

London Borough of Islington

Internal Audit Annual Report

2013/14



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Introduction

Purpose of this report

This report summarises the work that Internal Audit has undertaken during the financial year 2013/14 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment across the Authority.

Overview of the Internal Audit Approach

The role of Internal Audit is to provide an annual assurance statement on the adequacy and effectiveness of the Council's governance processes, risk management and control environment. Collectively, we refer to all of these activities in this report as "the system of internal control".

The London Borough of Islington is a large organisation providing a diverse range of services to the public with a number of processes, systems and complexities that underpin service delivery.

We generally undertake individual projects with one of two objectives in mind:

- **Assurance Reviews:** The majority of projects are geared towards providing assurance to management on the operation of the Authority's system of internal control.
- **Specific Advice reports:** Other projects are geared more towards the provision of specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible.

We also undertake:

- **Compliance Audits:** We assist in the review of financial related regulations that the Council needs to comply with. This includes establishment audits (e.g. Schools, Tenant Management Organisations) and grant audits.
- **Proactive Anti-fraud and Forensic Reviews:** The internal audit work covers investigations into "internal" instances of suspected fraud, proactive anti-fraud work, and other activities, such as CAATs analysis, National Fraud Initiative (NFI) support, and training and awareness. The work delivered supplements investigative work undertaken by dedicated housing benefit and blue badge fraud teams in the council.

All audit reports include recommendations and actions agreed with management that will, if implemented, further enhance the control environment and the operation of the controls in practice. We formally follow up all of our work within 12 months of issuing a final report to monitor the levels of implementation of agreed actions.

Each year, we seek to adapt and enhance our approach in order to take account the Council's risk profile and changes in the system of internal control to ensure that our work remains focused on the areas of high risk and seeks to avoid duplication of effort, where there are other sources of assurance, for example, external audit and Ofsted in operation.

Overview of work done in the year

The original Audit Plan for 2013/14 approved by the Audit committee in May 2013 included a total of 62 audit reviews. We have continued to communicate closely with senior management to ensure that the audit reviews undertaken represent a focus on high risk areas, in the light of new and ongoing developments in the authority to ensure the most appropriate use of our resources. The final number of projects agreed to be delivered was 57 after taking into account projects which were cancelled or deferred, requests for new (unplanned) projects by service management and work undertaken on behalf of Camden.

At the time of writing, we have completed 48 (84%) of the revised total of audit projects for 2013-14.

The results of the key performance indicators measuring the performance of the internal audit section for 2013/14 can be found on page 7.

Report Assurance Ratings by Service Area

Service Area	Substantial Assurance	Moderate Assurance	Limited Assurance	No Assurance	Not Rated (Mgmt Letters)	TBC (awaiting finalisation) & Camden	Total
Cross-Cutting/Corporate Review	-	1	1	-	2	4	8
Chief Executive's Office	1	2	1	-	-	1	5
Environment and Regeneration	1	1	3	-	-	1	6
Housing and Adult Social Services (HASS)	1	5	1	-	2	1	10
Children's Services	-	4	1	-	2	2	9
Finance and Resources (including DST and Anti-fraud)	-	8	4	-	4	-	16
<i>Camden</i>	-	-	-	-	-	3	3
Total	3	21	11	0	10	12	57

The above table shows that 24 (69%) of the 35 audits undertaken in the year with an assurance rating opinion, provided positive messages with 'substantial' or 'moderate' levels of assurance as to the adequacy and effectiveness of the internal control environment, while the number of reports providing a 'limited' or 'no' assurance was 11 (31%).

Our 2012/13 annual report gave positive assurance in 70% of reports with controls opinions, and negative assurance in 30% with 'limited' or 'no' assurance ratings.

Action plans agreed by management to implement audit recommendations are expected to result in control improvements and progress against these plans will be tested in scheduled follow up reviews which will be reported to future Audit Committees in the 2014/15 year.

Our findings on the key themes in 2013/14 are set out below.

