SUBJECT:	**Internal Audit: Status of Work**
MEETING:	**Chief Officers Management Team**
DATE OF MEETING:	**30 November 2010**
REPORT OF:	**Chief Internal Auditor**
REPORT DATE:	**10 November 2010**

1	Opinion definitions

Opinion	Framework of governance, risk management and management control
Substantial assurance **[G]**	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.
Adequate Assurance **[A1]**	Basically a sound framework in place but with recurring evidence of inconsistent application.
Limited assurance **[A2]**	Critical weakness(es) identified within the framework and / or significant evidence of inconsistent application.
No assurance **[R]**	Fundamental weaknesses have been identified or the framework is ineffective or absent.
Closed **[X]**	Management has confirmed that all identified framework weaknesses have been appropriately addressed.

2 Status of 'live' reports:

Audit title	Report date	Audit Sponsor	Directorate	Opinion		Original actions	Actions outstanding
				Original	Current	(of which are 'high' priority)	
Across Schools Thematic Reviews – Security	16/06/08	Executive Director Children's Services and Learning	Children's Services and Learning	A_2	G	8 (4)	1 (0)
School PFI Contract Management	03/07/09	Executive Director, Children Services and Learning	Children Services and Learning	A_1	G	8 (1)	1 (0)
CCTV Services	05/01/10	Executive Director of Neighbourhoods	Neighbourhoods	G	G	11 (2)	2 (0)
Procurement Follow Up	08/02/10	Executive Director of Resources	Resources	G	X	3 (2)	0
Adult Learning and Disability	25/02/10	Executive Director of Health and Adult Social Care	Health and Adult Social Care	G	G	2 (0)	1 (0)
Payroll	23/03/10	Executive Director of Resources	Resources	G	G	3 (2)	2 (1)
Creditors	31/03/10	Executive Director of Resources	Resources	G	G	5 (0)	2 (0)
Housing Rents Collection and Debt Management	08/04/10	Executive Director of Neighbourhoods	Neighbourhoods	G	X	8 (1)	0
Decent Homes	11/05/10	Executive Director of Neighbourhoods	Neighbourhoods	A_1	G	7 (1)	1 (0)

Audit title	Report date	Audit Sponsor	Directorate	Opinion		Original actions	Actions outstanding
				Original	Current	(of which are 'high' priority)	
Corporate Governance Framework	12/05/10	Solicitor to the Council	Chief Executives	**G**	**X**	3 (0)	0
Pupil Referral Unit	10/06/10	Executive Director, Children Services and Learning	Children Services and Learning	**R**	**X**	24 (18)	0
Risk Management	15/06/10	Executive Director of Resources	Resources	**G**	**G**	3 (0)	3 (0)
Fuel Management and Fleet Workshop	13/07/10	Executive Director, Environment Executive Director, Neighbourhoods	Environment Neighbourhoods	**A₂**	**G**	14 (6)	2 (1)
Children's Trust Arrangements for the Delivery of the Children's and Young Peoples Plan	20/07/10	Executive Director, Children Services and Learning	Children Services and Learning	**G**	**X**	2 (0)	0
4Social Care Work	26/07/10	Executive Director, Children Services and Learning	Children Services and Learning	**A₂**	**A₂**	6(6)	6 (6)
Bereavement Services	03/08/10	Executive Director, Environment	Environment	**G**	**G**	3 (2)	3 (2)

Audit title	Report date	Audit Sponsor	Directorate	Opinion		Original actions	Actions outstanding
				Original	Current	(of which are 'high' priority)	
Data Management – Children Services	05/08/10	Executive Director, Children Services and Learning	Children Services and Learning	A$_1$	A$_1$	12 (9)	6 (4)
Safeguarding – Contact Scheme	13/08/10	Executive Director, Children Services and Learning	Children Services and Learning	R	X	34 (28)	0
Hollybrook Junior School	13/09/10	Executive Director, Children Services and Learning	Children Services and Learning	G	G	8 (1)	3 (1)
Commissioning Plan for Health and Wellbeing	21/09/10	Executive Director, Health and Adult Social Care	Health and Adult Social Care	G	G	7 (7)	1 (1)
IT Solutions Development and Support	12/10/10	Interim Executive Director of Resources	Resources	G	X	2 (0)	0
Application and Software Management	12/10/10	Interim Executive Director of Resources	Resources	A$_2$	A$_2$	6 (0)	4 (0)
Network Management and Security	12/10/10	Interim Executive Director of Resources	Resources	A$_2$	A$_2$	17 (0)	12 (0)

3	Executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified:

Audit title: Application and Software Management (12/10/10)

Original published audit opinion: Limited assurance **[A2]**

Current audit opinion: Limited assurance **[A2]**

Executive summary:

Desktop installations of software are undertaken following the raising of an Infra Enterprise Service Management request. A process is followed to establish whether there is a licence which can be reallocated or whether a new purchase is required; however, there is no formalised documented procedure for this process. Details of software licences are held on a series of spreadsheets arranged by vendor. In addition, following installation there is no single location to store software media or licensing information.

