Havering
LONDON BOROUGH

AUDIT COMMITTEE

25 June 2014

Subject Heading:	Internal Audit Systems Report Summaries 19.03.2014 to 27.05.2014
Report Author and contact details:	Vanessa Bateman, Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee of the findings and recommendations made in systems audit reports.
Financial summary:	N/a

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	X
Excellence in education and learning	X
Opportunities for all through economic, social and cultural activity	X
Value and enhance the life of every individual	X
High customer satisfaction and a stable council tax	X

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SUMMARY

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This report provides the Audit Committee with summaries of internal audit reports issued during the period 19th March 2014 to 27th May 2014. Information on recommendations made by audit and managements' response to the recommendations is provided for reports where limited assurance was given. This will provide the Committee with assurance that appropriate plans to mitigate risk have been put in place.

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│         RECOMMENDATIONS         │
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1.   To note the contents of the report.

2.   To raise any issues of concern and ask specific questions of officers where required.

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│          REPORT DETAIL          │
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1.   INTRODUCTION

1.1   Audit work focused on the reliability of the financial and operational information, management accounting controls, safeguarding of assets, economy and efficiency of operations and review of compliance with relevant statutes and Council regulations.

1.2   For each risk based audit where controls have been analysed, an assurance statement is issued. This simple grading mechanism provides an indication of the level of confidence in the controls in operation and the extent to which they are being applied. Each category is defined below:

Full: There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

Substantial: While there is a basically sound system, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Limited: Limitations in the systems of control are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

No Assurance: Control is generally weak, leaving the system open to significant error or abuse, and/or significant noncompliance with basic controls leaves the system open to error or abuse.

1.3   Recommendations are made to mitigate weaknesses identified in the system of control. Recommendations are categorised into three levels of priority to ensure that those addressing areas of significant risk are implemented as a priority. The three categories comprise:

High: Fundamental control requiring implementation as soon as possible.

Medium: Important control that should be implemented.

Low: Pertaining to best practice.

1.4   Seven systems audits were finalised during the period 19th March 2014 to 27th May 2014.

1.5   The five systems and the level of assurance provided where applicable are shown below:

SYSTEM	ASSURANCE
Main Accounting	Substantial
Payroll	Substantial
Pensions	Substantial
Accounts Receivable	Substantial
Housing Benefits	Substantial
Council Tax	Substantial
Budgetary Control	Substantial

1.5   Summaries of the seven systems audit reports are included in Sections 2.1 to 2.7 below.

2.   REPORT SUMMARIES

2.1   MAIN ACCOUNTING

Summary of Audit Findings

2.1.1   Some sections of the Financial Framework are out of date but this is expected to be updated once the implementation of One Oracle has taken place later in 2014.

2.1.2   The outstanding recommendation from the previous audit in 2011/12 relating to reconciliations is largely completed although there are some further aspects to address such as; alignment with new codes and the addition of some balance sheet codes.   These remaining issues are expected to be addressed once One Oracle has been implemented.

Audit Opinion

2.1.3   **Substantial Assurance** has been given on the system of internal control operating at the time of audit. Our review found that the control environment was sound however it contained limitations that may put some of the systems objectives at risk, and/or there was evidence of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

2.1.4   This audit makes no recommendations due to the implementation of One Oracle.

2.2 PAYROLL

Summary of Audit Findings

2.2.1 Payroll has been operating using the same procedures as have been documented in previous year audits. Minimal work has been undertaken to update any change in processes due to the expected implementation of One Oracle, now due in July 2014.

2.2.2 The delay in the implementation has meant that changes that could have been made haven't, and that going forward the current processes are still being used. Once One Oracle does go live the financial procedures and processes used will need to be altered to match the capabilities of the new system.

2.2.3 The monitoring of key performance indicators was stopped due to the work being carried out on One Oracle. However, some performance was monitored and reported where there is an impact on a large number of employees and ad-hoc performance reports are supplied to academies.   When KPI's were being monitored this information was being taken to Customer Improvement Team as well as the Group Director for Resources.

Audit Opinion

2.2.4 **Substantial Assurance** has been given on the system of internal control operating at the time of audit. Our review found that the control environment was sound however it contained limitations that may put some of the systems objectives at risk, and/or there was evidence of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

2.2.5 No recommendations have been raised as part of this audit

2.3 PENSIONS

Summary of Audit Findings and Audit Opinion

2.3.1 The introduction of the new system in December 2013 has improved some aspects of the control environment such as procedure documentation; or has the potential to do so in the case of reporting and management information functions.

2.3.2 There is still a reliance on data provided by HR and Payroll but checks are in place for areas of higher risk and the recent payroll audit has identified that checks are also taking place there to ensure accuracy of data.

2.3.3 The test of pension contribution rates identified that one member of staff in a sample of 20 had been paying an incorrect contribution rate. This was rectified during the audit and further investigation deemed this to be a case of human error rather than a major failure in the system of internal control.

