

## **BABERGH DISTRICT COUNCIL**

**FROM:** Director of Finance

**REPORT NUMBER:** **H145**

**TO:** OVERVIEW & SCRUTINY  
(STEWARDSHIP) COMMITTEE

**DATE OF MEETING:** 18 November 2008

### **UPDATE ON 2007/08 OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS**

#### **1. PURPOSE OF REPORT**

- 1.1 The report provides an update on the progress made in implementing key recommendations agreed with managers relating to 2007/08 audit reports. An interim report covering progress on 2008/09 audits will be submitted to the next meeting.

#### **2. RECOMMENDATION**

- 2.1 Members are recommended to note the progress made on implementing the 2007/08 Internal Audit recommendations as detailed in Appendices A & B.

The Committee is able to resolve this matter.

#### **3. FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial implications as a result of this report.

#### **4. RISK MANAGEMENT**

- 4.1 This report is most closely linked with the Council's Significant Business Risk No. 7 Financial, Performance & Risk Management. Key risks are set out below:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
If the Council does not monitor and review recommendations which have been accepted, but not implemented, an opportunity to make service or organisational improvements will be lost.	Significant	Critical	Internal Audit staff follow-up outstanding recommendations on a regular basis and report progress to Members of the O&S (S) Committee.
Agreed actions may not be implemented leaving the authority open to risks in relation to internal control and potential fraud.	High	Critical	As above.

## 5. KEY INFORMATION

### Background

- 5.1 Report H86, presented to this Committee on the 12<sup>th</sup> August 2008 provided Members with details of previous Internal Audit recommendations whose implementation was outstanding. A further update on the progress made on implementing the high and medium risk recommendations was presented to Members on 30 September, Report H114.
- 5.2 During consideration of this report members raised concerns and expressed disappointment as to the number of recommendations that were still ongoing or outstanding.
- 5.3 It was agreed that any outstanding recommendations still not completed by the end of October would be reported to the November meeting and that the responsible officers would be expected to prepare a brief report setting out the reasons and to attend the meeting to answer Members questions.
- 5.4 Appendix A summarises the latest position. From this it will be seen that there has been a notable reduction in the number of recommendations that were previously shown as 'good progress' as shown in the table below:

	<b>High Priority</b>	<b>Medium Priority</b>
30 September	10	25
Reduction	-6	-14
Now	4	11

- 5.5 As can be seen from Appendix A, there were four payroll recommendations shown as 'not progressing' in September. These relate to issues that required joint action by HR and payroll staff and the position has improved markedly.
- 5.6 Appendix B contains detailed responses and reports from officers on other areas that still require attention. From this it can be seen that:
- Cash and Bank and Local Taxation – the Head of Service believes that risks are known and are being managed. Measures are in place to mitigate against the key risks.
  - E-Mail Archiving – Given other priorities, it is being proposed that two of the recommendations are addressed between now and the end of the current financial year. This is acceptable in view of fitting in with the Information Audit and guidelines that is planned over the next 12 months (under the Information Strategy) and other priorities eg Government Connect.
  - ICT Management – No action is proposed on two recommendations, linked to awaiting LGR outcomes. If Babergh continues, these issues will need revisiting. The Inventory and Change Control Procedures have been addressed.

- Payroll/HR – Action has been taken in previously outstanding areas. The one outstanding issue is being progressed and will be completed by 31 December 2008.
- Corporate Finance (General Ledger procedures) – As above. The one outstanding issue is being progressed and will be completed by 31 December 2008.

5.7 It is concluded that the scrutiny undertaken by the Committee and the actions by officers since the last meeting have resulted in all outstanding areas being adequately addressed. Further monitoring will be undertaken by Internal Audit to ensure the areas referred to above are dealt with as indicated.

6. **APPENDICES**

A - Progress on Implementing Audit Recommendations Made During 2007/08

B - Reports on Outstanding Recommendations

7. **BACKGROUND PAPERS REFERRED TO:**

None

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## Appendix A

Audit	2007/08 Internal Audit Recommendations Position September 2008										Comments
	Completed		Not Required		Good Progress		Not Progressing		Total		
	H	M	H	M	H	M	H	M	H	M	
Debtors	6	4			2	2			8	6	
E claims	7	3	1		2	3			10	6	
Partnerships	2				2				4	0	
Rents	3	7	1	1		1			4	9	Delegated authority issues - being progressed through the Creditors and E-Procurement audits carried out during 2008/09.
Treasury Management	1	7							1	7	Completed
Cash & Bank	2	5			2	1			4	6	
Local Taxation	2	2			1	1			3	3	
Email Archiving		3	1		1	3			2	6	Not appropriate given LGR
ICT Management		4		4		5			0	13	Not good use of resources / too resource hungry given LGR
Payroll	2	14				7	2	2	4	23	
General Ledger		2				2			0	4	
<b>Totals</b>	<b>25</b>	<b>51</b>	<b>3</b>	<b>5</b>	<b>10</b>	<b>25</b>	<b>2</b>	<b>2</b>	<b>40</b>	<b>83</b>	