Key themes identified over the year

Governance

Our work within Departments over the year has not identified any significant issues with the Council's overall governance framework.

Risk Management

A review of the corporate risk management framework was included in the 2013-14 audit plan.

The review took the form of a risk and control advice exercise, focusing on the design of the control framework.

Internal Audit's post-review opinion was that, whilst the design of strategy, policy and procedure in this area appeared largely appropriate, there are key structural and process-related deficiencies with regard to the operation of underpinning implementation, support and control arrangements, and that these weaknesses are undermining the risk management framework's ultimate effectiveness. Identified issues included:

- A lack of recent review, update, approval, communication and provision of training relating to documented strategy, policy and procedure;
- Ineffective operation of key governance forums underpinning the corporate risk management framework;
- A diminishing pool of dedicated resource leading to adverse impact on capacity and capability within the organisations central risk management function (Strategic Financial Management);
- Concerns over the operational effectiveness of risk champion resource;
- Limitations in risk management process scope and coverage, and
- A lack of risk management process integration with other key corporate processes.

These issues and the impediments to effective risk management they present, may ultimately adversely impact on the successful delivery of departmental and/or organisational strategic objectives. The political, economic and delivery environment that the organisation is currently operating within is one of significant pressure on the corporate cost-base in conjunction with the related requirement for a high volume of complex strategic objective-enabling structural and process re-engineering activity. The additional, material risks that this background context will generate and demand the effective management of, further exacerbate Audit concerns in this area.

Following this review, a Risk Manager for Islington and Camden was appointed and charged with taking the recommendations made in this report forward.

Fundamental and Key Financial Systems

Each year Internal Audit carries out reviews of the Council's fundamental financial systems. This process allows External Audit (KPMG) to place reliance on the work performed by Internal Audit. It also allows Islington to limit External Audit fees spent on reviewing the authority's activities.

In the 2013/14 year we have expanded our understanding of the processes currently scheduled for testing by refreshing our knowledge of the authority's key financial systems to ensure that we are addressing the risks faced at the current time. We did this by holding workshops for all of the key financial areas listed below, remapping and reconfirming key controls with management.

The key financial systems reviewed during this audit were:

- Cash Management
- Payroll
- Accounts Payable
- Accounts Receivables – Sundry Income
- Housing Benefits
- Council Tax & NNDR
- Parking

- Abacus (Home Care Payments)
- Estates Parking
- Treasury Management

The systems above represent the Council's fundamental financial systems. Council Tax, NNDR, Parking and Sundry Income represent a large component of the Authority's revenue; whilst Payroll, Accounts Payable and Housing Benefit represent the most significant proportion of the Authority's revenue expenditure.

The 2013/14 overall opinion rating for the fundamental systems was 'limited' assurance, which is a deterioration from the assurance opinion of "reasonable" in 2012/13. Whilst generally, the key controls in the Council's key financial systems continue to operate effectively based on the sample testing performed and the direction of travel across the systems has largely remained the same (for seven systems), it has deteriorated for two systems: accounts payable (where the deterioration is due to control design issues noted) and; accounts receivable (where the deterioration is due to the increased number of test exceptions noted). Internal Audit also tested three new areas for the first time in this review: Treasury Management (substantial assurance), Housing Rents (substantial assurance) and Estates Parking (moderate assurance).

Three high rated findings correspond to controls in the accounts payable process relating to purchase orders, new supplier checks and supplier bank details.

Management opinion is that, as no examples of financial loss or fictitious suppliers were identified, the system is not considered by Finance Management to be high risk. It is considered that current controls are proportionate to the audit findings.

Further detail can be found in the Finance and Resources Service Summary below.

