

OVERVIEW

A total of 37 reports were issued as a result of reviews undertaken as part of the 2005-06 Audit Plan. Of these 2 were green reports indicating low risk areas, 21 were amber reports indicating medium risk areas in need of attention to prevent them becoming high risk, and 6 were red reports indicating systems/functions/establishments that represent a high risk to the authority needing immediate attention to improve the control environment. The remaining 8 reports were not subjected to traffic-lighting as they were reviews of core financial systems or covered proposals for a new system.

During 2005-06, 34 suspected financial irregularities were reported to Internal Audit (see Appendix B). Investigations into many of these issues have been concluded with no identifiable loss to the Council.

During the year work undertaken by the Internal Audit Team conformed with the section's Terms of Reference and the CIPFA Code of Practice.

AUDIT OF CORE FINANCIAL SYSTEMS – UPDATED REPORTED

Introduction

Internal Audit undertook a key control review on the following systems as part of the agreed approach to the audit of the Council's core financial systems for the financial year 2004/2005:

- Non-domestic Rates (NDR)
- Creditors

In addition follow-up reviews were undertaken on the following systems:

- Council Tax
- Debtors
- Housing Benefits
- Housing Rents
- Payroll

The testing strategy used for the reviews was based on CIPFA Control Matrices and also agreed with the external auditors for reliance purposes. A minimum sample size of 24 (2 transactions per month) was used from 2004/2005 financial records for the full reviews and a minimum sample of 2 transactions per month from the implementation of the agreed action for follow-up reviews to confirm the application of key controls.

It was identified that legislative changes were identified in 2004/05 in relation to both council tax and NDR which impacted on the systems' processes.

Overview

Of a total of 65 key controls reviewed 44 (68%) were operating satisfactorily, 18 (28%) were partially operating and 3 (4%) were not operating. The position for each system reviewed is shown below (excluding Payroll as this involved a follow-up review for the second year running), figures in brackets relate to 2003/2004:

Table 1

SYSTEM	NUMBER OF CONTROLS	FULLY OPERATING	PARTIALLY OPERATING	NOT OPERATING	OVERALL RATING
Housing Benefit	10 (10)	90% (80%)	10% (20%)	(0%)	95% (90%)
Debtors	14 (14)	86% (79%)	7% (7%)	7% (14%)	89% (82%)
Council Tax	9 (9)	67% (56%)	33% (44%)	0% (0%)	83% (78%)
Housing Rents	10 (10)	60% (50%)	40% (50%)	0% (0%)	80% (75%)
Creditors	10 (9)	60% (44%)	40% (44%)	0% (12%)	80% (67%)
NDR	12 (12)	42% (33%)	42% (58%)	16% (9%)	63% (63%)
Overall	65 (64)	68% (58%)	28% (36%)	4% (6%)	82% (76%)

For follow-up reviews it has been assumed that controls operating in 2003/2004 are still operating satisfactorily to enable comparisons to be made year on year; in all of the systems reviewed the percentage of controls fully operating increased. As a result the overall rating has improved from 76% to 82%.

Follow-up of 2003/2004 Recommendations

Recommendations made in 2003/2004, all of which were agreed by management, were followed-up as part of the 2004/2005 reviews. The position for each system reviewed is shown below:

Table 2

SYSTEM	NUMBER OF RELEVANT RECS	FULLY IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED
Housing Benefit	5	40% (2)	40% (2)	20% (1)
Debtors	3	33% (1)	33% (1)	33% (1)
Council Tax	7	29% (2)	29% (2)	42% (3)
Housing Rents	13	38% (5)	31% (4)	31% (4)
Creditors	6	83% (5)	17% (1)	0% (0)
NDR	8	25% (2)	37.5% (3)	37.5% (3)
Payroll	5	40% (2)	60% (3)	0% (0)
Overall	47	40% (19)	34% (16)	26% (12)

For the second year running the level of implementation of recommendations is low. This was raised by the External Auditor in the 2003/04 audit and is likely to be raised again this year. To pre-empt the situation arising again in 2005/2006 an earlier follow-up regime WAS introduced in December 2005 and outstanding actions dealt with prior to the annual key control reviews.