## Key:

**H** = High - Necessary due to statutory obligations, legal requirements, BDC policies or major risk of loss or damage.

**M** = Medium - Necessary in order for sound internal control and confidence in the system.

Audit	2007/08 Internal Audit Recommendations Position November 2008										Comments
	Completed		Not Required		Good Progress		Not Progressing		Total		
	H	M	H	M	H	M	H	M	H	M	
Debtors	8	6							8	6	Completed
E claims	9	6	1						10	6	Completed
Partnerships	4								4	0	Completed
Rents	3	8	1	1					4	9	Completed
Treasury Management	1	7							1	7	Completed
Cash & Bank	2	5			2	1			4	6	See Appendix B
Local Taxation	2	3			1				3	3	See Appendix B
Email Archiving		3	1		1	3			2	6	See Appendix B
ICT Management		5		4		4			0	13	See Appendix B
Payroll	4	22				1			4	23	See Appendix B
General Ledger		2				2			0	4	See Appendix B
<b>Totals</b>	<b>33</b>	<b>67</b>	<b>3</b>	<b>5</b>	<b>4</b>	<b>11</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>83</b>	

Report on Outstanding Recommendations 2007/08

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit –Cash &amp; Bank– Bob Southgate Head of Customer Services</b>	
<p><b>Finding</b></p> <p>Cash &amp; other cashable orders should be held securely. A number of changes were made to the secure arrangements for the cashier’s office following the split between front and back office functions. These included responsibilities for Cashiers &amp; keys and the transfer of the operation of processing cheques, which come in through the post, to the Senior Finance Officer, who works in an open office. Formal risk assessment for these changes were not carried out. During the audit it was agreed that a risk assessment of the security of the cashiering function should be given priority. There is a risk that cash or cashable orders could be misappropriated.</p> <p><b>Recommendation</b></p> <p>The risk assessment for the Cashiering function, which must include the points mentioned above, should be carried out as soon as possible. Any identified risk to security should be subject to an action plan which is implemented promptly.</p> <p><b>Risk Rating</b></p> <p>High</p>	<p>Work is progressing with regard to the secure area (cashiers office - which is used for receiving cash and secure post opening for benefits) to blend together the duties of staff working in that office so that staff can move between each role as required.</p> <p>All access to the secure area is logged on a daily basis, with the exception of the caretaking and cleaning staff. Caretaking staff hold a key to the secure area in the same capacity as they hold keys to the building generally, but they do not normally access the secure area when in use. In the event that is necessary their visit is logged.</p> <p>Access to cleaning staff is enabled by the caretakers and only occurs when the secure area is not in use.</p> <p>A register of keys and key holders is maintained. Each set is accompanied by a log, which contains the transfer from officer to officer throughout the day. Any transfer of keys is logged, including staff who hold the keys for transitional purposes only, e.g. an intermediary to manage the handover of keys when officers’ movements do not enable direct contact.</p> <p>When the secure area is not in use, all cash and confidential information is locked in the strong room and that area is no different to other areas of the building.</p> <p><b>It is felt, therefore, that access to the secure area is controlled and any risks have been reduced to acceptable levels.</b></p>

