

AUDIT PANEL			
Report Title	INTERNAL AUDIT PROGRESS REPORT		
Key Decision	NO		Item No. 4
Ward	ALL		
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES		
Class	Part 1	Date: 19 MARCH 2008	

1 Purpose of the Report

The purpose of this report is to present the members of the Audit Panel with:-

- an update on progress against the 2007/08 audit plan,
- a summary of the findings for the audits where Internal Audit have issued “limited” or “no” assurance opinions on the internal control mechanisms that have been audited,
- a progress update on the implementation of previously agreed recommendations.

2 Recommendations

Members are asked to note the report.

3 Progress Against the 2007/08 Audit Plan

3.1 The detailed 2007/08 audit plan was approved by the Audit Panel in July 2007. In total Internal Audit planned to undertake 94 audits during 2007/08. However during the course of the year Internal Audit have been asked to undertake some additional unplanned work, and to postpone or cancel some planned audits where the service units had not reached the stage where the reviews could be undertaken in 2007/08.

3.2 The unplanned audits consist of the following:-

- a grant claim for the Momenta Lewisham Schools Sports Partnership programme (CYP);
- a review of the asbestos removal contracts in three schools (CYP)
- a review of the housing refurbishment “Sydenham 2” contract, which covers the period when the housing stock was initially with the Council (being managed by Pinnacle) but has subsequently transferred to Lewisham Homes (Customer/LHL);
- Following work on the “Sydenham 2” contract, a review of the housing refurbishment “Sydenham 3” contract, which also covers the period when the housing stock was initially with the Council again being managed by Pinnacle (Customer/LHL);

- a review of the Council's compliance with the Data Protection Act following the officers meeting with representatives of the Information Commissioner's office (Resources/Corporate).

Both the Sydenham 2 and 3 reviews are complex and are being carried out in conjunction with the Special Investigation team from the corporate Anti-Fraud and Corruption Team (A-FACT).

3.3 There are three audits which have been postponed at management's request. These are:-

- Pre-implementation review and procurement arrangements for the new Parking IT system as this is not as advanced as originally envisaged (Regeneration).
- Planning Section 106 agreements, as this has not progressed as quickly as expected (Regeneration).
- Tendering process for the catering contract as this is not as advanced as originally envisaged and management requested the resources be directed towards the asbestos removal audit (CYP).

3.4 There are also five low priority audits that have been postponed due to insufficient resources available as a result of vacancies, long term sickness, the additional unplanned audits and some audits exceeding the original estimated budgets. These are:

- Review of control risk self assessment returns for Youth Clubs (CYP),
- Review of control risk self assessment returns for Children's Centres (CYP)
- Review of control risk self assessment returns for Day Centres (Community) as in all three cases the methodology to be used for this has been produced but has not been implemented yet;
- Extended implementation audit of free school meals (CYP);
- Review of the modernisation of services as management wants this to bed down before it is reviewed (Community Services).

3.5 The table below shows the spread of the audits for the revised plan:-

Directorate	Original Planned Audits	Unplanned Audits	Postponed Audits	Revised Planned Audits
Corporate/Resources	29	1	0	30
C & Y P (exc. Schools)	9	2	(4)	7
Schools	31	0	0	31
Customer Services	10	2*	0	12
Regeneration	6	0	(2)	4
Community Services	9	0	(2)	7
Total planned Audits	94	5	(8)	91

* Joint with Lewisham Homes

3.6 The table below shows the current position for the audits in the revised plan:-

Directorate	Planned / Unplanned Audits	Audits Completed	Draft Report Stage	Audits in Progress	Not Started
Corporate/Resources	30	12	5	12	1
C & Y P (exc. Schools)	7	4	1	2	0
Schools	31	2	7	14	8
Customer Services	12	3	2	7	0
Regeneration	4	1	2	1	0
Community Services	7	3	3	1	0
Total planned Audits	91	25	20	37	9

3.7 As can be seen from the table above, 50% of the revised planned audits have either been completed or have reached the draft report stage. A further 41% of the audits have started and are at varying stages of progress. Whilst this level of performance is in line with expectation with regards to the work that is in progress, performance is currently below expectations for this stage of the year for audits that have been completed or are at draft report stage. The section currently has two vacant posts and has experienced a high level of staff sickness during the year, which have undoubtedly contributed to the shortfall in performance.