Key Strengths

The systems with the highest level of controls operating satisfactorily were found to be the same as for 2003/2004, Housing Benefit (95%) and Debtors (89%) and within the Housing Benefit, Creditors, Council Tax and Housing Rents systems all key controls were either operating satisfactorily or partially.

An adequate separation of duties was found to be operating, where appropriate in all but one of the core financial systems (Creditors as per 2002/2003 & 2003/2004) and the majority are regularly reconciled to the main accounting system.

Key Weaknesses

The system with the lowest level of key controls operating satisfactorily was found to be NDR (42%). The most significant weaknesses relate to the fact that the rateable value is not reconciled to the valuation list; inspection visits were not made in all cases to confirm the granting of empty property relief, and the Revenues suspense account does not accurately reflect the number of items in suspense at any one time.

A total of 35 recommendations were made to address the weaknesses identified and to assist management the recommendations are rated according to risk. Of the 35 recommendations made 22 (63%) were deemed category 1 risks, 10 (28.5%) were deemed category 2 risks and 3 (8.5%) were deemed category 3 risks.

Management have agreed all recommendations.

Reliance

The Authority's External Auditor's, Deloitte & Touche, placed reliance on the work undertaken by Internal Audit in relation to the Authority's core financial systems.

CORPORATE REVIEWS

The following work was undertaken:

Line Management Assurance – a review to develop and pilot a system for line management assurance. The report summarised legislative requirements and CIPFA guidance and presented options for line management assurance to the Corporate Governance Group for consideration and agreement. The system was successfully implemented across the council during April and May 2006 to feed into the 2005/06 Statement on Internal Control (SIC). Results of the exercise have been reported separately to the Audit Committee.

Housing Repairs Partnership – a review of the arrangements in place for monitoring the Housing Repairs contract and delivery services to the required quality and price. This was a red report. 26% of the expected controls were found to be in place and operating effectively with a further 26% partially operating. Major weaknesses were identified which represent a high risk to the Council and which need immediate attention to improve the control environment. These weaknesses include there is no written contract with the partnering contractors, inspection regimes are not properly implemented and followed up by management, spreadsheets of completed works submitted by contractors are not reconciled to invoiced amounts, invoices are not checked before being authorised for payment, financial values are not recorded on the Anite system resulting in no financial information being available from the system for budgetary control purposes, and it could not be confirmed that quality monitoring is undertaken. An action plan is in the process of being agreed and once finalised, the reported will be escalated to the Committee.

In addition, this review followed-up the implementation of recommendations arising from the management investigation undertaken in 2004 into the suspected financial irregularity. Neither the temporary Head of Housing or the Service Manager responsible for the Housing Repairs Section had seen the report arising from this investigation undertaken by the Group Manager Exchequer and were therefore unaware of the 30 recommendations arising from the report. However it was reported that action had been taken to address 6 of the recommendations made, and action, was agreed with the temporary Head of Housing and the Service Manager to address the remaining 13 recommendations directly relating to the work of the Housing Repairs Section. The remaining 11 recommendations relate to the processes followed in the letting of the partnering contract. It was reported that these should be addressed by the introduction of the Harrow Integrated Property Services Partnership.

Business Transformation Project - Internal Audit have been providing procedural guidance and advice since the start of the BTP project in October 2005. Involvement during 2005-06 included:

- Payroll & Finance workshops - working closely with our colleagues in Capita/Axon to understand existing financial and non-financial processes in order for them to gain a better understanding of the Council's protocol.
- Payroll & Finance Forums – members of both forums providing assistance and guidance with the SAP system build and offering advice on the new SAP process flow.
- First Contact Project Board – offering advice and assistance with regards to the new CRM system and access harrow projects.
- Security – close liaison with SAP security experts on the build of enhanced security functions within the SAP and CRM environment.

