Havering
LONDON BOROUGH

AUDIT COMMITTEE
25 April 2012

Subject Heading:	Internal Audit Interim Progress Report
Report Author and contact details:	Vanessa Bateman – Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee of progress to deliver the approved audit plan in quarter three of 2011/12.
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

SUMMARY

This is an interim report to advise the Committee on the final report issued prior to year end. The final quarterly report will be presented in June along with the Head of Internal Audit Opinion.

RECOMMENDATIONS

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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This progress report contains an update to the Committee regarding Internal Audit activity presented in seven sections.

Section 1   Final Reports issued prior to 30th March

A summary of the work undertaken in quarter four is included in this section of the report.

Section 2   Management Summaries

Summaries of all final reports issued in the period.

Section 3   Schools Audit Work

A summary of schools final reports issued in the period.

IMPLICATIONS AND RISKS

Financial implications and risks:

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.   There are no financial implications or risks arising directly from this report.

Legal implications and risks:

None arising directly from this 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.

Section 1   Audit Work 3rd January 2012 to 30th March 2012.

1.1   Schedule 1 details the work completed in quarter four. Details are listed in the table below and management summaries under Section 3 starting on the next page.

1.2   Work has also been completed on the systems and processes within the Internal Shared Service. It has not been possible to provide any assurance too management with regards they key financial processes Payroll, Accounts Payable and Accounts Receivable. Control Working Groups took place in February and March to identify and recommend solutions regarding general control weaknesses and those specific to each system and the outputs are currently being considered by Management. An update will be provided in June.

SCHEDULE 1: 2011/2012 – Systems Audits Completed

Report	Opinion	Recommendations				Ref Below
		High	Med	Low	Total	
Crematorium – Grave Allocations & Record Keeping	Substantial	0	6	0	6	**2** (1)
Education Computer Centre	Limited	3	6	0	9	**2** (2)
Treasury Management	Full	0	1	0	1	**2** (3)
Appointeeships & Deputyships	Limited	6	5	0	11	**2** (4)
Network Infrastructure	Limited	4	5	1	10	**2** (5)

Section 2   Management Summaries

Crematorium – Grave Allocations & Record Keeping	Ref 2 (1)

2.1   Background

2.1.1   The cemeteries and crematorium section falls within the Culture & Community Directorate, providing management of Romford, Hornchurch, Rainham and Upminster Cemeteries and the South Essex Crematorium. The office is based at the South East Crematorium, Upminster.

2.1.2   The service covers the following:
- Burials and Cremation Services;
- Management of cemeteries;
- Management of the crematorium & memorial gardens; and
- Grounds maintenance of cemeteries and crematorium.

2.1.3   On the 9th December 2011, Internal Audit were asked to review controls in place in relation to Cemetery Burial Allocations and Records, to provide assurance to management.

2.1.4   Summary of Audit Findings

2.1.5   Management have taken action to mitigate the risks in this area also in complying with changes in legislation further compensating controls now exist within processes.

2.1.6   Non compliance issues in relation to completion and retention of key documents have been identified during testing. The lack of management spot checks have resulted in these errors going undetected.

2.1.7   Information set out within the memorial permit application form relating to the protocol for permits does not accurately reflect the current working practice relating to this process.

2.1.8   The process for recording checks undertaken on memorial permits has resulted in an incomplete audit trail where limited evidence is available to demonstrate that checks were carried out in line with expectations.

2.1.9   Audit Opinion

2.1.10 As a result of this audit we have raised six medium priority recommendations, relating to the need for:
- Officers carrying out checks to be clearly identifiable;
- Supervisory checks to be undertaken;
- Training to be undertaken with staff;
- Regular unannounced spot checks on graves dug;
- A review of the memorial permit application form and process; and

➢   Memorial permit checks to be consistently documented.

2.1.11 A **Substantial Assurance** has been given as while there is basically a sound system of control, there are weaknesses that put some of the system objectives at risk, and there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Education Computer Centre	Ref 2 (2)

2.2   Background

2.2.1   The Council's Educational Computer Centre (ECC) offers schools the opportunity to purchase support through a number of service level agreements.

