
Report to Scrutiny Committee

Date: 10 September 2009

Subject: Internal Audit Progress Report - 30 June 2009

Report by: Senior Auditor

1.0 Purpose

- 1.1. This report provides the quarterly update on progress of the Internal Audit Annual Plan, as approved by Scrutiny Committee on 9 April 2009, in accordance with the Financial Regulations.
- 1.2. The report also provides the quarterly update on the progress of implementation by Officers of recommendations from previous Internal Audit Reports and of the National Fraud Initiative for 2008-09.

2.0 Recommendations

- 2.1. The Committee is asked to note the reports and progress made to 30 June 2009.

3.0 Considerations

- 3.1. Progress on completion of the Annual Plan 2009-10, is summarised in the table below, with more detail being provided in Appendix A.

Status of Audits	Number	%
To be Commenced	13	81%
Planned	-	-
Onsite/Ongoing	3	19%
Draft Report Issued	-	-
Final Report Issued	-	-
Total	16	100%

- 3.2. At 30 June 2009, three audits in the 2009-10 Plan have commenced onsite, including Client Monies, Information Security and Capital Expenditure.
- 3.3. In addition, Appendix A reflects the audits relating to the Annual Plan 2008-09 which are still to be finalised and reported to Scrutiny Committee. Once the report has been finalised and reported to Scrutiny Committee, these audits will be removed from Appendix A.

Final Reports

- 3.4. In addition, five audit reports have been issued in final for the 2008-09 Plan, with five additional audits being completed or having reports issued in draft. Of the five reports issued in final, the following four are summarised for members in Appendix B to E. :-
- Community Chest (Appendix B)
 - Risk Management (Appendix C)
 - Homeless Procurement (Appendix D)
 - Corporate Network and System Access Controls (Appendix E)

Progress of Follow Up

- 3.5. Within action plans agreed by Officers for previous Internal Audit Reports, there were fifty seven recommendations which were due to be implemented by 30 June 2009, arising from eleven reports. The progress made by Officers on these recommendations is summarised in Appendix G.
- 3.6. The progress of recommendations which have not been fully implemented will continue be followed up by Internal Audit quarterly, until they have been adequately implemented.

National Fraud Initiative 2008-09

- 3.7. The matches continue to be investigated with 956 of the 3,247 (29.4%) having been concluded. This has resulted in five errors or fraud amounting to approximately £4,300 being detected. Where relevant, recovery proceeding are in operation.

4.0 Sustainability Implications

- 4.1. There are no sustainability implications.

5.0 Resource Implications

5.1. Financial Details

- 5.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate.

Yes ☒

5.3. *Staffing*

5.4. There are no staffing implications.

6.0 Exempt Reports

6.1. Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☒

7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities 2008 - 2011** (Please tick ☒)

The area has a positive image and attracts people and businesses	<input type="checkbox"/>
Our communities are more cohesive and inclusive	<input type="checkbox"/>
People are better skilled, trained and ready for learning and employment	<input type="checkbox"/>
Our communities are safer	<input type="checkbox"/>
Vulnerable people and families are supported	<input type="checkbox"/>
Substance misuse and its effects are reduced	<input type="checkbox"/>
Health is improving and health inequalities are reducing	<input type="checkbox"/>
The environment is protected and enhanced for all	<input type="checkbox"/>
The Council is effective, efficient and recognised for excellence	<input checked="" type="checkbox"/>

(2) **Council Policies** (Please detail)

Financial Regulations

8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes ☐ No ☒

9.0 Legality

9.1 In adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☒

10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix A - Approved Internal Audit Plan 2009-10

Appendix B - Community Chest

Appendix C - Risk Management and Monitoring

Appendix D - Homeless Procurement

Appendix E - Corporate Network and System Access

Appendix F - Definition of Assurance Assessment and Priorities

Appendix G - Progress of Follow Up of Internal Audit Reports

11.0 Background Papers

11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes ☐ (please list the documents below) No ☒

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Susan Mackay	Senior Auditor	452047

Approved by

NAME	DESIGNATION	SIGNATURE
Muir Wilson	Head of Finance	
Angela Leitch	Chief Executive	