2.3.4 The payment of pension benefits to a relative of a deceased pensioner remains the biggest fraud risk for pensions nationally. There are a number of preventative and detective controls in place for this risk already but there is scope to do more when resources allow. Work is due to take place on a mortality tracing project – Tracemark in the near future which would help to add to the existing controls.

2.3.5 The outstanding recommendations from 2011/12 and 2012/13 were considered as part of this review. The implementation of these recommendations have been delayed awaiting the implementation of One Oracle, the Pension Scheme changes of April 2014 and wider Council governance arrangements.

Audit Opinion

2.3.6 **Substantial Assurance** has been given on the system of internal control operating at the time of audit. Our review found that the control environment was sound however it contained limitations that may put some of the systems objectives at risk, and/or there was evidence of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

2.3.7 No recommendations have been raised as part of this audit

2.4 ACCOUNTS RECEIVABLE

Summary of Audit Findings and Audit Opinion

2.4.1 Accounts Receivable have been operating using the same procedures as have been documented in previous year audits. Minimal work has been undertaken to update any change in processes due to the expected implementation of One Oracle in October 2013 and then in April 2014.

2.4.2 The delay in the implementation has meant that changes that could have been made haven't, and that going forward the current processes will still be being used. Once One Oracle does go live the financial procedures and processes used will need to be altered to match the capabilities of the new system.

2.4.3 Spot checks are being undertaken by senior staff to reduce errors being made and reducing the effects that any errors may have. These checks are carried out every few days with a record of each check being maintained.

2.4.4 Reports are taken to each Debt Management Board meeting to show the current level of debt. These reports are split into service, with focus on debts that have exceeded 90 days. Work is undertaken both at these meetings and within Accounts Receivable to reduce these debts.

2.4.5 The outstanding recommendations from 2011/12 and 2012/13 were considered as part of this review. The implementation of these recommendations has been delayed awaiting the implementation of One Oracle, the Pension Scheme changes of April 2014 and wider Council governance arrangements.

Audit Opinion

2.4.6 **Substantial Assurance** has been given on the system of internal control operating at the time of audit. Our review found that the control environment was sound however it contained limitations that may put some of the systems objectives at risk, and/or there was evidence of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

2.4.7 The audit makes no recommendations due to the implementation of One Oracle.

2.5   HOUSING BENEFITS

Summary of Audit Findings

2.5.1   Council Tax and Housing Benefits are both administered through the Academy system. The 13/14 Council Tax Administration audit identified weaknesses surrounding access to the Academy system and resulted in one low and two medium recommendations being raised.

2.5.2   As Academy is used for duel purposes, the weakness identified within Council Tax apply to Housing Benefits and so implementation of the recommendations will resolve the weaknesses in both areas.

2.5.3   The significant weaknesses identified comprise:
   - The lack of controls to allow the Council Tax & Benefit Manager to manage all access requests regarding the Academy system;
   - The absence of periodic checks of Academy users to ensure leavers are removed and only those with a relevant need have access to the system; and
   - A lack of control to ensure that users, outside of the main departments are notified of the expectations surrounding access to the Academy system.

2.5.4   Similarly, the 2012/13 Council Tax audit resulted in two medium and three low priority recommendations being raised to mitigate weaknesses identified during the audit. Two of the low priority recommendations applied to weaknesses later identified in the Housing Benefit audit.

2.5.5   In order to avoid duplication, the Housing Benefits audit made reference to the recommendations set out in the Council Tax audit. These were:
   - Produce a local document retention policy; and
   - Ensure the need for signed disclaimers for accessing Academy is expanded to include all non-read only users outside of Council Tax and the Call Centre.

2.5.6   The first recommendation regarding the local documentation retention policy has been fully implemented. The remaining recommendation regarding was not due for completion until the end of April 2014; however, the recommendation has been superseded within the Council Tax Administration report with a more suitable control mechanism.

Audit Opinion

2.5.7   **Substantial Assurance** has been given on the system of internal control operating at the time of audit. Our review found that the control environment was sound however it contained limitations that may put some of the systems objectives at risk, and/or there was evidence of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

2.5.8   The audit makes no recommendations due to the implementation of One Oracle.

2.6   COUNCIL TAX

Summary of Audit Findings

2.6.1   Responsibility for the protection of data within the Council's Academy Council Tax system rests ultimately with the Council Tax & Benefits Manager as the data owner. Multiple departments outside of Revenues & Benefits also require access to the system for various reasons, such as Business Systems, Housing and the Call Centre.

2.6.2   The current arrangements for obtaining access to the system requires the completion of an electronic access request form, submitted to Business Systems via the Council's intranet. Users complete the request, add the details of their line manager and submit the request for authorisation.

2.6.3   The process does not require notification to the Council Tax & Benefits Manager, nor does it automatically populate the corresponding line manager of the user. Currently the system permits the user to add any member of staff as the line manager.

