

AUDIT PANEL			
Report Title	ANNUAL REPORT ON INTERNAL AUDIT ACTIVITY FOR 2006/07		
Key Decision	NO		Item No. 5
Ward	ALL		
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES		
Class	Part 1	Date: 24 JULY 2007	

### 1. Purpose of the report

- 1.1 The purpose of this report is to present to the members of the Audit Panel the year end position against the reforecast 2006/07 Internal Audit plan. The report outlines the key conclusions from the audit work completed during the year and includes the Head of Audit and Risk's opinion on the level of assurance that can be placed on the Council's systems of internal control.

### 2. Background

- 2.1 Internal Audit forms part of the Audit and Risk Management Division of the Resources Directorate. The Group Manager, Audit and Monitoring, left the Council in July 2006 and an interim appointment was made from August 2006 until the current Head of Audit and Risk took up his post on 19 February 2007.
- 2.2 The opportunity was taken to restructure the management of the Council's governance arrangements creating a new role of Head of Audit & Risk, reporting to the Executive Director, Resources, with responsibility for Internal Audit, Investigations, Risk Management, Insurance and Health & Safety.
- 2.3 The Internal Audit establishment was increased by two FTE from April 2006 to create a second Audit Manager and an additional Senior Auditor post. Following the failure to recruit on a permanent basis, an interim appointment was made to the Audit Manager role in June 2006, with a subsequent Interim appointment being made from November 2006. The Senior Auditor post has been filled on a permanent basis from November 2006.

### 3. 2006/7 Audit Plan Out turn

- 3.1 The Audit Plan for 2006/7 was presented to Public Accounts Select Committee in July 2006 and comprised 1535 days for planned audits to be carried out (including 180 days in respect of IT audits to be undertaken by Deloitte). The plan was subsequently revised to 1185 days for audits and advice (including 180 of Deloitte's IT audit) and agreed by the Public Accounts Select Committee in December 2006.
- 3.2 The actual number of days used for audits and the provision of advice in 2006/07 amounted to 1413 days. The additional days provided came from the redistribution of days from the contingency and general admin., together with some additional resources from Deloitte and the use of a CIPFA trainee accountant.
- 3.3 Progress against the plan was significantly behind schedule at the end of the first half-year. This was a significantly worse position than at the same point in 2005/6 and was the result of a combination of factors including:-

- The level of audit work in progress at 31 March and completed in 2006/7 amounting to 61 days carried over from 2005/6 but not allowed for in the 2006/07 plan.
- The need to postpone IT audits because of the change of corporate ICT provider
- The delayed appointment of the second Audit Manager
- The level of productivity achieved across the first half-year has been very much lower than anticipated when the audit plan was prepared. This reflected higher levels of sick leave and the time spent on administration.
- The number of audits which have taken significantly longer to complete than budgeted.

3.4 Productivity improved towards the end of the second half-year reflecting:

- the increased level of management attention and supervision (following the interim appointment to the additional Audit Manager post),
- closer monitoring of progress at both the project and overall level, and
- changes made to the audit methodology designed to improve efficiency at the same time as addressing the quality issues identified in the Audit Commission reviews.

3.5 The analysis of the reforecast plan shows that the percentage completion of the revised number of audits on the plan to be 91% of the total. The breakdown of the audits completed is as shown below and reflects the redistribution of services across the Directorates following the reorganisations that took place during 2006/07

<b>Analysis of Audit Tasks – Reforecast Plan</b>			
<b>Directorate</b>	<b>Reforecast Plan</b>	<b>Audits Completed</b>	<b>Audits Not Undertaken</b>
Corporate/Resources	31	29	2
C & Y P (exc. Schools)	7	5	2
Schools	17	14	3
Customer Services	11	11	0
Regeneration	2	2	0
Community Services	8	8	0
Total	76	69	7
Percentage Completed		91%	9%

#### **4. Summary Findings from Internal Audit Work**

- 4.1 This section details issues identified from audit work completed during the year. It should be noted that the systems mentioned below are those where the audits identified significant issues to be addresses. A full list of the audits completed during 2006/07 is shown in paragraph 4.6 below. With the exception of the audits referred to in paragraphs 4.2 to 4.5 below, the remainder of the audits listed in paragraph 4.6 were found to have little or no control issues to be addressed and substantial assurance can be placed on the controls operating within those areas.