PROGRESS ON APPROVED INTERNAL AUDIT ANNUAL PLAN

APPENDIX A

Audit	Annual Plan	Service	Weeks	Progress
Managemement of PPP Contracts	2009-10	Corporate	6	To Be Commenced
Information Security	2009-10	Corporate	6	Onsite
Procurement	2009-10	Education	6	To Be Commenced
Capital Expenditure	2009-10	Finance	6	Onsite
Purchase Ordering, Invoicing and Payment	2009-10	Finance	6	To Be Commenced
Gas Inspections in Council Housing	2009-10	Housing	5	To Be Commenced
Data Protection	2009-10	HR	6	To Be Commenced
Child Protection	2009-10	Social Work	6	To Be Commenced
Managemement of Client Monies	2009-10	Social Work	6	Onsite
Managemement of MAPAA	2009-10	Social Work	6	To Be Commenced
Purchase Cards	2009-10	Corporate	5	To Be Commenced
Financial and Operating Controls x 3	2009-10	Education	8	To Be Commenced
Waste Management	2009-10	Environmental	6	To Be Commenced
Fleet Management	2009-10	Property Services	6	To Be Commenced
Governance	2009-10	Related Companies	6	To Be Commenced
Governance	2009-10	Valuation Joint Board	4	To Be Commenced
Allocation of Council Housing	2008-09	Services To People	5	Ongoing
Business Continuity/Emergency Planning	2008-09	Council-wide	6	Ongoing
Political Governance	2008-09	Chief Executive	6	Ongoing
Pavroll review - Assessors	2008-09	Corporate Development	5	Ongoing
Capital Contract Management	2008-09	Property Services	-	Ongoing
Health & Safety Management	2008-09	Council-wide	5	Draft Report Issued
General Ledger	2008-09	Finance	5	Draft Report Issued
Budget Monitoring	2008-09	Council-wide	5	Draft Report Issued
Council Tax	2008-09	Corporate Development	5	Draft Report Issued
Roads Maintenance	2008-09	Environmental	4	Final Report Issued

1. INTRODUCTION

- 1.1 This report summarises the issues arising from the Internal Audit review. Internal Audit reviewed the Community Chest processes within Chief Executive Service as part of the Audit Plan for 2008-09, which was approved by Scrutiny Committee on 27 March 2008.

2. SCOPE AND OBJECTIVES

- 2.1 The scope of the audit included a review of the administration of the Community Chest. The scope of the audit does not include an assessment of the appropriateness of awarding funds to a project.
- 2.2 The objectives of the audit were to provide assurance on the key controls within Community Chest. Six key controls were identified and tested and the adequacy of the internal controls were established. These internal controls can only provide reasonable and not absolute assurance against misstatement or loss. A definition of the assurance assessments is provided in Appendix F. The key controls and assessments were as follows:

Key Control	Assurance Assessment
The roles and responsibilities of the Council are clearly defined and understood in the administration of the Community Chest fund.	Significant
Income is invoiced, recovered and banked on a timely basis.	Significant
Applications for funding are processed accurately and on a timely basis.	Significant
Suitable applications are formally considered by representatives from Sterling Mills and Sterling Furniture.	Significant
Monies are only paid out if a claim is properly authorised.	Significant
Income and Expenditure in relation to the fund is regularly reconciled and the reconciliation is independently verified.	Significant

3. SYSTEM OVERVIEW AND AUDIT OPINION

- 3.1 There are sound controls in place in relation to the Community Chest processes. There is clear segregation of duties, together with independent verification of transactions. Income and payments are regularly monitored and there ongoing meetings with the sponsors.

- 3.2 From the testing undertaken, the following strengths were identified:
- The Community Chest is highlighted under the section Independent Funds, within the Financial Regulations,
 - Procedures on reviewing, processing and reporting on applications are consistently complied with,
 - Records are updated on a continual basis and available funds are monitored,
 - There are accurate records maintained of income and expenditure and close monitoring of balances,
 - Staff are aware of their responsibilities and there is documented guidance.