3.8 To regain some of the lost ground, the Council has engaged the services of Deloitte and Touché to undertake a number of the fundamental systems audits, such as debtors, benefits, council tax and NNDR. The team from Deloitte and Touché started work on these audits at the beginning of January 2008. They are making good progress and expect to be at least at the draft report stage for all of the audits they are undertaking by the end of the financial year. This will not only enable the section to recover some of the lost ground but should also address the quality issues regarding the work undertaken on the key systems, hopefully enabling the Audit Commission to place reliance on this work.

3.9 The section is starting to experience problems with some of the school audits that are scheduled for this year. Difficulties are being encountered when trying to secure bookings with schools, and in a few cases where they have secured a booking and started the preparatory work for the audit, the schools are then cancelling the bookings. The key issue appears to be that many schools feel they are not ready for the FMSiS accreditation assessment which now forms a fundamental part of the audit process. If this scenario continues, Internal Audit will not achieve its planned number of school audits for the year and the Authority will not reach the externally set target of at least 40% of the non secondary schools achieving an FMSiS pass rate. The Head of Audit and Risk is consulting with colleagues within the Children and Young People's Directorate to find a solution to this problem.

4 Summary Of The Completed Audits With - Limited or No Assurance

This section provides a summary of the findings and action taken by management for the systems/services where Internal Audit feel that either limited or no assurance can be placed on the internal controls that have been reviewed.

A full list of the audits completed prior to the publication of this report are shown at the end of section 4.3.8.

Corporate/Resources Directorate

4.3.1. Report No. 12120 – IT Infrastructure – Limited Assurance

This audit looked at the corporate IT infrastructure and network security arrangements and focused on the evaluation of the technical security that is applied to secure the IT network by examination of the following areas:

- Network Topology Design (single points of failure);
- Firewall management and rule settings;
- Network communication device security settings;
- Logical Access and Port Controls;
- Remote Access (SSL & VPN);
- Network Operating System and Virus Controls;
- Security Standards and Benchmarking.

The overall Internal Audit assessment concluded that, although security patch management has improved since 2006, only limited assurance can be placed on the adequacy of the current controls established and applied to the corporate IT infrastructure and network security arrangements. In 2006 the use of security settings was found to be above the average when compared to other Public Sector Windows Networks, however, in 2007 the tests show that the Council's IT controls have now dropped to about average when compared to other Public Sector Windows Networks, as security controls have been reduced.

A total of 14 recommendations have been made including five with priority one status. The five priority one recommendations relate to password controls (two recommendations); the life expectancy of equipment; the use of audit logs; and the identification of potential unauthorised access attempts. All recommendations have been accepted by management and they are in the process of implementing them.

4.3.2. Report No. 22110 – Asbestos Removal/Encapsulation In Three Schools – Limited Assurance

This was a major and unplanned review that examined the management of the removal of asbestos from three of the Council's schools – Gordonbrock; Donderry and Elfrida. All three projects involved the removal or encapsulation of asbestos from the loft spaces within the schools and the works were undertaken by specialist contractors prior to the main contractors coming onto site to undertake other works. The management of all three projects was undertaken by the Council's appointed consultants MACE.

In each case the specialist contractors failed to remove or encapsulate the asbestos and leave the site in a safe condition to enable the main contractor to undertake their works. The Council's appointed consultants had failed to detect this and appear to have undertaken limited supervision of the projects. This resulted in the Council incurring significant additional costs to deal with the asbestos. In addition the main contractors were unable to undertake their allocated works during the summer vacation period, resulting in disruption to the schools during the autumn term and, in the case of one school, its complete closure for the whole term with the students having to be transported to another site within the borough. A total of 28 recommendations (three with priority one status and 25 with priority two status) have been made. Management have accepted all of the priority one recommendations and 21 of the priority two recommendations. Progress is being made on the implementation of the accepted recommendations.