LOCAL FINANCIAL, MANAGERIAL AND OPERATIONAL SYSTEMS

Reviews were carried out as follows:

Commercial Rents - a review of the adequacy, application and effectiveness of systems for the management of rents and leases. This was an amber report. Overall 63% of the expected controls were found to be in place and operating effectively with a further 21% partially in place. The most significant weaknesses relate to the fact that the current computerised asset register is inadequate and does not meet the service's requirements in that it does not provide comprehensive information on the number of commercial properties owned by the Council and does not enable rent reviews/lease renewals to be retrieved. A new computerised asset register is to be introduced under the Business Transformation Partnership. Other weaknesses highlighted by the review relate to there being no checks in place to ensure that for every holding per the master record there is a deed, and for every deed there is an entry on the computer master file; lack of standard documentation for leases by Legal Services; no internal check on information input to the existing database; and inadequate action relating to bad debts. Of the 28 recommendations made, 25 have been agreed for action and 1 has been partially agreed.

Asylum Seeker Payments - a review of the adequacy, application and effectiveness of systems for claims processing and payments. This was an amber report. Overall 73% of the expected controls were found to be in place and operating effectively with a further 17% partially in place. The most significant weaknesses relate to the fact that there are no written delegations to the Asylum Service Manager or any of the Asylum team to cover their roles and responsibilities; the financial limits given to the Team Leader and Deputy Team Leader for authorising orders and payments appear to be high; photocopies of original documentation is not annotated to note that the originals have been seen and not all initial and core assessments are completed within the timescales laid down in the Assessment and Service Provision Guidelines. All recommendations have been agreed for implementation.

Grants to Voluntary Organisations – a review the adequacy, application and effectiveness of the new arrangements for grant administration. This was a red report. Overall, 46% (17) of the expected controls were found to be in operation with a further 41% (15) partially operating. Control weaknesses were found in the majority of areas reviewed. The division of responsibilities between the Grants Unit and officers in other areas of the Council, and the apparent confusion over both officers and Members declarations of interest has contributed to the weaknesses identified. In addition it has been established that the Council's policy on the employment of relatives has not been followed. A total of 22 recommendations were made and an agreed action plan is currently being finalised with officers. Once finalised this report will be escalated to the Committee under the escalation procedure.

Health & Safety Service Delivery – a review of the effectiveness of central support in assisting managers in meeting the requirements of health and safety legislation. This was an amber report. Overall 56% of the expected controls were found to be in place and operating effectively with a further 17% partially in place. The main areas for improvement are in relation to management across the authority not undertaking their H&S responsibilities, a system not being in place for measuring and monitoring the performance of the section, there not being a H&S service plan in place, and training courses not being mandatory. 13 of the 14 recommendations were agreed for implementation and 1 recommendation had an alternative action that partially mitigates the risk.

Travel Assistance - Non-Statemented Children - a review the adequacy, application and effectiveness of systems for the assessment of applications and the payments due to non-statemented children for travel assistance. This was an amber report. Overall 56% of the expected controls were found to be in place and operating effectively with a further 24% partially in place. The most significant weaknesses relate to the policies needing to be update and re-agreed, that there is no delegated authority for the Student Finance Manager to authorise payments, an assessment of diversity not being undertaken and the section not maintaining all evidence of attendance figures. There have been several developments in the service i.e. asking for evidence of grants being spent on travel and implementation of the recommendations in this report will continue to strengthen the service. An action plan is in the process of being agreed.

Emergency Planning - a review of the adequacy of arrangements in place for preparing for an emergency and meeting the requirements of the Civil Contingencies Act. This was an amber report. Overall 69% of the expected controls were found to be in place and operating effectively with a further 19% partially in place. This report reflects that the Emergency Planning team has ensured that the Council complies with the Civil Contingencies Act and the main area for improvement relates to the need to complete the identification of Risk at Departmental level. An action plan is in the process of being agreed.