#### **4.2 Corporate/Resources**

- 4.2.1 Managed Audits: Deloitte were engaged to re-perform the audit work undertaken by the in-house team late in 2005/6 around the following main accounting system areas:

- Opening balances, trial balances and suspense accounts
- Journal controls
- IT systems security
- Feeder system reconciliations
- ICT disaster recovery and business continuity planning

This reported substantial levels of assurance across these areas. Deloitte's define a substantial assurance as 'while there is a basically sound system, there are weaknesses which put some of the system objectives at risk'.

- 4.2.2 Starters Movers and Leavers (SMAL) System: This audit identified significant gaps in the data held on the system although it is recognised that the continuing development of the system will address many of the control weaknesses identified. An action plan has been agreed with management to address these areas.
- 4.2.3 Performance Management: The arrangements for the collection, maintenance and reporting of data for the BVPIs in respect of Non-Decent Homes, Homeless Persons, Abandoned Vehicles, Street Lighting and Housing Repairs. This identified that the calculation of the split between responsive and planned housing repairs was not reliable and that the preparation of data for the Homeless Persons, Abandoned Vehicles and Street Lighting indicators depended on work around processes which could impact the accuracy and integrity of the data used. Recommendations have been made which would improve the controls over the accuracy of these calculations.
- 4.2.4 Money Laundering: The audit identified that Directorates had yet to complete risk assessments to identify Council operations which generate a potential and/or material exposure to money laundering. Steps are in place to complete this process although it has been delayed by the change of Money Laundering Reporting Officer.
- 4.2.5 Corporate Purchasing Card: Cardholders are required to input coding details for their purchases onto an electronic system prior to the transaction being approved. If this is not done then all the transactions for the month cannot be imported into the Council's accounting system. An action plan has been agreed with management to address these areas.
- 4.2.6 Health and Safety: Until the new occupational health and safety management system is introduced and assessed at meeting the OHSAS18001 standards, the Council will not be able to demonstrate that it is managing health and safety in an effective way and complying with health and safety legislation. Progress on the introduction of a

robust occupational health and safety management system is in progress. Assessment against the OHSAS 18001 standards will take place during 2007/08.

- 4.2.7 Business Continuity: At the time of the audit, November 2006, less than one third of the Council's 160 business units had completed a business continuity plan. Of those completed, only 3 met the quality criteria required by the Business Continuity Coordinator. However, significant progress has now been made in this field with the majority of services units (some 85%) having produced business continuity plans by the end of the financial year. The current position is even better with 92% of plans being completed.
- 4.2.8 SharePoint: Audit found that ineffective system management and monitoring arrangements were in place to progress the success of the initial system implementation. A recommendation was also raised to evaluate the SharePoint System Implementation against the original business case and product specification to help baseline achievements to date and focus the use of resources on maximising potential benefits for the future.
- 4.2.9 IT Disaster Recovery: At the time of this audit, February 2007, an agreed and tested IT disaster recovery solution was not in place although proposals from SunGard were being considered. It was also found that the standard server storage backup and restore arrangement with SunGard did not cover all of the Council's IT. An action plan has been agreed with management to address these issues. One of the proposals has now been adopted and the server backup programme has been extended to cover all of the servers.

#### 4.3 **Children & Young People**

- 4.3.1 Youth Service: This audit reviewed the adequacy of the management control of the youth clubs run by the Youth Service. This found that operational control and service quality are impacted by a number of issues including a lack of procedural guidance, inadequate training and support on administrative tasks and weaknesses in record-keeping. An action plan has been agreed with management to address these areas.
- 4.3.2 Fostering Services: For each Foster Carer's case file there is a separate financial file. The sample of case files examined found inconsistencies with the completion of case files with some financial files not being in place. The audit also found that the Business Support team were amending errors on payment and other documents rather than returning them to the care managers for correction, to avoid delaying payments to the Foster Carers. Action has been taken by management to rectify these issues.