Management's response to implementing audit recommendations

Progress in implementation of recommendations made in 2012/13 reports has been monitored by completion of follow up audits on all high risk recommendations made. This exercise has confirmed that of the 24 high priority recommendations made in 2012/13, 19 have been either fully or partially addressed and controls improved where appropriate. The five remaining high priority recommendations that have not been implemented have been highlighted to management and a revised timeframe for implementation agreed. Further detail can be found below:

Directorate	2013/14 Follow Up	No. of Outstanding High Priority Recommendations	Original Implementation Date	Revised Implementation Date
Children's Services	Hornsey Road Children's Centre	2	January 2013	30 th June 2014
Environment & Regeneration	Parking E-Permits	2	December 2013	Internal Audit will revisit the area in Q3 2014/15 to assess implementation of recommendations following the move to the new database.
DST	Softbox	1	February 2013	August 2014

The 2014/15 audit plan approved by the Audit Committee in April 2014 includes a detailed follow up plan which will track and report on progress made in implementation of all 2013/14 audits completed.

Performance of Internal Audit and Efficiency of the Service

During the year, internal audit has made further progress to improve delivery of the service to customers. Key Performance Indicators used to demonstrate the effectiveness of the internal audit function in 2013/14 highlighted the following:

KPI Target	Results
<p>% of the annual audit plan completed compared to what was planned.</p> <p>Target 90% by 31st March 2014; 100% by 30th April 2014</p>	<p>The audit plan was 90% complete (90% target) on 31 March 2014 and 75% complete (100% target) on 30 April 2014.</p> <p>At 31st May 2014; 83% of 2013/14 audit reports have been issued. Six audit reports are awaiting management comments, with exit meetings scheduled for early June 2014. The remaining two planned audits are in progress (Home Energy Efficiency Capital Programme and Development of Council Land). These two outstanding reviews are due to be completed by 30 June 2014; completion of these reviews has rolled into 2014-15 to accommodate resource arrangements.</p> <p>In addition, 10 unplanned special reviews, including three on behalf of Camden, have been undertaken at management's request.</p>
<p>% of Audit reports followed up within 12 months of issue of final report</p> <p>Target 100%</p>	<p>70% achieved. 36 audit reviews relating to 2012-13 required follow up in 2013-14. At 31 May 2014, 25 follow up reviews have been completed, the remaining eleven follow ups are scheduled to be completed by 30th June 2014.</p>
<p>Audit areas where the level of assurance has risen at the follow-up stage: 90%.</p>	<p>60% achieved. For the ten 'limited' assurance follow ups completed, the assurance level for six reviews improved from 'limited' to 'moderate'. Five out of the seven high priority recommendations across the remaining four limited reviews were still outstanding at the time of the follow up. These are detailed on page 6 and have been reported to management with revised timeframes for implementation set.</p>
<p>Customer Satisfaction results</p>	<p>100% very good or good response from clients.</p>

Service Summaries

Reports Issued 1st April 2013– 31st March 2014

Cross-Cutting/Corporate Reviews

This area covers Council activities which are common to all service areas or departments and are cross cutting in nature.

A total of 8 reports were issued in 2013/14 from the 8 planned projects detailed in the original plan.

Report Title	Assurance Rating	Key issues arising
Cash Management	Limited	No high priority findings noted. Ten medium priority findings were identified covering staff awareness, policies and procedures, training, security, authorisation and future cash strategy.
Programme Management	Management Letter	Two high priority findings were identified. There is currently no corporate portfolio management infrastructure, delivering relevant, enterprise-wide capability within LBI. This is a key control in ensuring the organisation undertakes appropriate and robust. Audit evidence indicated that the quality of project management is variable across the organisation, and can be poor. Underpinning this issue is the fact that there is no central Programme Management Office (PMO) function providing corporate programme and project support and control.
Risk Management Strategy	Management Letter	Internal Audit identified that whilst the design of strategy, policy and procedure in this area does appear largely appropriate, there are currently key structural and process-related deficiencies with regard to the operation of underpinning implementation, support and control arrangements, and that these weaknesses are undermining the risk management framework's ultimate effectiveness.
Public Health	Moderate	One high priority finding was noted relating to the design of the Public Health Shared Service's risk register and how this could be better utilised by the function.