4. RECOMMENDATIONS

- 4.1 A summary of the recommendations raised from the audit are included in a Management Action Plan in the report. Management comments, the date for implementation and Responsible Officer have been reflected within with Action Plan.
- 4.2 The Management Action Plan contains the following priority of recommendations. Definitions for the priority assessments are provided in the Appendix E.

Priority Assessments	Number
Priority 1	-
Priority 2	1
Priority 3	3
Priority 4	1

1. INTRODUCTION

- 1.1 This report summarises the issues arising from the Internal Audit review. Internal Audit reviewed the risk management and monitoring processes within the Council, as part of the Audit Plan for 2008-09, which was approved by Scrutiny Committee on 27 March 2008.

2. SCOPE AND OBJECTIVES

- 2.1 The scope of the audit included review of the corporate risk management strategy, delegation of monitoring and management to Services, identification of risks and mitigating controls and ongoing review and reporting. The scope did not include review of individual/personal risk assessments or the appropriateness of such risk assessments.
- 2.2 The objectives of the audit were to provide assurance on the key controls within risk management and monitoring arrangements. Six key controls were identified and tested and the adequacy of the internal controls were established. These internal controls can only provide reasonable and not absolute assurance against misstatement or loss. A definition of the assurance assessments is provided in Appendix F. The key controls and assessments were as follows:

Key Control	Assurance Assessment
There is a formal Risk Management Strategy in place which has been approved by those responsible for governance	Reasonable
Risk Management is linked to the strategic and corporate objectives of the Council	Reasonable
Risk Management is linked to the strategic and operational objectives of the Services	Limited
Guidance has been prepared in relation to risk management and officers and members are aware of their responsibilities	Significant
The risks facing the Council are identified, evaluated, managed and monitored	Limited
Significant risks facing the Council are routinely reported internally and to members	Significant

3. SYSTEM OVERVIEW AND AUDIT OPINION

- 3.1 There are moderate controls in place in relation to the risk management and monitoring processes. There is a formal risk management policy in place, together with Corporate and Service Risk Registers. There is an awareness of risk management corporately and at a Service level, with risk assessments routinely undertaken. However identification of operational risks and the mitigating controls is not undertaken consistently or by all Services across the Council. Some controls to mitigate and manage strategic risks are also still to be identified. This could lead to a failure to demonstrate that strategic and operational risks are being adequately managed.
- 3.2 From the testing undertaken, the following strengths were identified.
- There are written strategies and policies for risk management which have been formally approved at Council meetings,
 - There is a corporate risk register in place since March 2008, which has been maintained on an on-going basis, in order to reflect all significant risks which the Council may be exposed to,
 - There has been reporting of risk management both internally and to members during 2007/08 and 2008/09.
- 3.3 From the testing undertaken, the following areas for improvement were identified.
- Overall responsibility and championing of risk management has not been allocated to one Officer,
 - Some controls to mitigate and manage strategic risks have not been identified,
 - Some services have not yet completed or only partly completed a Risk Register.

4. RECOMMENDATIONS

- 4.1 A summary of the recommendations raised from this audit are included in a Management Action Plan in the report. Management comments, the date for implementation and Responsible Officer have been reflected within the Action Plan.
- 4.2 The Management Action Plan contains the following priority of recommendations. Definitions for the priority assessments are provided in Appendix E.

Priority Assessments	Number
Priority 1	2
Priority 2	16
Priority 3	1
Priority 4	-

1. INTRODUCTION

- 1.1 This report summarises the issues arising from the Internal Audit review. Internal Audit reviewed the procurement of goods and services for the Homeless section within Housing Services, as part of the Audit Plan for 2008-09.