If the software licensing process is not standardised and centralised, there are risks that the Council may not be fully licensed for all the software it is using, and that original media will go astray if not stored securely.

Capita use Microsoft SMS (System Management Server) and can extract reports of installed desktop applications, however, no exercise is undertaken to compare installed software with purchases/licences. Testing identified nine installations of Adobe Professional; whilst, records indicated only four purchases of Adobe Professional.

Where software audits are not regularly carried out there is a risk of unauthorised software being installed on the network. Where there is limited or no evidence available to verify all software owned by the Council, there is a risk that the Council over or under purchases licences which may result in direct financial loss and reputational damage to the Authority.

Records are maintained of applications owned by Capita and the Council, however, do not include details of the method of licensing, e.g. concurrent users or per seat.

Where a full inventory of installed software and its licensing method is not maintained, there is risk of unauthorised software not being identified and of the Council being fined for using unlicensed software.

A comprehensive Information Security Policy is in place, which is currently in the process of being reviewed. A review of logical security identified that password complexity has not been enabled on a sample of applications.

Ensuring that application security is in line with the requirements of the Information Security Policy will assist in ensuring the integrity of the access control security over key Council applications.

The Council has a documented Business Impact Analysis which was conducted in 2004/2005. This was used as the basis of the identification of a list of Critical Applications for which a Disaster Recovery solution has been implemented. However, it is not clearly identifiable how the final listing of critical systems was arrived at from the Business Impact Analysis. In addition, there is no system of prioritisation in place for the critical systems. It was also identified that there are inconsistencies within Business Continuity Planning documentation in relation to the number of supported applications.

Failure to ensure that regular reviews are undertaken of the Business Impact Analysis process may result in the supported disaster recovery critical applications not being in line with the Council's needs.

Management actions and update:

An appropriate management action plan has been compiled

Audit title: Network Management and Security (12/10/10)

Original published audit opinion: Limited assurance **[A2]**

Current audit opinion: Limited assurance **[A2]**

Executive summary:

Data backed up to tape is not encrypted. In the event of backup tapes being lost or stolen it is possible that data may be recoverable. There is no Router/Firewall Policy to define the way in which network traffic of different types should be handled, and how the network should be protected, additionally, there is no firewall between the SCC/Capita joint area and the Capita 'cloud', which is an external network accessible by other Capita clients.

The server room air conditioning is in need of upgrade to match leading standards. There is no generator to provide power to the server room in the event of a power cut

Security Settings in some instances were found to be historic increasing the risk of unencrypted passwords being transmitted. Analysis identified a volume of accounts that had either not logged in or had not changed their password for in excess of 3 months and a further number of accounts for which passwords never expire or use zero-length passwords. Additionally a significant level of accounts retain administrative privileges.

Management actions and update:

An appropriate management action plan has been compiled.

4	Update on previously published reports where critical weaknesses or unacceptable levels of risk identified:

Audit title: 4 Social Work and Public Sector Staffing
Original published audit opinion: Limited assurance **[A2]** **Current audit opinion:** Limited assurance **[A2]**
Executive summary: The locum social work, Vivek Bokinala (VB) left the employment of the Council on 13th November 2009, however three invoices / timesheets were subsequently submitted by '4SocialWork' for the proceeding three weeks between 16th November 2009 to 4th December 2009 for the respective values £1,121.25, £1,106.30 and £1,106.30 Despite having paid one of the fraudulent invoices, a legitimate invoice dating back to September 2009 remained unpaid (£897) and was subsequently cancelled reducing the Council's loss to £224.25. Following liaison with '4SocialWork', the residual balance owed to the Council (£224.25) was repaid on 25th March 2010. Only one social worker (VB) has been employed using '4SocialWork', who are currently suspended as a Council supplier. Following initial investigations this matter was referred to Southampton Central CID who passed the case to the Metropolitan Police (Hounslow CID) due to the location of '4SocialWork' headquarters and the residence of VB, however, Hounslow CID have reported that they are no longer going to pursue the investigation due to lack of resources. To date and on the advice of Hounslow CID, all reference requests relating to VB have been refused. The investigation has highlighted a number of control weaknesses with regard payment authorisation; procurement arrangements (integrity checks on suppliers); and processes followed in respect of leavers