The following reviews are due to be finalised by 30th June 2014:

- Purchase Cards
- Council Fleet Management
- Data Protection/ICO Audit

Development of Council Land is currently underway and is due to be finalised by 30th June 2014.

Chief Executive's Office

A total of 5 reports were issued in 2013/14 from the 7 planned projects detailed in the original plan.

Report Title	Assurance Rating	Key issues arising
Electoral Registration Service	Substantial	No high priority findings noted. Internal Audit noted that the implementation of Individual Electoral Registration (IER) was still very much in its infancy, and identified that while steps have already been undertaken by Electoral Services to prepare for this change, there is limited project governance in place to manage the implementation of IER.
Season Ticket and Staff Loans	Moderate	No high priority findings noted. Four medium risk issues identified covering address verification, evidence of ticket purchase, verification of eligibility and separation of duties.
Third Sector Organisations - Islington Law Centre	Moderate	One high risk issue was highlighted which related to incorrect charging of activity in 2013/14 to Islington as a funder. Six medium risk issues were identified covering activity recording, separation of duties, management committee quorum, inventory records, bank mandate and third sector partnership management team monitoring.
Third Sector Organisations - Islington Boat Club	Limited	This audit review identified a total of eight findings; three of which are high risk, four of which are medium risk and the other is classified as low risk. The high-rated risks were in the following areas: <ul style="list-style-type: none"> • Safeguarding policy. • Security of personal data of children and young adult attendees. • Outcomes reporting and financial information (budgets and actual results)

At the request of management, the planned audit of HR Service – Starters and Leavers has been deferred to the audit plan for 2014/15 and the planned audit of the Litigation and Debt Recovery Service has been cancelled.

The following review is due to be finalised by 30th June 2014:

- No Recourse to Public Funds

Environment and Regeneration

A total of 6 reports were issued in 2013/14 from the 7 planned projects detailed in the original plan.

Report Title	Assurance Rating	Key issues arising
Street Environment Service - Accessible Transport	Limited	<p>Three high priority findings were noted relating to:</p> <ul style="list-style-type: none"> Risk assessments not being completed for all individuals accessing the service and as a result the care needs of individuals may not be fully understood. The framework contract for taxi services jointly procured with London Borough of Camden has not been subject to performance monitoring and as such it is unclear if services are being provided in accordance with the service specification or if the contractors' employees have been vetted to the standards outlined in the contract. Examination of HR records held by HR and the Passenger Transport Service identified a number of gaps in relation to checks undertaken with the Disclosure and Barring Service. As a result, it is not possible to determine if accurate records are currently held.
Legal Proceedings	Limited	<p>No high priority findings noted.</p> <p>Eight medium rated findings were identified relating to: the listing of active prosecution cases; the process for authorising and passing cases to Legal Services; the process for retaining details of communication between Public Protection and Legal Services; budgeting process in place for Public Protection cases that go to prosecution; charging information and approval to pay; supporting documentation for reclaiming costs; the process in place for the recovery of civil costs; and the policy in place for authorising the use of external Counsel.</p>
Street Environment Service - Trade Refuse	Limited	<p>Three high risk areas were identified:</p> <ul style="list-style-type: none"> The Commercial Waste team highlighted examples of on-going issues including duty of care charges not being included where due; invoices being raised twice for the same period; and invoices valued in excess £400k each being raised in error by the Commercial Waste Team. Four instances were highlighted where there were major delays or non-raising of delivery notes even though payment had been received, impacting on service delivery to clients. Inconsistent practices are adopted in the process of arrears recovery.
Cemeteries	Moderate	<p>An interim audit of Cemetery Services was undertaken in August 2013, which highlighted two high risk and five medium risk issues. The high risk issues raised at this time related to procurement process issues, including the absence of a software agreement and the absence of an escrow agreement.</p> <p>The follow up audit undertaken in Q4 2013-14 revealed that six out of the seven recommendations made in August 2013 have been fully implemented, with one (high risk priority) being partially implemented. Internal Audit identified two further medium risk issues relating to debt recovery procedures and the updating of inventory records</p>
Highways and Energy Service - Highways Maintenance	Substantial	<p>No high priority findings noted.</p> <p>One medium risk finding was identified relating to there being no quality check controls in place to ensure that reactive works performed are carried out to an adequate standard.</p>

At the request of management, the planned audit of Fee Setting and Charging was cancelled.