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit –Cash &amp; Bank– Bob Southgate Head of Customer Services</b>	
<p><b>Finding</b></p> <p>It is best practice for each cashier to operate and have responsibility for their own till and to be independently logged onto the cashing system. Except at the beginning of the month, when cash office takings are the highest, only one till is used and the cashiers till share. The risks of till sharing are:</p> <ul style="list-style-type: none"> <li>• There is no accountability for the transaction</li> <li>• Suspicion would fall on all staff if money was missing, causing staff stress and poor morale.</li> </ul> <p>The risks have been accepted because of the perceived efficiencies.</p> <p><b>Recommendation</b></p> <p>The Head of Customer Services should reconsider the arrangements for till sharing.</p> <p><b>Risk Rating</b></p> <p>High</p>	<p>Maintaining a hard separation in the cashing duties however correct in principle will divert a disproportionate amount of resource in comparison to the business gain. Greater benefits can be obtained from a more flexible arrangement albeit some risks arise from that strategy. They are however low-level risks and measures are in place to trigger a review should the situation change.</p> <p>Insisting on a clear distinction between officers handling incoming payments is unrealistic. It requires full cashing up and balancing routines to be initiated for any break in continuity. Operating two tills as a minimum would partially overcome the problem, but would add additional cashing up time at the end of each day. Till sharing is therefore in operation.</p> <p>Incoming payments are reconciled daily prior to banking. Discrepancies are rare, but on those occasions when they do occur, the council bears the consequence and there is no impact on individual officers.</p> <p>In the event that a significant discrepancy were to occur or the frequency of discrepancies were to increase, this would immediately trigger a switch to single officer tills.</p> <p>The volumes of cash received on a daily basis are now relatively small, between £10K on the first day of the month dropping to £2K or less per day in the last week. Regular spot checks are made.</p> <p><b>It is therefore felt that the risks involved in till sharing are understood and that adequate mitigation is in place to balance the effective use of staff against those risks.</b></p>

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit –Cash &amp; Bank– Bob Southgate Head of Customer Services</b>	
<p><b>Finding</b></p> <p>Best practice is for cheque ordering procedures to include a requirement that the supplier should be instructed to deliver the cheques to a named person who has responsibility for the security of the cheques.</p> <p>There are no written procedures for the cheque ordering process. The officer responsible is aware of the need to provide an instruction on the suppliers order requiring them to deliver the cheques to a named person(s) who have responsibility for the security of cheques. The risk is that if the cheques are not delivered to a named person they could be misappropriated.</p> <p><b>Recommendation</b></p> <p>The Special Projects Coordinator should ensure there is a written procedure for cheque ordering, which includes a requirement for the cheques to be delivered to a named person(s) who has responsibility for the security of the cheques.</p> <p><b>Risk Rating</b></p> <p>Medium</p>	<p>The responsible officer has the task on his to-do list. There will not be a requirement to order cheques for approximately six months, by which time the procedure will be in place.</p> <p><b>Making satisfactory progress.</b></p>

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit –Local Taxation– Bob Southgate Head of Customer Services</b>	
<p><b>Finding</b></p> <p>All relevant records and accounts should be updated to record all council tax and business rates amendments giving a change in liability. Visits to properties currently receiving a void property discount do not take place as a matter of normal routine. The risk is that a failure to undertake inspections on all properties receiving a void property discount or exemption may result in a fraudulent void property applications not being identified.</p> <p><b>Recommendation</b></p> <p>Management should ensure that a void property inspection is carried out at least once, on every property that has a void property discount or exemption applied to it, in order to confirm that the discount or exemption is valid.</p> <p><b>Risk Rating</b></p> <p>High</p>	<p><b>Business Rates</b></p> <ul style="list-style-type: none"> <li>• Currently 259 vacant <ul style="list-style-type: none"> <li>- Void canvass forms sent every April and October to check occupation status.</li> <li>- Inspections undertaken where forms are not returned.</li> </ul> </li> <li>• New developments <ul style="list-style-type: none"> <li>- Information obtained from building control</li> <li>- Inspections undertaken where no information is available</li> </ul> </li> </ul> <p><b>Council Tax</b></p> <ul style="list-style-type: none"> <li>• Currently 1144 properties vacant (includes those receiving an exemption e.g. vacant due to person residing in a care home) <ul style="list-style-type: none"> <li>- Void canvass sent to all long term empty properties (vacant &gt; 6 months) in September 2008</li> <li>- Non-returns to be followed up.</li> <li>- Exemption / discount review forms have been issued to all categories during 2008</li> </ul> </li> <li>•New developments <ul style="list-style-type: none"> <li>- Information obtained from building control</li> <li>- Inspections undertaken where no information is available</li> </ul> </li> </ul> <p>Summary - It is recognised that there is a risk associated with not visiting all vacant premises, however there is a high success rate for the return of the canvass forms, this includes being notified of changes. An element of self-policing in effect because householders and ratepayers paying the full charge are inevitably looking for ways to reduce their liability. Work is on going to develop a visiting process that combines various visits to create a meaningful workload. More flexible working arrangements have been implemented to make best use of the workforce. <b>The level of risk has increased but the potential impact is known and is being managed. The value of the impact is not disproportionate to the efficiency gained.</b></p>