2.2.2   In 2010 the Council's Internal Audit team took over responsibility for the completion of the school audits. This audit aimed to provide assurance that sufficient controls were in place within the ECC to mitigate risks around ICT for those schools buying into these traded services.

2.2.3   Summary of Audit Findings

2.2.4   Due to a lack of financial reconciliations, in a small number of cases schools being overcharged and undercharged for services remained undetected until they were identified as part of the audit review.

2.2.5   Verbal agreements, incomplete audit trails and a lack of available management information and monitoring have left schools at risk. Services are being provided without agreement or charge in addition to services selected and paid for not being delivered.

2.2.6   No performance monitoring is being undertaken, local indicators have not been identified.

2.2.7   No controls are in place to record all works undertaken at schools to allow service provision and staff performance to be monitored.

2.2.8   Management information is limited and does not provide a full picture of the performance of the service.

2.2.9   A lack of information available to establish whether fees and charges applied to ECC services are sufficient to cover the cost of provision.

2.2.10 Weaknesses identified in this audit may also apply to the administration of other traded services. This should be considered by management when implementing recommendations. In addition this risk will be covered in the 2012/13 audit plan.

2.2.11 Audit Opinion

2.2.12 As a result of this audit we have raised three high and six medium priority recommendations.

2.2.13 Recommendations related to the need for:
- Action to be taken to rectify billing issues identified *(Medium)*;

- A process for the ECC to agree with schools the following year's services and associated costs. The outcome of school selections to be forward for inclusion in annual billing *(Medium)*;
- Regular income reconciliations to be completed *(Medium)*;
- Services being provided to be reviewed for compliance with agreements *(High)*;
- Records for back ups and investigation of unsuccessful back ups *(High)*;
- A central system for recording all ECC related works *(Medium)*;
- Local performance indicators to be established *(Medium)*;
- Relevant management information reports to be built *(Medium)*; and
- A service review to fully understand the costs in running the service, including a further review of fees and charges *(High)*.

2.2.14 **Limited Assurance** has been given as the audit has found that 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.

Treasury Management	Ref 2 (3)

2.3 Background

2.3.1 In the past effective Treasury Management has yielded the Council considerable additional income by the timely investment of surplus funds into various diverse secure investment mediums. The current precarious position of financial markets worldwide mean's that interest rates are low and the resulting additional income is less than in previous years but is still significant.

2.3.2 In the last financial year, on average, sums of £94.6m were available for investment and it is of paramount importance that this is invested as safely as possible within the Council's risk appetite and guidance from CIPFA. This is clearly detailed in the approved Treasury Management Strategy and Policies.

2.3.3 Summary of Audit Findings

2.3.4 The administrative spreadsheets used to record part of the Treasury Management system are not password protected and non Treasury Management staff have access to the shared area on the I.T system where they are held.

2.3.5 Audit Opinion

2.3.6 As a result of this audit we have raised one medium priority recommendation relating to data integrity.

2.3.7 A **Full Assurance** has been given as the audit has found that there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

| Appointeeships & Deputyships | Ref 2 (4) |

2.4 Background

2.4.1 The London Borough of Havering (LBH) provides a service for any individual, over the age of 18, who lacks the mental capacity to manage the administration of their own finances.

2.4.2 The Mental Capacity Act (MCA) 2005 which was effective from 2007 requires that all organisations within the community work together to try and maintain people's independence. All efforts are made to keep people in their own homes wherever possible.

2.4.3 The MCA Part 1 provides for the management of the property and financial affairs of patients by the Court of Protection (COP). A statement confirming that the adult is currently "incapable by reason of mental disorder of managing and administering his property and affairs" must accompany all applications submitted to the Court. The medical certificate will have to be completed by a suitably qualified person such as the adult's doctor, consultant, social worker or speech therapist, and must be on the approved Court of Protection form.