2.6.4   The existing arrangements make it difficult for the Council Tax & Benefits Manager to control access to the system outside of the service, the access levels permitted and the removal of users as they leave.

2.6.5   Additionally, all staff within Revenues and Benefits and the Call Centre are expected to sign a disclaimer, which evidences that they have been notified that they are not permitted to access the accounts of friends and family. As access to the system is not controlled by the Council Tax & Benefits Manager, this expectation has not been extended to those users outside of these areas.

2.6.6   The 2012/13 audit resulted in two medium and three low priority recommendations being raised to mitigate weaknesses identified during the audit and aimed to:
- Provide clarification over responsibilities for passing information to the Valuation Office;
- Establish clear roles and responsibilities for processing Data Tank / NFI changes on the system in a timely manner;
- Ensure documentary evidence is retained to support the write off and approval process;
- Produce a local document retention policy; and
- Ensure the need for signed disclaimers for accessing Academy be expanded to include all non-read only users outside of Council Tax and the Call Centre.

2.6.7   Each of the recommendations above have been fully implemented, with the exception of the recommendation relating to disclaimers. This recommendation was not due for completion until the end of April 2014; however, the recommendation has been superseded within this report with a more suitable control mechanism.

2.6.8 The significant weaknesses identified as part of this audit comprise:
- The lack of controls to allow the Council Tax & Benefit Manager to manage all access requests regarding the Academy system;
- The absence of periodic checks of Academy users to ensure leavers are removed and only those with a relevant need, have access to the system; and
- A lack of control to ensure that users, outside of the main departments are notified of the expectations surrounding access to the Academy system.

Audit Opinion

2.6.9 **Substantial Assurance** has been given on the system of internal control operating at the time of audit. Our review found that the control environment was sound however it contained limitations that may put some of the systems objectives at risk, and/or there was evidence of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

2.6.10 The audit makes one medium and two low priority recommendations that aim to tighten the control environment surrounding access to the Academy system.

1 Recommendation		Priority
Automated system controls are set up within the online request process that require the Council Tax & Benefits Manager to approve access requests and permitted access levels to the Academy system.		Medium
Management Response	Revenues & Benefits - Agreed. However, responsibility of the development and on-going maintenance of the solution remains within ICT. Therefore, to ensure the commitment of resource from ICT, I propose the ICT Service Delivery Manager is consulted on this recommendation and shares responsibility with the Council Tax & Benefits Manager for its delivery. Business Systems - The access form will be amended to include an additional step for approval by the CT&B Manager for every Academy access request.	
Responsible Officer	Council Tax and Benefits Manager and ICT Service Delivery Manager	
Implementation Date	30th May 2014	
2 Recommendation		Priority
Academy User information is utilised to carry out periodic reviews of users.		Low
Management Response	Revenues & Benefits - Agreed. This recommendation also relies on reports (quarterly)	

	being made available by ICT to check the activity levels of users. Therefore, to ensure the commitment of resource from ICT, I propose the ICT Service Delivery Manager is consulted on this recommendation and shares responsibility with the Council Tax & Benefits Manager for its delivery. Business Systems - The list of Academy users will be brought to the CT&B and ICT liaison meeting for review, this group meets every six weeks.
Responsible Officer	Council Tax and Benefits Manager and ICT Service Delivery Manager
Implementation Date	May 2014.

3 Recommendation	Priority
Notification of the Operating Systems Declaration is automated as part of the online request process.	Low

Management Response	Revenues & Benefits - Agreed. This recommendation is linked to recommendation 1.To ensure the commitment of resource from ICT, I propose the ICT Service Delivery Manager is consulted on this recommendation and shares responsibility with the Council Tax & Benefits Manager for its delivery. Business Systems - The 3 monthly declaration for acceptance of policies will be amended to include wording around appropriate use of line of business systems as this issue doesn't only apply to Academy.
Responsible Officer	Council Tax and Benefits Manager and ICT Service Delivery Manager
Implementation Date	27th June 2014

2.7 BUDGETARY CONTROL

Summary of Audit Findings

2.7.1 Some sections of the Financial Framework are out of date but this is expected to be updated until after the implementation on One Oracle. There is also a review of finance processes underway as part of the oneSource finance integration work.

2.7.2 There were no remaining outstanding recommendations from the 2012/13 audit of budgetary control to be considered.

Audit Opinion

2.7.3 **Substantial Assurance** has been given on the system of internal control operating at the time of audit. Our review found that the control environment was sound however it contained limitations that may put some of the systems objectives at risk, and/or there was evidence of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

2.7.4 The audit makes no recommendations due to the implementation of One Oracle.

IMPLICATIONS AND RISKS

Financial implications and risks:

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work.

Legal implications and risks:

There are no apparent legal implications or risks from noting the contents of the report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None