collection, recording, banking and reconciliation of income.</li> </ul>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
<p><b>handling; banking; physical security of income; accounting and information systems.</b></p>	<ul style="list-style-type: none"> <li>▪ The Registrars Service only issues receipts for non-statutory income this in spite of Financial Regulations requiring pre-numbered receipts be issued for all income.</li> <li>▪ The income reconciliation process in our view lacked clarity and needed to be improved. Monthly bank reconciliations were not being signed off by a senior officer as evidence of review.</li> <li>▪ We raised concerns over the lack of physical security over cash. We were particularly concerned about the number of officers with access to the walk in safe where cash and cheques are kept prior to being banked and the lack of security over cash tins in the general office.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 37      Priority Two 2: 0      Priority Three: 0</p>
<p><b>32. <u>Direct Payments – Social Care</u></b></p> <p><b>The main objective of the audit was to ensure that management have implemented adequate and effective controls over Direct payments made in respect of Social Care.</b></p> <p><b>The areas covered as part of the review included eligibility; assessment of clients ability to manage their own home care services; care plans; assessment and collection of contributions from clients; review of appropriateness of arrangements and continuing eligibility; review of financial returns form clients; monitoring arrangements; budgetary control.</b></p>	<p><b>Limited Assurance</b></p> <p>The main issues arising from the review were:</p> <ul style="list-style-type: none"> <li>▪ Documentation maintained by the Fairer Charging Team was often incomplete and inconsistent. As a result we were unable to verify the efficacy of direct payments made to clients or the assessments of their financial contributions.</li> <li>▪ Our review indicated that nearly all of the clients had been assessed at a nil contribution. In one case where the client was required to make a contribution, there was no evidence that any contribution has been paid.</li> <li>▪ Payments made to clients in some instances differed from the amounts shown on legal agreements and direct payment authorisations held on file. There was no documentary evidence on the files reviewed to support these changes in payments.</li> <li>▪ In a number of cases where clients had been in receipt of direct payments for more than 12 months, there was no evidence on file to indicate that these clients' care packages had been subject to an annual review as prescribed by the Council's policy on direct payments.</li> <li>▪ We found no evidence for some of the client files reviewed that these clients had provided the Fairer Charging Team with documentary evidence of expenditure incurred by them.</li> <li>▪ Except in one case it was difficult to determine from file notes whether clients had been requested to confirm whether or not they were employing friends or relatives to provide care and support</li> </ul>

AUDIT TITLE & OBJECTIVES	MAIN FINDINGS
	<p>packages.</p> <ul style="list-style-type: none"> <li>▪ We found in many cases that there was insufficient information on client files to verify whether clients had paid over to the Inland Revenue the carers' PAYE and employers and employees NIC.</li> <li>▪ We were concerned that many clients had not provided copies of bank statements to enable the Fairer Charging Team to verify that the direct payments made to them have been properly utilised.</li> <li>▪ Changes had been made to service requirements and contract sums agreed with one trust had not been formally incorporated in the formal contract document</li> <li>▪ The contract sum for one trust includes an "on cost" charge which is a flat rate contribution calculated at 20% of the costs directly attributable to the services provided by the Council. There is in our view no financial information currently provided by the trust to justify this charge.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 27      Priority Two 2: 0      Priority Three: 0</p>
<p><b><u>33. Parking Enforcement Contract – Environment &amp; Culture</u></b></p> <p><b>The purpose of this review was to provide management with assurance that internal controls designed and placed into operation over the monitoring of the Parking Enforcement contract were adequate and effective in order to manage financial and non-financial risks.</b></p> <p><b>The areas covered as part of the audit included; responsibility for contract management and monitoring; receipt of performance information from Contractor; Analysis of performance information; monitoring meetings; site visits; follow-up action (including liquidated damages) and</b></p>	<p><b>Limited Assurance</b></p> <p>The main issues arising from the review were:</p> <ul style="list-style-type: none"> <li>▪ The contract with Central Parking Systems had not yet been signed by both parties.</li> <li>▪ There were no documented contract monitoring procedures in place.</li> <li>▪ Although the Parking Manager receives monthly performance reports, there is limited evidence of reports being reviewed and evidence held is not retained on file.</li> <li>▪ While monthly performance meetings are being held with the contractor, there was no evidence of performance reports being discussed at these meetings.</li> <li>▪ Progress made against actions agreed at monthly meetings is not documented. It was therefore unclear whether these were being adequately followed up on a timely basis.</li> <li>▪ Whilst visits to parking meters are being undertaken, general site visits are not currently carried out as part of the monitoring of the contractor.</li> </ul> <p><b>Recommendations:</b>                      Priority One: 6      Priority Two 2: 0      Priority Three: 0</p>

<b>AUDIT TITLE &amp; OBJECTIVES</b>	<b>MAIN FINDINGS</b>
contract payments.	