2.4.4 In most cases the person acting on behalf of the patient and reporting to the Court of Protection will be a relative or friend and in some cases where the patient has sufficient funds a Solicitor is appointed. The Local Authority will only be asked to take over the responsibility of Deputyship, formerly known as Receivership, when:-

- There is no relative or friend able, willing and acting in the clients best interest, to act on their behalf
- It is felt by the Court of Protection that there is a safeguarding issue because there is evidence that the patient is being or is potentially being financially abused

This Service provision is therefore only provided to the most vulnerable in Society.

2.4.5 If there is capital less than £2,000 and the income is only state benefits with no other financial or property affairs, then, in order to administer these benefits It is only necessary to make an application for Appointeeship to the Department of Works and Pensions

2.4.6 The appointment of Deputyships is wholly controlled by the Court of Protection and they require an annual report detailing all actions taken on behalf of the patient.

2.4.7 Providing a Deputyship service is not a statutory service. However, if it was not provided then the already vulnerable people who need assistance would be placed at further risk. More reliance would be placed on an already

stretched voluntary sector to fill the gap. They are already heavily involved in providing services to assist people in staying in their own homes for as long as possible.   Plus, given that it is a job requiring specialist skills, it is seen by most authorities in England and Wales as best practice to have such a service within their authority.

2.4.8   The London Borough of Havering currently manages approximately 162 cases with a total of £4.6m in liquid assets. The Client Finance Team has been responsible in facilitating around £868,000.00 worth of income for collection by the Financial Assessment & Benefits Team.   This data is continuously changing in an upwardly direction.

2.4.9   The team are a member of APAD (Association of Public Authority Deputies) where information and experiences are shared. They also provide a best practice Guidance together with conferences and meetings both at a national and local level.

2.4.10 **Summary of Audit Findings**

2.4.11 There is a Procedure Manual but, it requires reviewing and updating.

2.4.12 Since June there have been two Benefit specialists employed as Information Officers. They work in the Front Door Team which is part of the Havering Direct Service. These staff screen all callers to assess that their benefit entitlements have been claimed. The Team Leader is keen that this service is conveyed to all staff so they can utilise this expertise.

2.4.13 The financial records maintained are comprehensive, but there are no formal Management reporting systems.

2.4.14 Financial Procedure Rules were followed when opening the AIB Account; however Section S, Bank Arrangements and Cheques section of the Financial Framework was not followed. It states that "*The Group Director, Finance and Commerce will maintain a listing of all bank accounts, including the responsible employee, and will request that the information is regularly reviewed.*" As this was not done the account was not subject to the increased scrutiny applied to the corporate investment and banking arrangements. This could have resulted in serious problems if AIB had not been able to honour its commitments, as happened with other Banks. It would have been LBH's responsibility to make good any losses from Clients funds in the Authority's care. Any losses would have resulted in a waste of public funds. Currently there is around £2.2m held in the AIB account.

2.4.15 Reports to the Court of Protection (COP) are not reviewed by a second Officer nor signed off by management

2.4.16 The cash collection system does not comply with the corporate Insurance Policy.

2.4.17 The current system of management control is weak and leaves the system open to abuse or allegations of abuse. The Quality and Safeguarding Manager (who is the line manager for the Client Finance Manager) retired in January 2012.

2.4.18 Most of the knowledge base for the system and its clients is with the Client Finance Manager. He devised the Database and Spreadsheets and is the primary user of these. He also carries out any reconciliation and completes the Court of Protection Reports.

2.4.19 There is no formal system of reporting to the Insurance Manager details regarding:-
- Cash collection arrangements
- Cash collection amounts
- Amount of cash held on site
- Physical security of cash held on site.