High priority actions overdue:

The Temporary Employment Agency should liaise as appropriate with Procurement to undertake and document the necessary integrity checks prior to the use of any new staffing agency (Jul 10)

The Temporary Employment Agency to liaise with Procurement to review and update the current framework agreement in accordance with the Contract Procedure Rules (Jul 10)

Management Instruction will be issued that states that detailed checks should be undertaken and a robust process documented, implemented and communicated for the payment of all staffing agency invoices to ensure their validity and authorisation by an appropriate officer(s).

Management Instruction will be issued that states that appropriate procedures should be implemented to ensure relevant parties i.e. TEA and staffing agencies are aware of starters and leavers.

Following development of a framework agreement, management should assess reinstatement and continued use of '4SocialWork'. (Jul 10)

Issue a management instruction that a 'standard reference' is provided for all future reference requests for VB. (Jul 10)

5   Internal Audit Performance

Internal Audit has been assessed as fully compliant with the CIPFA Code of Practice by the Audit Commission in their triennial review of the service in 2009.

Results from a survey conduct earlier this year demonstrate that management are largely satisfied with the internal audit service and its ability to contribute to the Council's control environment and assist in achieving its objectives.

Survey Question	Response - Good, Very Good or Excellent
How do you rate the service provided by Internal Audit	83.3%
Survey Question	**Response - Yes**
The internal audit service makes an effective contribution to the Council's control environment?	89.1%
Internal audit is of value and assists the Council in achieving its objectives?	91.5%

6   Planning and Resourcing

With effect from 1 November 2010 Southampton City Council and Hampshire County Council have been working in collaboration to deliver a shared approach for the provision of Internal Audit Services. The agreement introduces a shared Chief Internal Auditor role across both authority's in which three days a week is directed to fulfilling responsibilities at Hampshire County Council and two days at Southampton City Council

Delivery of internal audit services within each of the Council's will remain largely unchanged with two discrete teams operating to exclusive strategic audit plans appropriately aligned to the individual authority's priorities and objectives. Service responsibilities within the Southampton City Council internal audit service have been appropriately realigned to ensure continuity of service; with the Chief Internal Auditor maintaining key strategic responsibilities.

This is a significant opportunity to develop a shared service approach for the provision of the Internal Audit Service generating immediate efficiency savings and potential for the development of future savings through shared resources in areas of expertise including IT specialisms and economies of scale generated through training and development.

7 Rolling work programme

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued *(proposed)*
2010/11 Audit Plan					
Annual Governance Statement	✓	✓	✓	✓	19/05/10
Hampshire Camera Partnership	✓	✓	✓	✓	24/05/10
Abandoned Vehicles	✓	✓	✓	✓	22/06/10
Bereavement Services	✓	✓	✓	✓	03/08/10
Solent Sea Rescue	✓	✓	✓	✓	09/08/10
Safeguarding – Contact Scheme	✓	✓	✓	✓	13/08/10
General School Review – Holybrook Junior	✓	✓	✓	✓	13/09/10
Main Accounting System	✓	✓	✓	✓	21/09/10
NNDR	✓	✓	✓	✓	05/10/10

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued *(proposed)*
Sports and Recreation Partnership	✓	✓	✓	✓	06/10/10
Housing Rent and Collection	✓	✓	✓	✓	29/10/10
Expenses Management	✓	✓	✓	✓	
Across School Thematic	✓	✓	✓	✓	
Thornhill Plus You	✓	✓	✓	✓	
Heating Charges (Audit Commission)	n/a	✓	✓	✓	
General School Review - St Johns Primary School	✓	✓	✓	✓	
General School Review - Vermont School	✓	✓	✓		
Payroll	✓	✓	✓		
Housing and Council Tax Benefit Administration	✓	✓	✓		
Creditors	✓	✓			

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued *(proposed)*
Section 106 agreements	✓	✓			
National Fraud Initiative	n/a	✓			
European Funding	n/a	✓			
Provider Services	✓	✓			
Council Tax	✓	✓			
VAT Accounting	✓				
Partnership Governance and Reviews	✓				
Sport Development and Active Options	✓				
Debtors	✓				
General School review – St Marks	✓				
Financial Management Standards in Schools	8 of 22 complete				

FMSiS Analysis

Schools Assessed (2010-11)	Pass	Conditional	Not Achieved	Comments
8	3	5		

The end of the Financial Management Standard in Schools (FMSiS)
Michael Gove, Secretary of State for Education, announced [15 November 2010] the decision to end the current Financial Management Standard in Schools (FMSiS) with immediate effect. A simpler standard will be developed as a replacement and is expected to be introduced next year.