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit – Email Archiving – Robert Lavell Information Management &amp; Technology Manager</b>	
<p><b>Finding</b></p> <p>Guidelines have not been issued to staff on the retention of emails. There is a risk that if a user does not retain or cannot find, a relevant email, then important information or evidence could be lost.</p> <p><b>Recommendation</b></p> <p>That appropriate guidelines are given to staff.</p> <p>As a matter of urgency the document retention guidelines be thoroughly reviewed</p> <p>It be made clear that emails are included in retention guidelines</p> <p>Service area filing systems should be set up and maintained</p> <p>Managers should periodically check the filing systems to assure themselves that staff are complying with the guidelines</p> <p><b>Risk Ratings</b></p> <p>Both Medium</p>	<p>An Information Strategy has been produced, and an Information Audit and guidelines to users will take place over the next 12 months. Fact sheets, including one on retention and disposal have already been produced but will be further developed and agreed as part of this process. In October 2008, additional staff resource has been recruited to undertake this work.</p> <p><b>Planned completion date 31<sup>st</sup> March 2009.</b></p>
<p><b>Finding</b></p> <p>An expected control was that E-mails could be searched for a particular word or phrase. Individual users are able to search their own mailbox but not others, unless permission has been granted. The risk is that the council could be unaware of the information they hold regarding a particular issue.</p> <p><b>Recommendation</b></p> <p>Given the current system, messages should be moved to a service area filing system as soon as possible. This will enable persons with access to that filing system to search for and retrieve relevant documents.</p> <p><b>Risk Rating</b></p> <p>Medium</p>	<p>Although wider aspects of this are being addressed as part of the Information Strategy, user guidance has already been provided in respect of coping with the Freedom of Information Act in that the content of any significant e-mails that needed to be preserved should be stored within existing folder structures for that Division. This facility is therefore already in place.</p> <p><b>No further action required.</b></p>

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit – Email Archiving – Robert Lavell Information Management &amp; Technology Manager</b>	
<p><b>Finding</b></p> <p>Full recovery of the E-mail system has not been tested, but the IT Service is developing a recovery procedure to a virtual server. The risk is that recovery is unproven.</p> <p><b>Recommendation</b></p> <p>The procedure should be developed urgently. Recovery within an acceptable period of time must be proven.</p> <p><b>Risk Rating</b></p> <p>High</p>	<p>The Exchange database is, and has always been, backed up on a regular basis. The Exchange system (excluding the database) is now also being backed up on a regular basis using live state recovery. This makes it easier to recover the system in a disaster recovery situation. Individual mailboxes have been recovered and this procedure has been demonstrated to work successfully. There is therefore a high degree of confidence in the existing procedures. It is planned to test a full recovery of the whole system, but to avoid the impact on the service, and the potential of creating a problem on the live service, this will be done using a test environment created on a virtual machine. The target for this is 31/12/08, although in view of current activity with key projects such as PCI DSS and Government Connect, and the resources that have needed to be directed towards these projects, this is likely to be delayed into 2009.</p> <p><b>This is seen as a low risk, particularly in view of the demonstrable ability to recover individual mailboxes, and the use of live state recovery.</b></p>

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit – ICT Management - Robert Lavell Information Management &amp; Technology Manager</b>	
<p><b>Finding</b></p> <p>There should be regular liaison with service users to identify and address problem areas, and to consider how to enhance the service provided. The responsibility for Account management was added to one member of staff's role in January 2007. It is the responsibility of the post-holder to liaise with users to address service issues and service requirements as input to an overall service plan. At the time of the Audit not all aspects of the role had been developed. The Account Manager had the task of producing a standard SLA for all services by the end of December 2007.</p> <p><b>Recommendation</b></p> <p>Target dates be set for each aspect of the role to be fulfilled and that the implementation be monitored.</p> <p><b>Risk Rating</b></p> <p>Medium</p>	<p>Meetings have been set up with user management in line with their requirements for account management. Frequency is therefore dependent on the particular Divisions / teams, but has been offered to all. Service Levels in terms of responding to problems / addressing changes have always been in existence and are regularly reported on through performance indicators. The wider development of Service Level Agreements has been looked at, but in view of likely LGR outcomes this is not seen as being beneficial compared to other priorities. Discussions are taking place with Finance regarding any need to change recharging methods, although this would be across the council generally, not just IT.</p> <p><b>No further work planned.</b></p>