The review of Home Energy Efficiency Capital Programme is currently underway and is due to be finalised by 30th June 2014.

Housing and Adult Social Services

A total of 5 reports were issued in 2013/14 from the original 9 planned projects detailed in the original plan.

Report Title	Assurance Rating	Key issues arising
Area Housing Offices- Tenancy and Estate Management Services	Moderate	No high priority findings noted. Internal Audit have identified three medium control operating effectiveness issues relating to stock counts at an individual Area Housing Offices' central store, an individual Area Housing Offices' stock count at satellite caretaker stores and the recording of necessary auditable information, on both stock counts and order forms, across all of the Area Housing Offices.
Client Affairs Team	Moderate	No high priority findings noted. All recommendations except one from the 2011/12 audit have now been fully implemented by the service area, with one further medium priority recommendation arising in relation to policies and procedures for issuing client statements. The recommendation which has not yet been fully implemented corresponds to periodic checks of standing order and direct debit payments; evidence is not retained to confirm this control has been operating. This recommendation was initially rated as high.
Data Protection (HASS)	Moderate	One high priority finding was identified. The directorate does not hold a complete information asset register detailing the nature and location of sensitive data in its possession. An incomplete picture of the data held by the directorate prevents management from obtaining a full understanding of the risk of a data breach occurring. Four medium priority risks relating to data incident reporting, data protection training, access to physical records and subject access requests were also identified.
Tenant Management Organisations	Braithwaite TMO Limited	No high priority findings noted. Eight medium risks identified covering: limits of delegated authority; financial information in monthly meetings; Register of Interest form, Code of Conduct and Non-disclosure Undertaking forms; Access controls; Bank reconciliations; Petty cash; Contractor documentation and; Data security and contingency.
	Holbrook TMO Moderate	No high priority findings noted. One medium finding relating to financial management, control and accounts.
	Newbery TMO Moderate	No high priority findings noted. The medium priority finding related to the inspection of repairs work; whilst reactive repairs are checked by the TMO Admin Assistant, evidence of these checks are not retained resulting in an incomplete audit trail.
Supporting People	Substantial	No high priority findings noted. The medium priority recommendation relates to the updating of the Supporting People Governance Framework.

Report Title	Assurance Rating	Key issues arising
<p>HASS Material Ordering Process & Van Stock (Addition to original plan)</p>	<p>Management Letter</p>	<p>The review was undertaken at management's request to assess the controls identified as currently in operation at Kier to mitigate the key risks outlined in the terms of reference and recommendations to management to inform the new in house stock management process.</p>
<p>Housing Repairs (Addition to original plan)</p>	<p>Management Letter</p>	<p>Risk and control advice exercise focusing on programme management and governance control framework design. Internal Audit found that whilst a number of opportunities for addition to, or enhancement of, the current portfolio of programme governance controls are evident, control framework design was still ongoing and a significant proportion of identified deficiencies and/or omissions are due to review timing (i.e. early in the programme lifecycle). Significantly, in many cases, remedial action was already under management consideration and/or development</p>

Planned audits of Intermediate Care Service Occupational Health and Supported Discharge Rehabilitation Scheme have been deferred to 2014/15. Reviews of the Legal Repairs Surveying Team and Housing Operations Special Projects Team were removed from the plan in consultation with management and the audit resource applied to other priority areas (see additions to original plan).