2. SCOPE AND OBJECTIVES

- 2.1 The scope of the audit included review of the ordering of goods and services procedures within the Homeless section in Housing Services and the extent to which the Council's policy and best practice is adhered to. The scope did not include the appropriateness of the goods and services purchased.
- 2.2 The objectives of the audit were to provide assurance on the key controls within Homeless Procurement. Five key controls were identified and tested and the adequacy of the internal controls were established. These internal controls can only provide reasonable and not absolute assurance against misstatement or loss. A definition of the assurance assessments is provided in Appendix F. The key controls and assessments were as follows:

Key Control	Assurance Assessment
Authorised purchase orders are being raised with adequate detail and matched to purchase invoices.	No Assurance
Purchases invoices are being coded accurately and authorised by the appropriate person.	Limited
Procurement of items ensures value for money.	No Assurance
Items purchased are allocated to the relevant homeless unit and inventory maintained.	Limited
Clear stock records are maintained when items are held in stock.	Limited

3. SYSTEM OVERVIEW AND AUDIT OPINION

- 3.1 There are limited controls operating and being adhered to in relation to procurement within the Homeless section. Purchase orders are not consistently completed, retained or attached to purchase invoices, although all purchase invoices were agreed as having been properly authorised.
- 3.2 From the testing undertaken, the following strengths were identified.

- All Order forms available from the sample had sufficient information to determine the nature, quantity and quality of goods being ordered,
- All Invoices checked as part of the sample were found to be authorised by an appropriate signatory, and within their designated levels of spend,
- All order forms attached to purchase invoice were authorised whilst maintaining a segregation of duties,
- All order forms and invoices were found to be made payable to the Council, with delivery to a known Council address.

3.3 From the testing undertaken, the following areas for improvement were identified.

- The service uses a purchase requisition form for officers to order goods/services which is a non approved form, and is then replicated when the centralised purchasing team complete an Official Council Order Form,
- A high number of Order forms did not have an agreed price quoted on the official order form,
- The service cannot demonstrate value for money in its procurement,
- A sample of purchase orders were authorised by Officers without relevant authority,
- There was a lack of stock records kept for the movement of goods kept within Housing Services.

4. RECOMMENDATIONS

4.1 A summary of the recommendations raised from this audit are included in a Management Action Plan in the report. Management comments, the date for implementation and Responsible Officer have been reflected within the Action Plan.

4.2 The Management Action Plan contains the following priority of recommendations. Definitions for the priority assessments are provided in Appendix E.

Priority Assessments	Number
Priority 1	8
Priority 2	5
Priority 3	-
Priority 4	-

**CORPORATE NETWORK AND SYSTEM ACCESS
CONTROLS
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APPENDIX E

1. INTRODUCTION

- 1.1 This report was undertaken by Scott Moncrieff and summarises the issues arising from their Internal Audit review. This audit was undertaken as part of the Audit Plan for 2008-09.

2. SCOPE AND OBJECTIVES

- 2.1 The scope of the audit included a review the corporate network and an access controls review of the Child Care Information System (CCIS) and Housing Management System. The purpose of the audit was to provide assurance that there are effective physical and logical security controls in place to ensure the confidentiality, integrity and availability of the Council's corporate and key application.
- 2.2 The audit covered an overview of the manner in which the Council ensures that there are appropriate management and monitoring arrangements in place. In addition the review also covered how access controls for CCIS and Housing Management system ensure access to date is restricted and effective segregation of duties exists.
- 2.3 The objectives of the audit were to provide assurance on the key controls within corporate network and system access. Eight key controls were identified and tested and the adequacy of the internal controls were established. These internal controls can only provide reasonable and not absolute assurance against misstatement or loss. A definition of the assurance assessments is provided in Appendix F. The key controls and assessments were as follows:

Key Control	Assurance Assessment
Network access is controlled.	Limited*
There is appropriate security over network devices	Limited*
Data is transmitted securely	Reasonable*
There is appropriate resilience and recovery designed into the network	Limited*
There is effective network monitoring	Reasonable*
Application system access controls comply with all relevant Council IT security policies	Reasonable*
Use access is provided on a need-to-have/need-to-know basis.	Limited*
User access ensures effective segregation of duties.	Limited*

* Scott Moncrieff have a different mechanism for measuring and reporting assurance and priority assessments, however these have been restated by the Senior Auditor for comparability purposes.

3. SYSTEM OVERVIEW AND AUDIT OPINION

- 3.1 In our opinion, the management and monitoring of the corporate network and controls over system access require improvement before they can be considered to be adequate. We were pleased to note that there were strong controls over the administration of the CCIS. In addition, there were clearly defined roles and responsibilities within IT for the administration of specific areas of the network and staff were provided with appropriate training to ensure that they have the skills to maintain the network. Notwithstanding this, we have identified, below, those areas where significant improvement is required.