#### 4.4 **Customer Services**

- 4.4.1 Rent Collection And Accounting: Testing indicates that there was a varied quality of recovery action across the arrears caseload. Officers are currently considering a different recovery structure based on recovery team functions rather than an individual 'geographical' patch officer responsibility to improve the collection rate. An action plan has been agreed with management to address these areas.
- 4.4.2 E-payments and E-booking IT System: A key recommendation was made in relation to improvements in the contractual arrangements between LBL and CAPITA especially in relation to demonstrating compliance with the recently established Payment Card Industry (PCI) Data Security Standards for all LBL e-payment

transactions and that appropriate indemnity arrangements exists in the event of a security failure. An action plan has been agreed with management to address these areas.

#### 4.5 **Community Services**

- 4.5.1 Swift IT Case Management System: This review found that there was ineffective management and monitoring arrangements established to progress the results of the 2005 Caldicott Consultancy Report which identified 70 areas for action. The review also found that given the sensitive nature of the data held within the Swift system, no specific security policy exists for Swift system users. It was found that approximately 200 duplicate client records existed on the system, which may lead to confusion amongst the system users and data may be updated on the wrong case record, leading to an inaccurate picture of the client's care needs. An action plan has been agreed with management to address these areas.

- 4.6 The tables below show the audits undertaken during the year.

#### **Audits Completed 2006/07**

##### **Corporate/Resources**

Starters Movers and Leavers (SMAL) System  
Litigation  
Criminal Records Bureau (CRB) Policy & Procedures  
Budget Management  
Creditors  
Debtors  
Treasury Management  
Best Value Accounting Code of Practice  
Management of Partnerships  
Corporate Risk Management  
Corporate Purchasing Card  
Payroll  
Pensions  
Procurement  
Health & Safety  
Performance Monitoring  
Money Laundering  
Contracts - Tendering Supplies & Services  
Business Continuity  
Main Accounting System  
Consultants  
Regulatory Obligations – Data Protection Act, Freedom of Information etc.  
Intranet (Share Point)  
Oracle -Financials Unix follow-up  
3rd Party IT - joined-up government & partnerships  
Integration of Systems  
Disaster Recovery  
3rd Party IT Performance & Procurement

## **Children & Young People**

Free School Meals  
Youth Service  
Special Educational Needs  
Fostering Service  
Residence Order Allowances

### **Schools**

Bonus Pastor  
Holbeach  
Forster Park  
Childeric  
Edmund Waller  
Sandhurst Infants  
St Stephens  
Downderry  
St Josephs  
Adamsrill  
St Mary Magdalen  
Kilmorie  
Kender  
Prendergast

### **Customer Services**

NNDR  
Council Tax  
Benefits  
Homelessness  
Rent Collection & Accounting  
Cashiering & Banking  
Anite Council Tax & NNDR (Unix)  
Anite Benefits System Implementation  
e-Payments & e-Booking  
Park and Community \*  
Trade Waste - Income Collection \*

### **Regeneration**

Planning & Planning Enforcement  
Leasehold Service Charges \*  
*(now moved to the Housing ALMO)*  
Contracts - Capital Programme Monitoring \*

### **Community Services**

Community Sector Grants  
Supporting People  
Broadway Theatre  
Thearte Income  
Leisure Centres  
Concessionary Fares  
Homecare System  
Swift - Clients Care Records

\* Audits where Directorate responsibility changed during 2006/07

Planned Audits Not Undertaken

**Corporate and Resources**

Programme Management

IT Pre-implementation Audits

**CYP**

Records Management

Lewisham Info Sharing & Assessment System

3 Schools

5. **Audit Opinion**

The audits listed in paragraphs 4.2 to 4.5 above only highlight the audits where significant issues were identified during the audit process and for each of these corrective action is being taken by management to address the issues. The remainder of the audits listed in paragraph 4.6 had either no or only a few minor issues that needed addressing and as such management have been able to gain assurance from their control environments. Based on this and that action is being taken to improve the issues identified in paragraphs 4.2 to 4.5 above, it is my opinion that substantial assurance can be placed on the Council's systems of internal control.

6. **Recommendations**

Members are asked to note the report