4.3.3. Report No. 22151 – Tidemill School – Limited Assurance

This was a full audit of the schools financial and governance systems. Although many of the school's systems were operating effectively the audit identified some key issues that needed to be addressed around the review and approval of the finance policy by the Governors; controls around the ordering and receipting of goods and the processing of invoices; the lack of CRB checks on staff; and the lack of a Data Protection Act notification for the school.

4.3.4. Report No. 32108 – Academy System Post Implementation Review – Limited Assurance

This audit looked at the Academy Housing Management System, (Threshold) which is used by the Council although it is managed by Lewisham Homes Ltd. The review concentrated on the following areas:

- Management maintenance roles and responsibilities;
- System access security;
- Reliability and accuracy of records; and
- Use and efficiency of management reports.

The overall assessment is that only limited assurance can be placed on the adequacy of the control framework that has been established and applied to the Academy Housing Management System. Although no priority one recommendations were raised in this audit a total of seven Priority two recommendations to further improve the control framework and existing management practices were identified.

The recommendations relate to improving the system support and documentation; access controls, user permissions and the use of the audit trail; and the archiving of data and management reporting from the system. These have all been accepted by management and are in the process of being implemented.

4.3.5. Report No. 42106 – Parking – Limited Assurance

This review looked at the monitoring arrangements for the parking contract with NCP, and the effectiveness of the systems for the collection, monitoring and reporting of parking income, including income from penalty charge notices.

A number of key issues were identified in this review including:-

- The contract with NCP had not been signed and issued to the contractor even though NCP started operating the contract in 2006
- There is a lack of formal procedures for monitoring the contract and also for the collection, monitoring and reporting of income
- Income reconciliation are not always undertaken in a timely manner; and are not always checked and certified by management
- Accrued income of some £500k from 2006/07 was not received from NCP until October 2007
- At the time of the audit the outstanding debt relating to parking control notices (PCNs) amounted to some £2.9m and appears to be increasing. This debt does not appear to have been included in the outstanding debt figures reported to PASC
- The outstanding debt has not been analysed and as such the service does not know how much of the £2.9m debt is irrecoverable
- A debt recovery agency has been employed to recover monies from outstanding PCNs since 1994 but we were unable to find any evidence of a signed contract with the firm or indeed that this contract had been subjected to competitive tender

A total of 12 recommendations to improve the system, including three with priority one status, have been discussed and agreed with management.

4.3.6. Report No. 52101 – Client Contributions To The Cost Of Care Services – Limited Assurance

The review examined the controls over client contributions for Residential & Domiciliary Care and tested a sample of financial assessments and debtor accounts for 2007/08. The following key issues were identified in this review and recommendations for improvement in these areas have been discussed and agreed with management.

- Draft procedure notes for the financial assessment process have not been finalised and this could lead to lack of consistency in approach and staff not being aware of best practice.
- There were no procedure notes for the current system of debt recovery during the review. Current procedure notes for debt recovery which were revised in February 2007 are not being used due to limitations in the Accounts Receivable system and lack of sufficient resources to undertake debt recovery work. Additional temporary staff have been employed to carry out a data cleansing exercise and recover

outstanding Residential & Domiciliary care debt. Procedures have now been completed.

- There are no performance indicators for the completion of financial assessments. Management has set a performance indicator of 30 days for the completion of financial assessments except for where there is no response to letters, there is a property issue or where a trust document is involved or legal advice is required.
- There is no internal check over the financial assessment and reassessment process due to a vacancy in the Team Leader position of the financial assessment team. A permanent member of staff is being recruited into the position as a member of the team is currently covering the position. Spot checks are to be undertaken on financial assessments and reassessments to ensure, accuracy and completeness.
- There is a history of errors in the calculation of client contributions and a data cleansing exercise is being undertaken to ascertain the total amount of recoverable debt. A provision for bad debt of £2m has been made for the current financial year.
- The current Business Continuity Plan for the Financial Services section has not been revised and an Equalities Impact Assessment and a Health & Safety Assessment has not been completed. Management is in the process of completing these documents.