Corporate Network

- 3.2 It is recommended that controls are improved over access to and use of powerful user accounts. Access to the Administrator accounts should be restricted to a trusted individual with access to this granted through the use of secure password procedures. This will ensure that there is accountability for all use of Administrator accounts.
- 3.3 The Council should also conduct a detailed analysis of the risks involved in the current configuration of the network infrastructure. The majority of the Council's core infrastructure is located within the server room at Greenfield House and all sites connect into this for access to the network and applications. There is no mirroring or replication of data to other Council sites. Therefore, there is a risk that, in the event of a disaster such as fire or flooding within Greenfield, all Council users could lose the ability to access the network and applications. This risk is increased due to the absence of a complete IT disaster recovery plan and the fact that daily (incremental) backup tapes are stored within the Greenfield site which could result in the loss of one week of data in the event of a disaster.

System Access Controls

- 3.4 There is no list maintained within Housing in respect of the authorisation limits for transaction processing by each user within the Housing Management System. Therefore, there is a risk that users are processing transactions which exceed their delegated authority limits.
- 3.5 The Administrator account password for the Housing Management System, the most powerful account in the system, has not been changed from the default password. This password is known to Anite, the system provider, as well as a number of current employees. It is also likely that some former

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employees of the Council and Anite may be aware of this password. There is a risk that access cannot be attributed to a specific individual. Furthermore, in the absence of any monitoring of use of this account, the Council are unable to determine whether there are any unauthorised transactions being processed.

4. RECOMMENDATIONS

- 4.1 A summary of the recommendations raised from this audit are included in a Management Action Plan in the report. Management comments, the date for implementation and Responsible Officer have been reflected within the Action Plan.
- 4.2 The Management Action Plan contains the following priority of recommendations. Definitions for the priority assessments are provided in Appendix E.

Priority Assessments	Number
Priority 1	-
Priority 2	23*
Priority 3	1*
Priority 4	-

* Scott Moncrieff have a different mechanism for measuring and reporting assurance and priority assessments, however these have been restated by the Senior Auditor for comparability purposes.

**DEFINITION OF ASSURANCE ASSESSMENTS
AND PRIORITIES**

APPENDIX F

Assurance	Definitions
Significant Assurance	There are sound controls operating within the system and these are complied with consistently. Risks are being controlled or mitigated. Good practice is in operation.
Reasonable Assurance	There are controls operating within the system. Some improvements could be made to further enhance the control environment. Significant risks are being adequately controlled/mitigated.
Limited Assurance	There are only minimal controls operating and the control environment requires to be improved. Risks are not being controlled/mitigated adequately.
No Assurance	There is an absence of basic controls within the system. A control environment must be established. Risks are not being controlled/mitigated.

Priority	Definition
1	There is a fundamental absence of control(s) which should be addressed immediately.
2	There is an absence of control(s) which should be addressed at the earliest opportunity.
3	There is an immaterial breakdown in control(s) which should be addressed as soon as practically possible.
4	A matter for consideration which is a point of good practice or could improve the effectiveness of the arrangements.

PROGRESS OF FOLLOW UP OF INTERNAL AUDIT REPORTS

APPENDIX G

Report Title	Priority				Number of Recommendations	Recommendations Implemented	Recommendation Outstanding
	1	2	3	4			
Community Chest	-	-	1	1	2	2	-
Education Maintenance Allowances	-	1	-	-	1	-	1
Fuel Management	-	1	-	-	1	1	-
Funding External Organisations	4	6	1	-	11	-	11
Home Care	1	15	1	-	17	3	14
Janitorial Overtime	-	3	11	-	14	4	10
Purchase Ledger	-	-	1	-	1	-	1
Regeneration Outcome Agreement	1	1	-	-	2	-	2
Street Lighting	-	2	-	-	2	-	2
Sundry Debtors	1	2	1	-	4	-	4
Throughcare and Aftercare	-	1	-	-	1	-	1
TOTAL	7	32	17	1	56	10	46