Commissioning of Domiciliary Care - at the request of the Service Commissioning Manager a review was undertaken of domiciliary care commissioning under the block contracts to establish whether over-commissioning was taking place. This was an amber report. The review established that 66% (8) of the expected controls are in operation with a further 17% (2) partially operating. No evidence was found that over commissioning was taking place. The review confirmed that the method for commissioning care is well established and understood by both Care Management staff and the agencies, and action is also taken by Care Management on any changes reported to them by the agencies. Difficulties were being experienced with the telelogging system and this was addressed by proposed changes to the contract, reported to Scrutiny. Scrutiny agreed that agencies will now be paid for actual time spent with the Client and this will mean that manual manipulation of the system will no longer be necessary.

SCHOOLS

Reviews were undertaken in the following areas:

Income and Expenditure - reviews of systems in place to control income and expenditure and ensure compliance with financial regulations and contract procedure rules. Eight schools were reviewed resulting in the issue of 1 green and 7 amber reports. Systems were found to be fairly well controlled with a reasonable level of expected controls in operation. Areas for improvement included the requirement to set up a register of interests for governors and staff, the application of Contract Procedure Rules for transactions over £5000, and ensuring that commitments are on the system by raising orders in advance. Action plans have been agreed in each case.

Budgetary Control and Management - reviews of arrangements for preparing, monitoring, controlling and evaluating school devolved budgets. Seven schools were reviewed resulting in the issue of 2 red and 5 amber reports. Common areas for improvement included producing longer term rolling school improvement plans, providing the Governing Body with prime documents from the system, and the need to ensure that the on-going evaluation processes are summarised so that Governors can ensure that lessons learnt are applied to the next budget cycle. Two reports were subject to the escalation process and have been reported to Committee. Action plans have been agreed for five of the reviews and are in the process of being agreed for the remaining two schools.

IT SYSTEMS

The following reviews were undertaken:

E-government – a review of the progress with the implementation of e-Government targets. This was a green report. Overall 94% of the expected controls were found to be in place and operating effectively. The most significant weaknesses relate to a lack of reporting arrangements for outsourced leisure and sporting facilities in respect of online reservations and a lack of information in respect of the provision of systems to support joined-up working on children at risk across multiple agencies.

Web publishing protocols – a review of arrangements in place for authorising, publishing and managing internet content. This was a red report. Overall, 40% of the expected controls were found to be in place and operating effectively with a further 25% partially in place. The most significant weaknesses relate to:

- A need to provide more comprehensive guidance on a number of key activities
- An absence within job descriptions of roles and responsibilities regarding the management, system administration, technical support and development of the website;
- The widespread lack of separation of duties with regard to editing and publishing of website content;
- Insufficient processes for ensuring that the web publishing accounts of leavers are terminated promptly and the need to strengthen logical security controls;
- The lack of disaster recovery procedures for the website.

This has been reported separately to the Committee under the audit escalation procedure and recommendations have been agreed for implementation.

Information Security Policies - a review to ensure that the authority has a Corporate Information Security Policy (CISP), which with its supporting Statement and necessary supporting Policies, Standards, Procedures and Records, provides management with direction and support for information security. This was an amber report. Overall 60% of the expected controls were found to be in place and operating effectively with a further 15% partially in place. The most significant weaknesses relate to: ownership of the policy documents, Senior Management support of the policy documentation and staff sign up to the policy documentation so as to allow for enforcement and monitoring of the policies to be implemented throughout the Council. This report was issued in draft in February 2006 and has yet to be finalised due to lack of response from the client department.

Network Infrastructure – a review to examine, assess and assure management that effective and adequate controls are in place relating to the resilience of the network infrastructure. This was an amber report. Overall 61% of the expected controls were found to be in place and operating effectively with a further 33% partially in place. The most significant weakness relates to an absence of a Corporate Disaster Recovery (DR) plan. This report was issued in draft in May 2006 and has yet to be finalised due to lack of response from the client department.