**C. SCHOOL AUDITS**

The main objectives of these audits were:

- To ensure compliance with statutory requirements, financial regulations, council policy and other relevant codes of practice;
- To evaluate the internal control environment to determine the extent to which controls promote compliance with statutory requirements, policies and procedures prescribed in Financial Regulations and other policies in respect of schools;
- 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.

**MAIN FINDINGS**

Internal Audit found that in the majority of schools visited, some areas of internal control were unsatisfactory. Our reviews indicate common themes and areas where controls needed to be strengthened or implemented across the range of schools:

- Some specific regulations or requirements of the Financial Regulations for schools are not being complied with.
- Of the sixteen schools (including 2 Pupil Referral Units) visited the majority had in the main adequate governance arrangements in place. However although 7 of Schools indicated the existence of registers of business interests of the Governing body, the headteacher and other staff involved in making financial decisions at the School, we were unable to confirm the existence of these because they were not maintained at the School and thus not available for our review. 6 of the schools did not maintain a Register of Interest of either governors or staff involved in making financial decisions, while in the 3 of the 16 schools registers were found to be incomplete.
- 14 of the schools we visited did not have formally documented financial policies, systems and procedures in place, with only two having written procedures.
- None of schools had business continuity plans in place and some had in fact never heard of such a plan. It is our view that the Council should do more to assist schools with ensuring that proper arrangements are in place as part of its responsibilities under the Civil Contingencies Act.
- Eight of the schools did not have a Whistleblowing policy in place and neither had they taken steps to adopt the Council's.
- We were pleased to note that 12 of the school had adequate budgetary control and financial management arrangements in place. However in 4 of the schools we found controls in this area to be weak and needed to be strengthened. For example in some schools, payroll costs were not being entered on the schools accounting systems on a timely basis and thus the information being used for budget monitoring and control purposes was often inaccurate. Other transactions were also not recorded on the accounting system on a timely basis thus resulting in figures used for budget monitoring and controls not being up to date.
- We were pleased to note that the majority of schools were undertaking monthly reconciliations of their official bank accounts (although the regular reconciliation of unofficial fund bank accounts was generally non-existent) they were however not always reviewed by either

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the head teacher or a delegated officer to ensure accuracy and completeness.

- In a small number of schools, there was a lack of documentary evidence of monthly bank reconciliations. This is because some schools were not retaining copies of monthly reconciliations and the supporting schedules as evidence that a reconciliation had been undertaken.
- There were weaknesses in controls over petty cash accounts in a number of schools: 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 being properly authorised.
- In some schools records maintained for petty cash transactions were considered to be inadequate. Proper petty cash vouchers were often not being used to record petty cash transactions and persons receiving reimbursements were not always required to sign the relevant vouchers as evidence of receipt. In some schools, VAT was sometimes not being claimed on petty cash expenses despite the expenses being VATable.
- In a number of schools, although cash limits had been set on how much could be reimbursed through the petty cash account, we however noted instances where these limits had not been complied with, thus rendering petty cash policies ineffective.
- Regular cash counts are not being carried out in a number of schools and petty cash accounts are not being reconciled on a regular basis. Where cash counts were undertaken, these were often not undertaken in the presence of another officer nor were details of such counts retained. Where petty cash reconciliations were being undertaken, no evidence of these reconciliations as they were often not being retained in some schools.
- In a number of schools, we were concerned to note that large amounts of cash (over £1,000) were often kept on school premises for substantial periods without prompt banking.
- In a small number of the schools which were subject to audit, cash security arrangements were considered to be inadequate. Some schools had no proper safes and cash was often simply kept a drawer or filing cabinet. Even where schools had proper safes, access to these was often not restricted to authorised personnel only.
- We were concerned about the number of schools where official orders were not raised for the purchase of non-utility goods/services. In others, where purchase orders were raised; they were not always approved by an authorised signatory.
- In a number of schools invoices were not being checked for arithmetical accuracy prior to being passed for payment; proper certification grid stamps were often not used to indicate appropriate checks had been carried out and more worrying, in a number of schools, invoices were not being authorised for payment prior to being made.
- Some schools did not have a list of authorised signatories with the authority to approve orders or pay invoices despite the fact that Financial Regulations require headteachers to establish “a scheme of authorisation identifying officers authorised to act on their behalf in respect of payments, income collection and placing of orders”.
- In a minority of schools some accounting records were not being retained for periods of at least six years in line with statutory requirements and Council policy.
- In 2 of the schools visited, we were often unable to find some supplier invoices to support expenditure posted to the school's books of

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account.