2.4.20 **Audit Opinion**

2.4.21 As a result of this audit we have raised eleven recommendations. Six high priority and five medium recommendations relating to:
- Benefit assessments *(High)*;
- Transferring monies from Allied Irish Bank to Nat West *(High)*;
- Other bank accounts operating under the name of LBH *(High)*;
- Management Controls *(High) & (Medium)*;
- Cash collection arrangements *(High);*
- Procedure Manual *(Medium)*;
- Succession Planning *(Medium)*;
- Court of Protection reports *(High)*;
- Annual Report *(Medium)*; and
- Insurance Report *(Medium)*.

2.4.22 The opinion is given in the light of the fact that although the system for Appointeeships and Deputyships is adequate, there are limited Managerial controls operating, which compromises the assurance that can be placed on the system.

2.4.23 **Limited Assurance** has been given as the audit has found that 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.

Network Infrastructure	Ref 2 (5)

2.5 Background

2.5.1 The 2011/2012 Internal Audit plan includes an audit of the network infrastructure.

2.5.2 The network infrastructure provides essential controls in relation to the corporate risk of regulatory obligations and corporate governance as the Council places significant reliance on the use of Information Technology to fulfil its operational and statutory obligations. It is therefore critical that a secure and robust network infrastructure exists to ensure that confidentiality, integrity, and availability is maintained and that ongoing service delivery and support is provided.

2.5.3 At the time of our audit (June 2011), Havering currently has around 30% of its applications and servers located at the external data centres while the remainder, including the network infrastructure, are still hosted and managed by the Council by Business Systems. Future developments will see the majority of applications being hosted by an external provider and the development of further collaborative working with the London Borough of Newham with whom there is currently a network connection.

2.5.4 Summary of Audit Findings

2.5.5 Audit testing identified that the network infrastructure has vulnerabilities in its design and includes some single points of failure:

- The data centre at the Town Hall currently does not have an alternate source of power supply should it have a major power supply disruption; Although a UPS is in place this only provides enough power to shut systems down safely. We do note that management is investigating power generators however these have not been installed at the time of the audit.

- There is no UPS (Uninterrupted Power Supply) or alternate power source at Mercury House; Again, the main comms room on the 5th is covered by UPS and LBH is actively looking to supply UPS systems wherever possible

- Although there are no live services shared with Newham Council at present, should the situation change, which it is expected to, the present architecture supported by a single firewall between the Council and the link to Newham is a point of concern; and

- The connection between the Council and Homes in Havering has lost the additional network resilience following the closure of the Whitworth Centre. We were informed in our audit that the provider is investigating methods to improve network resilience via logical routing. This was work in progress at the time of our audit.

2.5.6 There is a tool in place to monitor the Council's network, it had at the time of the audit been configured to send automatic notification or alarms to the network team should this monitor or detect a problem on the network; We have been informed that the Council has implementing Tevista to provide a graphical representation of the network topology, which is monitored at all times by the Service desk & S&N team. The Council has also now implemented the Nimsoft portal monitoring tool.

2.5.7 The service desk was due to be reconfigured to incorporate Internal Shared Services and Change Control functionality in keeping with the SLA and the monthly performance service report lacks detail on recurring trends within the system; This is due to a reconfiguration of the system when change control was implemented, meaning that service metrics for call type analysis was lost.

2.5.8 There are no documented build standards for the network devices and tools that would assist in benchmarking or verifying the standards that are currently used;

2.5.9 Although there is a plan to migrate most of the Council's services to the external data centre, due to the current absence of a detailed migration plan and delays in application migration at present, most of the server estate at the Council requires updating and has not had updates or patches applied since approximately July 2009. Additionally, review of the two core routers (switches) identified that its operating system has reached its 'end of life' and therefore is not supported by the vendor, although the Council does have support via a contract with infosec.

2.5.10 We identified that there were some security features in the configuration of the core routers that had either not been applied or were weak, for example, strong authentication controls are not used, a weak encrypted password is in use and there is no legal banner warning against unauthorised access;

2.5.11 Currently, there is no hardware replacement policy however hardware will be replaced following application migration to the new data centre, although there is a plan for a desktop refresh;

2.5.12 Owing to resources engaged in the transformation project, a number of functions that should have been carried out have not been performed as they should have been, for example, applying upgrades and patches to the servers and network devices;

2.5.13 The Council's corporate firewalls are not supported by the vendor although through discussion during our audit we understand that there is a plan in place to replace these and replacements have been procured and are awaiting installation.