The following reviews are due to be finalised by 30th June 2014:

- Seaview TMC

Children's Services

A total of 5 reports were issued in 2013/14 from the original 8 planned projects detailed in the original plan

Report Title	Assurance Rating	High Priority and Key Issues Arising
St Andrew's Primary School	Limited	No high priority recommendations noted. Ten medium priority findings identified related to petty cash, procurement of contracts, HR, expenditure, payroll, security of assets, register of interests, school fund and data protection.
Early Years' Service - Children's Centre Monitoring (Addition to original plan)	Moderate	One high priority finding was identified relating to the review of the service level agreement and the need to ensure it is updated to remain fit for purpose. In particular, greater clarification is required over the calculation of the apportionment of Centre costs and the basis of the sums involved (e.g. gross or net of income). Scope exists to increase the consistency of information supplied by Centres in respect of Centre performance which will enable more meaningful analysis and comparison to be undertaken.
Targeted Youth Support Service and Youth Offending Service	Moderate	No high priority findings noted. Three medium priority findings identified related to reporting data security breaches, recruitment of permanent and temporary staff, and quotes for expenditure.
School's Traded Services	Moderate	No high priority findings noted. Two medium priority findings identified related to the pricing policy and monitoring of financial information.
Montem Primary School	Moderate	No high priority findings noted. Eight medium priority findings identified related to income recording, school uniform, contract letting and management, record of debit card usage, invoice payments, self-employed consultant status, security of assets and data protection.
Copenhagen Primary School (Additional to original plan)	Management Letter	Three high priority findings have been made following the audit investigation in relation to contractor payments, works undertaken by the contractor and safeguarding. Three medium priority recommendations were made covering leasing of the school premises, documentation retention and the lease agreement held with the contractor based on the school premises. The recommendations will be followed-up in October 2014 at which time a full audit of the school will also be undertaken.
Stronger Families PBR claim	Management Letter	Moderate Assurance. Next claim round to be reviewed in May 2014.

Planned audits of IAG service, Community Budget/ Family Support Service, and Play schemes/ Youth clubs were removed from the plan in consultation with management and the audit resource applied to other priority areas (see additions to original plan).

The following reviews are due to be finalised by 30th June 2014:

- School's Pupil Roll Management
- Ambler Primary School

Finance and Resources

A total of 13 reports were issued in 2013/14 from the original 18 planned projects detailed in the original plan.

Report Title	Assurance Rating	Key issues arising
<u>Finance and Resources</u>		
Continuous Auditing Key Financial Systems Controls	Limited	<p>Three high rated findings correspond to controls in the accounts payable process and are summarised below.</p> <ul style="list-style-type: none"> - Purchase orders and goods receipts are not used by the Council, there is therefore no three way match in place between the goods received note, invoice and purchase order to confirm the accuracy and validity of invoices. Invoices are approved by budget holders prior to payment and it is assumed that accuracy and validity is verified as part of this approval process. - No independent check is performed on new suppliers as they are added to the system to ensure that they are legitimate. It is assumed that any such checks are undertaken by the service prior to new supplier set up requests being raised with Central Finance. - Currently there is no requirement for the Council to get independent confirmation using an existing contact, to ensure that the changes of supplier bank details are correct before these are changed in the system. <p>Management opinion is that, as no examples of financial loss or fictitious suppliers were identified, the system is not considered by Finance Management to be high risk. Islington has decided not to adopt a 'Purchase Order System' as the revenue costs are very high and there is no evidence that the system currently used in Islington has introduced either fraud or error. It is considered that current controls are proportionate to the audit findings and extra checks have been introduced by the finance team.</p>
Insurance Scheme	Moderate	<p>No high priority findings noted.</p> <p>Four medium priority findings related to: Contractor's imprest account; dissemination of insurance guidance; management information; allocation of insurance costs; and recording and monitoring of fraudulent claims.</p>
Resident Support Scheme	Moderate	<p>One high priority finding was highlighted relating to access rights. The current access rights on the Revenue and Benefits Performance (RBP) system allow the Administration Officer for the Benefits Security and Safeguarding team full access including setting up of user-ids, creation of passwords and changes to passwords</p>
Call Centre Management	Moderate	<p>No high priority findings were noted.</p> <p>One medium finding was highlighted relating to call assessments.</p>
Community Capacity Capital Grant (Addition to original plan)	Management Letter	<p>No high priority findings were noted.</p> <p>Internal Audit were requested to carry out a review of the Council's compliance with the Community Capacity Grant conditions. Internal Audit's examination of this expenditure revealed that all invoices were validated against each capital scheme detailed above, and specific cost centres had been set up to account for spends related to capital schemes detailed above. No further issues were identified requiring action.</p>