- In the majority of schools, there were weaknesses in controls over the collection of income (in particular school meals income, income from school journeys, misc. income and lettings). There were often inadequate controls over the recording of income received and the vast majority of schools do not issue receipts when income especially cash is collected. In some schools, the audit trail with regards to income was poor and it was often difficult to trace transactions from source records to bankings. In some schools documentary evidence to support income received was often not available for review thus making it difficult to substantiate income.
- Some schools either did not have a formal lettings policy; others were considered to be inadequate because they were not sufficiently comprehensive; and in the majority of schools controls over lettings income was considered to be weak. This was mainly because schools did not maintain a proper accounts receivable system and it was thus often difficult to reconcile lettings income recorded in the financial statements to amounts recorded on the lettings register.
- We were concerned to note in some schools that no formal lettings agreements had been signed by both the school and the hirers regarding the terms and condition of the hire thus increasing the risk that in the case of disputes there would be no terms to refer to.
- Some schools had no list of standard hire charges and in some charges were often not being reviewed annually by governing bodies.
- For the majority of schools visited, fixed asset registers or records of valuable assets were being maintained, though not by every school. The formats of these registers were often in our view, inadequate as they did not include details such as the date of purchase, cost, serial number etc. of the assets.
- Where schools did maintain a fixed assets register, some of these were not being updated on a regular basis. Annual inventory checks against physical assets were also not being undertaken in the majority of schools in line with Financial Regulations.
- Valuable and moveable assets such as laptop computers, projectors and digital cameras were often not security tagged and there were little or no controls over the usage and movement of such assets. For example there were often no requirements to sign such items in and out as a means of ensuring some degree of accountability for such assets.
- In some schools, the standard of stewardship for unofficial funds accounts was often not up to the same standard as for official funds. For example in some schools unofficial fund accounts cash books were poorly maintained; bank accounts were not reconciled monthly; some schools only had a single signatory for the unofficial fund bank accounts rather than the required two signatories.
- In the majority of the schools, unofficial funds were not being audited annually by an independent party in line with requirements. In some other schools where the funds had been audited, they had not been presented to the governing body for approval.
- Unofficial funds with annual income of £1,000 or more were not registered with the Charity Commission in line with Charity Commission requirements. None of the schools appeared to be aware of the requirement to do so.
- In 14 of the schools (PRUs not included) the aims and spending objectives of the unofficial funds had yet to be formally determined by the governing body, thus resulting in some funds not being utilised for significant periods of time or for the purpose for which they were intended.
- Of the 16 schools subject to audit, we raised concerns about the standard of information on personnel file. Personnel records maintained

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at these schools often did not have sufficient information or the information held on them was often inconsistent.

- In the majority of schools we were pleased to note that the majority of permanent staff have had CRB Disclosure checks undertaken. However in the vast majority of schools visited and who use external agencies to hire agency staff, we were concerned to note that some of the schools were not requesting for evidence of CRB checks being undertaken on all such staff.
- The majority of the schools visited were found to have entered into leasing/financing agreements for equipment without the approval of the Director of Finance prior to entering into such agreements. We were concerned to note that some headteachers appeared to be unaware of this requirement although it is clearly indicated in Financial Regulations.
- We were pleased to note that of the schools visited that 11 were complying with CIS regulations. A few however (5) were not. More specifically these schools were found to have made payments directly to contractors for construction work even where the labour elements on invoices were over the £1,000 limit set for schools, rather than passing on such invoices to the Council for payment. In a number of instances, some schools were not even requesting that the contractor separately indicate the labour element in invoices.
- In a number of schools, payments were being made directly to individuals through the school's bank account instead of being processed through the payroll system. More worrying, discussions with some schools indicated that no steps had been taken to verify the tax status of such persons prior to making payments to them without the deduction of tax at source.
- While the majority of schools had adequate security arrangements in place, in some schools, these arrangements needed to be strengthened by ensuring that access to the school premises was being properly monitored.
- While there were adequate procedures in place for backing up the data on their computer systems, we were however concerned to note that a number of schools retained these back-ups on the school premises rather than off-site.
- Of the 16 schools audited, we were concerned that the majority were either unaware of the requirements of the Data Protection Act 1998 and the requirement to register with the Information Commissioner as data controllers.