2.5.14 During the course of the audit, we identified there were three live servers managed externally that did not have an Anti Virus software installed on them and that nearly 60% of the desktops in use do not have an Anti Spyware function enabled; The company dispute this, stating that all servers were patched, but one had to have AV uninstalled temporarily due to performance issues. This has now been resolved.

2.5.15 Audit Opinion

2.5.16 As a result of this audit we have raised four high priority, five medium priority and one low priority recommendations.

2.5.17 In order to further improve the control environment, management need to ensure that:

- Consideration should be given to the removal of or minimising the single points of failure in the Council's network infrastructure design. (*High Priority*) *Management Comment:* UPS in place in key vulnerabilities and temporary power provision under investigation.
- The Council should consider the use of an automatic alarm notification or messaging system to notify support staff of any failure or problems. (*Low Priority*) *Management Comment:* In place at external provider, Tevista in place at LBH
- Consideration should be given to enhancing the Service Desk report to include KPI's from the Service Level Agreement and reporting. (*Medium Priority*). *Management Comment:* This will be taken into consideration however may be restricted via future integration with ISS.
- Network standards and configuration for network devices should be documented. Security tools such as the CIS (Centre for Internet Security) RAT (Router Audit Tool) should be used to check and harden network devices; (*Medium Priority*) *Management Comment:* This will be taken into consideration.
- Council hosts and network equipment should have the latest patches and updates applied; (*High Priority*) *Management Comment:* However risks are attached to this strategy as the equipment is very old and unable to support the latest patches. This means that hosted applications could fail if updates are applied. LBH has decided to expedite migration to the external data centre.
- Security controls over the router configurations should be enhanced; (*Medium Priority*) *Management Comment:* This will be taken into consideration.
- A hardware replacement policy should be developed. (*Medium Priority*) *Management Comment:* New hardware is in place at provider and is awaiting plan for migration of services. Local hardware supported by Infosec.
- Management should ensure that the availability of its resource is reviewed. (*Medium Priority*) *Management Comment:* Priority is transformation activities.
- The corporate Firewalls should be updated. (*High Priority*) *Management Comment:* Firewall replacements are underway

▪ A regular review should be conducted of all the hardware on the Council's network to ensure they have the latest Anti-Virus software (*High Priority*) *Management Comment:* External Provider have confirmed that all hardware has the latest signatures and LBH is currently replacing Trend AV with MS FEP.

2.5.18 At the time of our audit there was considerable work ongoing and progressing to develop responses and to improve the sustainability and resilience of the network and for all recommendations made management has identified the action required to address the weaknesses identified. This is supported by a number of work streams within the Transformation Programme to develop the IT infrastructure in addition to further collaborative working with Newham and the ongoing process to transfer more of the server estate to the external data centres.

2.5.19 **Limited Assurance** has been given as the audit has found that 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.

Section 3 Schools Audit Work

Six Schools audits were finalised by the end of March. Results of the audits are included in Schedule 2 below.

Management summaries will only be included in the quarterly progress reports when we have given limited or no assurance.

Schedule 2: 2011/12 – School Audits Completed

| Report | Opinion | Recommendations | | | | Ref |
		High	Med	Low	Total	Below
Ardleigh Green Junior School	Substantial	2	3	4	9	N/A
Elm Park Primary School	Substantial	1	4	3	8	N/A
Parklands Junior School	Substantial	2	7	4	13	N/A
The RJ Mitchell Primary School	Substantial	2	7	2	11	N/A
Whybridge Infant School	Substantial	2	7	0	9	N/A
Corbetts Tey Special School	Substantial	0	6	5	11	N/A
Scotts Primary School	Substantial	1	7	3	11	N/A