8 Status of 'Live' External Audit

Audit title	Report date	Audit Sponsor	Directorate	Original actions	Actions outstanding
				(of which are 'high' priority)	
Opinion Interim Report	June 08	Executive Director of Resources	Resources	5 (2)	1 (1)
Final Accounts memo	Dec 08	Executive Director of Resources	Resources	5 (1)	1 (0)
Use of Resources	March 09	Executive Director of Resources	Resources	7 (4)	1 (1)
Annual Governance Report	Sept 10	Executive Director of Resources	Resources	4 (4)	4 (4)

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
Opinion Interim Report (Jun 08)							
Social Services Income							
6	Identify the cause of the failure of the social care billing, and implement changes to the system to ensure that this does not continue into future years.	3	Penny Furness - Smith	Agreed	Significant resources are still being employed to manage the current billing situation. A major project to develop a new charging policy and billing system to be introduced for 2009/10 is now underway.	Apr-09	New charging policy has been introduced from April 2009, work is continuing on implementing an upgrade of Paris so that the system side of billing can be improved. This is expected to happen in the autumn 2010.
Final Account Memo (Dec 08)							
Registration of assets with the Land Registry							
-	The registration of ownership of Land & Buildings with the Land Registry should be continued until completed.	2	John Spiers	Yes	This work is undertaken by Legal Services who have taken on a temporary contract solicitor to undertake the work. The contract will continue as there is still a lot of work to do. The resources portfolio work is now well underway.	Ongoing	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
Use of Resources (Mar 09)							
Internal Control							
-	Ensure that the revised non-residential social care billing policy and the replacement income billing module are implemented.	3	Penny Furness - Smith	Yes	The new policy and charging module are in the process of being delivered per the specific action plan resulting from the PWC review.	Dec-09	New charging policy has been introduced from April 2009, work is continuing on implementing an upgrade of Paris so that the system side of billing can be improved. This is expected to happen in the autumn 2010.
Annual Governance Report 2009/10							
Record of electricity meters in dwellings							
-	Review the record of electricity meters and implement a more effective database and system of controls.	3	Utilities Manager Decent Homes	Yes	Work is underway to trial new software for the monitoring and estimating process of the utility supplies. It is a dedicated database for the utility market and will hold all site information and enable estimates to be established more easily in the future and the monitoring of information to continue. Access has been arranged for Council staff to use this software on a sample of data to review its capabilities. If deemed suitable and appropriate the aim is to have this software operational for the	Apr 11	

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
					start of the new financial year.		
	Confirm the designation of electricity meters.	3	Utilities Manager Decent Homes	Yes	In January 2010 there were circa 2,500 meters, this is a constantly changing figure as meters are removed and added. Of these 2,500 meters we are actively working on a small minority (57) of these with SSE to determine whether these are in operation or have been removed, any funds paid on account on these meters can easily be removed from the heating account if subsequently they are found not to be in place. There are 665 meters that are known to exist but the designation needs to be confirmed by visually checking the cabling to these meters and determining whether these are communal heating or lighting supplies. The investigatory work to check these 722 sites has commenced and the data collected including serial numbers and readings will be used to update records. This has been requested to be completed by the end of October with any problem areas being addressed during November 2010.	Oct 10	Survey due for completion November 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
	Establish the extent of the errors in meter records and whether it is possible to assess the impact on past charges to tenants and leaseholders.	3	Utilities Manager Decent Homes and Corporate Finance	Yes	Following the outcome of the meter review the number of errors will be known and this can be used to establish any possible financial impact	Dec 10	
	Review the record of gas meters to determine if there are similar weaknesses in these records and how improvements can be made.	3	Utilities Manager Decent Homes and Housing Finance Support	Yes	Each gas meter is within a tenants home therefore if we do not gain access to the home we cannot receive an actual read/bill and rely on estimates. As we carry out a gas safety check on all properties annually we will instruct our engineers to complete a serial number and meter readapt that point and this will be passed to our gas supplier for invoicing purposes. Each gas meter is within the tenant's property, therefore there is not the same potential of incorrect allocation of heating costs as with electric meters	Apr 11	