A total of 19 recommendations have been made, all with priority two status, to improve controls and enhance processes, and these have all been accepted by management who are in the process of implementing them.

4.3.7. Report No. 52104 – Direct Payments For Adults Care Packages – Limited Assurance

This review examined the processes and controls in place to mitigate the risks identified within the system for making direct payments to adults to enable them to manage their own care packages. The following key issues were identified in this review and recommendations for improvement in these areas have been discussed and agreed with management.

- The Community Services Finance section was not receiving, from the current support service providers, copies of quarterly financial returns during the first six months of the financial year on the bank balance for holding account clients. Financial monitoring had not been undertaken for that period during the current financial year. This could lead to potential problems being undetected and corrective action not being taken when required.
- The procedure for the request and notification of financial assessments is not being complied with for new users of direct payments. This could result in overpayments to users who should be making personal contributions.
- New users are not being reviewed six weeks after the start of the receipt of direct payments. Reviews are usually processed after three

months which is the same as for directly provided service users. This could lead to potential problems remaining undetected for longer periods than necessary.

- Care plans for new users do not always have details of the number of care hours or cost of the care package being provided by direct payments. This does not provide the budget holder with sufficient information for the approval process and for monitoring purposes.
- Third party credit checks have not been processed for all third party clients. This could expose vulnerable clients to financial abuse
- Monitoring returns are not being returned on time for new and current users and explanations for material variances between bank balance and the balance on the monitoring form. There is a lack of accountability of how the direct payment funds are being used by users.
- Clients who have not returned monitoring returns for more than twelve weeks are not having their direct payment monies being suspended. This could result in monies not being accounted for on time and unspent monies not being recovered.
- Unspent Direct Payment monies are not being recovered from users whose payments have been suspended or terminated. This results in loss of revenue to the Authority.
- The breakdown of holding account balances is not available for transfers and termination of holding account clients. This hinders monitoring and recovery of unspent monies.

A total of 38 recommendations have been made, including six with priority one status. These have all been accepted by management who are in the process of implementing them

- 4.3.8 The table below sets out the audits that have been undertaken during 2007/08 and a final report has been issued. The table also shows the audits of grant claims that have been completed. As these are not a review of internal controls but the substantiation of expenditure included in the claim, Internal Audit do not issue an assurance level opinion for these audits.

Audit	Report No.	Assurance Level	Reported to Audit Panel
Corporate and Resources			
Creditors - Duplicate Payments Testing	12101	Limited	Sept 07
Payroll	12108	Limited	Dec 07
Procure to pay *	12117	N/A	No
Oracle - Financials	12118	Substantial	No
Best Value Performance Monitoring System (Data Quality)	12119	Substantial	No
Infrastructure Audit	12120	Limited	Mar 08
IT Security Policy	12121	Limited	Sept 07
LAA Grant Claim 06/07	12122	N/A	No
Performance Indicators	12126	Substantial	No
Corporate Contracts	12127	Substantial	No
Consultant Procurement	12128	Limited	Sept 07
ERMS Meridio Document Management IT System	12129	Substantial	No
Children's and Young People			
Direct Payments For Children	22103	Substantial	No
Education EMS & Tribal Foundation SEN IT System	22109	Substantial	No
Asbestos Removal in Three Schools	22110	Limited	Mar 08
Momenta SSCO Grant Claim	22111	N/A	No
Tidemill School	22151	Limited	Mar 08
Hither Green School	22174	Substantial	No
Customer Services			
Civil Contingencies Act	32105	Substantial	No
Academy Threshold IT System Post Implementation Audit	32108	Limited	Mar 08
Leaseholder Service Charges	32110	N/A	No
Regeneration			
Parking	42106	Limited	Mar 08
Community Services			
Supporting People Grant Claim 06/07	52101	N/A	No
Client Contributions For Residential And Domiciliary Care Services	52102	Limited	Mar 08
Direct Payments To Adults	52104	Limited	Mar 08