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit – ICT Management - Robert Lavell Information Management &amp; Technology Manager</b>	
<p><b>Finding</b></p> <p>Servers should be protected by Uninterruptible Power Supplies (UPS) to protect against power surges or loss. UPS facilities have been provided but these do not automatically close down servers before the battery supply runs out. Software to provide for orderly shutdown of servers has been provided but ICT staff are awaiting Technical Services to arrange to link this to the UPS equipment. The risk is that if servers are not shut down in an orderly manner then data loss or corruption could occur.</p> <p><b>Recommendation</b></p> <p>The link should be urgently provided.</p> <p><b>Risk Rating</b></p> <p>Medium</p>	<p>Discussions have taken place with the Building Maintenance Manager. We are awaiting a maintenance visit to be arranged by Technical Services to enable interfacing to be fitted.</p> <p><b>Depending on the outcome, this may be more appropriately addressed within LGR.</b></p>
<p><b>Finding</b></p> <p>An up to date inventory should be maintained of all IT equipment. An inventory is maintained but this is not completely up to date. The risk is that an up-to-date inventory is needed for insurance and disaster recovery purposes.</p> <p><b>Recommendation</b></p> <p>Equipment should be recorded on the inventory by its location rather than by officer. A physical inventory should be done to check that all items are correctly recorded and security tags are present. This should be re-done at least annually.</p> <p><b>Risk Rating</b></p> <p>Medium</p>	<p>An up to date inventory is in place. Critical information has also been imported into the new Help Desk system.</p> <p><b>Complete - no further action required.</b></p>

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit – ICT Management - Robert Lavell Information Management &amp; Technology Manager</b>	
<p><b>Finding</b></p> <p>Change control procedures should be in place. - Changes are controlled by the Help Desk and SAR (System Amendment Request) procedures. These are simple to use and provide good control and monitoring of activities, however they do have some deficiencies.</p> <p><b>Recommendation</b></p> <p>The Technical Support Manager is currently reviewing replacement applications – any replacement should address the deficiencies as well as other aspects that ICT require. SAR performance should be included in ICT Section Performance Indicators.</p> <p><b>Risk Rating</b></p> <p>Medium</p>	<p>The IMTM is to include the replacement of the Help Desk system, and the monitoring of performance (including SARs) within the 2008/09 IT Development Plan. Update: A replacement Help Desk / SAR system has been selected and will be implemented by 30/11/08.</p> <p><b>Implementation almost complete</b></p>

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit – Payroll – Jeanette Bray Human Resources &amp; Organisational Development Manager</b>	
<p><b>Finding</b></p> <p>There should be a budgetary control system in place for highlighting and reporting any large variances or miscoding of payroll. The budgetary reporting system currently in operation does not provide adequate controls. There is a risk that the failure to fully implement a robust budgetary control system may result in a misappropriation of funds for the organisation or errors within the accounts.</p> <p><b>Recommendation</b></p> <p>Due to reliance being placed on budget managers checking, highlighting variances, errors or omissions within their budget it is important that the information supplied to managers is adequate for the purpose. The budget holders should receive information in relation to payroll for their department, which includes a month-by-month variation. By supplying this information at a departmental level the budget holders could clearly identify any large variances, errors or omissions at the earliest possible date.</p> <p><b>Risk Rating</b></p> <p>Medium</p>	<p>Due to vacancies in the Corporate Finance Section, this recommended has not yet been implemented. Corporate Finance have agreed to the recommendation in principle and are currently investigating the practicalities.</p> <p><b>Recommendation being progressed satisfactorily – agreed implementation date 31/12/08.</b></p>

Audit Finding, Recommendation & Risk Rating	Management Response
<b>Audit –General Ledger – Homira Javadi – Corporate Finance Manager</b>	
<p><b>Finding</b></p> <p>Procedures should be reviewed and updated on a regular basis. The audit found that procedures are saved on the system. Each procedure is held in a folder under a responsible officer name. Some of the officer's named have now left the authority. It was concluded that there is no evidence that the procedures are reviewed and updated and there is a risk that the system's processes and controls may not be effective.</p> <p><b>Recommendation</b></p> <p>The procedures to be held in a folder under the responsible officers job title, to be reviewed regularly and evidence of the review kept.</p> <p><b>Risk Rating</b></p> <p>Medium</p>	<p>The implementation has been delayed in some areas due to staffing changes, but this will be progressed by the 31/12/08.</p> <p><b>Recommendation being progressed satisfactorily – agreed implementation date 31/12/08.</b></p>

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