IT Project Management – a review to examine, the adopted project management techniques, to identify policies and procedures around how project management processes are completed, to review project documentation and to look at how Projxsoft Work.Together software is being utilised. This was an amber report. Overall 76% of the expected controls were found to be in place and operating effectively with a further 21% partially in place. Of the weaknesses identified 1 was within risk category 1 and 6 within risk category 2. The most significant weaknesses relate to a more widespread use of the Work.Together system to manage projects. This report was issued in draft in June 2006 and has yet to be finalised due to lack of response from the client department.

ANTI-FRAUD AND CORRUPTION ARRANGEMENTS

The following review was carried out:

Identity Fraud – a review of the adequacy of arrangements in place for identifying and dealing with potential cases of identity fraud. This was a red report. Overall, 39% (11 out of 28) of the expected controls were found to be in place and operating effectively, with a further 50% partially in place. The review highlighted that an overarching strategy is required for dealing with identity fraud and pre-appointment checks to assist with confirming that people are who they claim to be, as several cases have been highlighted in the Council. A decision needs to be made as to where the responsibility lies (e.g. to determine whether passports/right to work/and all other relevant documentation is genuine), and whether this is the responsibility of HR Employee Services or recruiting managers, and who is best equipped to deal with this to ensure that processes are consistently applied. If this responsibility is not allocated to a specialist team within HRES, there should be a mandatory Recruitment and Selection training programme for all managers so that they are adequately trained in this respect. This training programme will nevertheless leave a residual risk to the Council. An action plan is in the process of being agreed.

FOLLOW-UP OF AUDIT RECOMMENDATIONS

A follow-up exercise was undertaken in July 2005 and in total 56 audit projects were followed up to establish progress with the implementation of audit recommendations. A total of 277 key recommendations were followed up out of a total of 311 (89%) recommendations made. Of these, 182 (59%) have been implemented, 40 (14%) were partially implemented/in the process of being implemented, 35 (13%) were planned for implementation and 13 (5%), although originally agreed by management, were not implemented. Various reasons were provided by management for the lack of implementation of these agreed recommendations, the most common of which was that individual recommendations had been superseded by new systems.

As reported in the mid-year report, due to the lack of implementation of recommendations made by internal audit as a result of the 2003-04 key control reviews of the Authority's core financial systems (see table 2 above), an earlier follow-up procedure was introduced, in December 2005, to follow-up the recommendations made in the 2004-05 reviews. The results of this exercise are shown in the table below:

Table 3

CORE FINANCIAL SYSTEM	NUMBER OF RELEVANT RECS	FULLY IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED
Housing Benefit	3	100% (3)	0% (0)	0% (0)
Debtors	2	100% (2)	0% (0)	0% (0)
Council Tax	5	100% (5)	0% (0)	0% (0)
Housing Rents	8	38% (3)	12% (1)	50% (4)*
Creditors	5	40% (2)	20% (1)	40% (2)**
NDR	7	100% (7)	0% (0)	0% (0)
Payroll	3	100% (3)	0% (0)	0% (0)
Overall	33	76% (25)	6% (2)	18% (6)

* Information relating to the implementation of audit recommendations in relation to Housing Rents was not provided as requested in December 2005, and throughout the following months, by the Urban Living Finance Team. Consequently Internal Audit undertook additional work in May 2006, when the key control review was undertaken, to establish whether recommendations from the 2004-05 review had been implemented.

** The 2 recommendations made on the Creditors system that were not implemented were the responsibility of and agreed by the Procurement Team.

Overall the implementation of audit recommendations on the Authority's core financial systems has increased from 40% (2003-04) to 76% (2004-05).

Susan Dixon
Service Manager, Internal Audit
12th September 2006