* Due to the External Auditor undertaking a review of the E-procurement system the scope of this audit was reduced to a follow up review of previously made recommendations

5 Management's progress on the implementation of agreed recommendations

During the year Internal Audit have adopted a more proactive approach to monitoring progress on the implementation of recommendations. Schedules of recommendations awaiting implementation for each Directorate are sent to the respective Executive Directors. These schedules are produced on a

monthly basis and their objective is to provide the Directorate Management Teams (DMTs) with information to facilitate tracking the implementation of audit report recommendations to try and prevent target dates from being missed.

The table shown at Appendix 1 of this report summarises the current position regarding the recommendations that are awaiting implementation. Once all of the recommendations from a specific audit report have been implemented and this has been reported to the Audit Panel, the audit is deemed to be fully complete and as such it is removed from the table. Internal Audit will continue to monitor the progress on the implementation of these recommendations and to press management to implement those recommendations, as a matter of priority, where the agreed target date has passed.

6 Legal Implications

There are no legal implications arising directly from this report.

7. Financial Implications

There are no financial implications arising directly from this report.

8. Equalities Implication

There are no specific equalities implications arising directly from this report.

9. Crime and Disorder Implications

There are no specific Crime and Disorder implications arising directly from this report.

10. Environmental Implications

There are no specific environmental implications arising directly from this report.

Background Papers

None reported

If there are any queries on this report please contact the Head of Audit and Risk 0208 314 9114

			Recommendations									
			Total Agreed	Implemented			Not Yet Implemented & Overdue			Not Yet Implemented But Not Yet Due		
No	Audit	Report Date		Priority			Priority			Priority		
				1	2	3	1	2	3	1	2	3
	Resources											
12013	Payroll including feeder systems	02/11/2006	10		2	7						1
12003	CRB policies and procedures	12/02/2007	13		11			2				
12015	Procurement	28/03/2007	8	2	5					1		
12008	Treasury Management	03/04/2007	9		7			2				
12014	Pensions	25/04/2007	1							1		
12101	Creditors - duplicate payments testing	06/07/2007	6	1	2					3		
12128	Consultant Procurement	29/07/2007	19	1	2		1	8			7	
12121	IT Security Policy	05/09/2007	1					1				
12118	Oracle - Financials	06/09/2007	7		4						1	2
12119	Best Value Performance Monitoring System	06/09/2007	4								4	
12129	ERMS Meridio Document Management IT system	07/09/2007	6					4	1		1	
12108	Payroll	30/11/2007	9	2	6						1	
12120	Infrastructure Audit	12/12/2007	14				2	2	1	3	6	
12117	Procure to pay	28/01/2008	5		3						2	
12127	Corporate contracts	31/01/2008	4		1						3	
	CYP											
22048	Edmund Waller	05/03/2007	10					10				
22064	Rushey Green	11/05/2007	9					9				
22109	EMS Data Quality	30/11/2007	5					2	3			
22174	Hither Green	17/07/2007	4				1	3				
22110	Asbestos	31/01/2008	25					6			19	
	Regeneration											
42001	Planning and Planning Enforcement	30/03/2007	2			1						1
42106	Parking	31/01/2008	13							3	10	

			Recommendations									
			Total Agreed	Implemented			Not Yet Implemented & Overdue			Not Yet Implemented But Not Yet Due		
No	Audit	Report Date		Priority			Priority			Priority		
				1	2	3	1	2	3	1	2	3
	Community Services											
52003	Supporting People	30/04/2007	10	1	4					2	3	
52102	Client contributions for residential and domiciliary care services	07/12/2007	19		11			5			3	
52104	Direct Payments	21/01/2008	38	1	2		4	26	1	1	3	
	Total		251	8	60	8	8	80	6	14	63	4