Report Title	Assurance Rating	Key issues arising
<p>Bailiffs (Addition to original plan)</p>	<p>Management Letter</p>	<p>No high priority findings were noted.</p> <p>Review of fees and charges applied by bailiffs for the collection of unpaid penalty charge notices (PCN). Internal Audit examination of these cases identified that additional charges had been applied during the collection but were found to be supported by evidence confirming that these were reasonable and at cost. However, it was noted that the original service contract (which covered this sampled period) did not outline the charges to be applied and as such the 'reasonableness' of charges applied were subject to interpretation. Bailiffs are subject to further audit review in 2014-15.</p>
<p>Cashiers move (Addition to original plan)</p>	<p>Management Letter</p>	<p>Internal Audit was asked to provide input into the temporary relocation of the cashier's office within 222 Upper Street by the Assistant Director of Financial Operations and Customer Services. One high priority risk was noted relating to safe access controls.</p>
<p><u>Anti-Fraud</u></p>		
<p>Bribery Act</p>	<p>Limited</p>	<p>Two high priority findings and five medium priority findings. The high priority findings relate to the Council being potentially considered as a commercial organisation under the Bribery Act in light of some its activities; however it has not undertaken a formal risk assessment to evaluate its level of exposure under the Act. This is essential for ensuring that it operates policies and procedures that are proportionate to the level of risk.</p> <p>The Council is in the process of updating the criteria for officers required to provide annual declaration of interest returns. We found that the current list appears to exclude a number of staff in key positions. We also note that the proposed new criteria could potentially exclude staff with contract management responsibility, which could expose the Council to risk in relation to staff managing contractors with whom they have an interest.</p>
<p>Amendments to Supplier Bank Details</p>	<p>Management Letter</p>	<p>Using analytics software we performed analysis on matching active suppliers per Cedar to current employees per Payroll by bank account number; and identifying instances where an employee has approved or authorised payment to themselves through the Contempus system.</p> <p>The analysis carried out showed 132 current employees were found to have a unique supplier record on Cedar, which is around 3% of the workforce. This does create an inherent risk around erroneous and fraudulent payments. We understand from previous data analytics exercises that the reasons behind employees having unique supplier records on Cedar are typically:</p> <ul style="list-style-type: none"> • Employees being reimbursed expenses through Cedar; • Employees previously being employed as a consultant and paid through Cedar, and • Employees receiving a payment from Social Services as a carer <p>The analysis performed did not identify any evidence of any employee approving or authorising a payment to themselves through Contempus.</p>





Report Title	Assurance Rating	Key issues arising
<u>DST</u>		
ICT Third Party Management	Limited	<p>Our review identified four high priority findings:</p> <ul style="list-style-type: none"> • Terms and Conditions of Third Party access – Council policy is that third parties sign a network access form prior to access being granted to the network. In six out of ten instances tested, however, no signed agreement was present between the Council and the third party to which access had been granted. • Governance – There was an inability to provide evidence of a complete, accurate and up to date third party IT access register that provided a record of third parties holding access at any one time. Alongside this, there existed no defined roles, responsibilities and incidence escalation procedures in place, where third parties were identified as being involved in security incidents on the IT network. • Access Management – In all ten instances tested, third party access to the Council’s network was marked as ‘never expires’ and there were also two instances of generic user accounts in existence. • Monitoring of Third Party activity – Management were unable to provide evidence of any monitoring of third party activity on the Council’s IT network. It was disclosed that currently the Council solely places reliance on third parties themselves to communicate any security incidents or non-compliance with agreed access protocol.
Network Security	Limited	<p>Three high priority findings were identified:</p> <ul style="list-style-type: none"> • Firewall management – the absence of controls to formally review the firewall rules has resulted in weaknesses in the network perimeter controls. Internal Audit identified a number of poorly configured firewall rules for past projects that are no longer valid and rules for test systems. • Physical and Logical controls – administrative access to the Council’s internal network devices are controlled by generic user accounts, with passwords that have not been changed for some considerable time. In addition, the physical security controls over the networking equipment in the Town Hall and Upper Street locations were weak.
APACS Application (PARIS Upgrade) System	Moderate	<p>Our review identified one high priority finding relating to User Access. Access to the PARIS server is not restricted to users directly involved with the support and maintenance of the application and its server. Generic domain and third party admin accounts have been identified. The risk of inappropriate activity occurring on the server is increased by the fact that there is a lack of audit tools to monitor user activity on the PARIS server and an absence of systematic review of domain admin accounts by management.</p>
ICT Change Management	Moderate	<p>One high priority finding has been identified whereby the change management policy documented by the Digital Services Group (DSG) is not being followed Council wide. We found that outside of the DSG, directorates are processing and applying changes to applications independently of this process. This may extend to up to 50% of the Council’s IT budget as only 50% is under the control of DSG.</p>
Portable Storage (merged with ICT Procurement and Asset Management)	Moderate	<p>No high priority findings were noted</p> <p>Our review found three medium rated findings relating to; the monitoring and reporting of the risk of laptops not being returned, prioritisation and classification of the Councils critical IT systems and physical access to server rooms</p>

Report Title	Assurance Rating	Key issues arising
Server Management	Moderate	<p>No high priority findings were noted</p> <p>Four medium rated findings were identified relating to: physical access to the data centre; initial server configuration; evidence of approvals obtained to grant administrator access; and security patches and upgrades to the Council's Windows servers are administered manually.</p>
Service Desk And Delivery	Moderate	<p>No high priority findings were noted</p> <p>Five medium rated findings related to: new prioritisation guidelines have not yet been incorporated into the SLA and the agreement has not yet been issued to users in final version; monthly management scorecards do not include information on agreed service standards targets; a central log of training and qualifications is not currently maintained and reviewed; information on the agreed time frames, prioritised target time frames, and recent achieved time frames is not currently available to users where they log an incident; the feedback response rate is very low (below 5%) and follow up of negative feedback is not formally documented and reviewed.</p>





The planned audit of Grant Claim Preparation has been deferred to 2014/15. Reviews of Debt Management, Parking Permits –Visitor and Residents, Insurance Claims (anti-fraud) and Direct Debit Fraud Prevention were removed from the plan in consultation with management and the audit resource applied to other priority areas (see additions to original plan).

Appendix B: Key to Assurance Levels

Key to Assurance Levels

Level of Assurance	
Substantial 	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.
Moderate 	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.
Limited 	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
No Assurance 	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.

Recommendations

Risk rating	
Critical 	<p>Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance. Mass strike actions etc</p> <p>Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers.</p> <p>Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members & SMBs are required to intervene</p> <p>Major financial loss – Significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council; Critical breach in laws and regulations that could result in material fines or consequences</p>
High 	<p>Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff.</p> <p>Significant impact on the reputation or brand of the organisation ; Scrutiny required by external agencies, external audit etc. Unfavourable external media coverage. Noticeable impact on public opinion</p> <p>Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome med – term difficulties</p> <p>High financial loss Significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences</p>
Medium 	<p>Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff.</p> <p>Moderate impact on the reputation or brand of the organisation ; Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage.</p> <p>Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required.</p> <p>Medium financial loss - Small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences</p>
Low 	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale</p> <p>Internal Review, unlikely to have impact on the corporate image. Minor impact on the reputation of the organisation</p> <p>Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines.</p> <p>Minimal financial loss – Minimal effect on project budget/cost. Minor breach in laws and regulations with limited consequences</p>