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INFRASTRUCTURE,
GOVERNMENT & HEALTHCARE

West Dunbartonshire Council

Interim management report 2
Year ended 31 March 2007

20 September 2007

AUDIT

AUDIT ■ TAX ■ ADVISORY

Contents

Executive summary

In accordance with our Audit Planning Memorandum, we have completed our interim audit fieldwork as part of our audit of the 2006-07 financial statements of West Dunbartonshire Council. This document is intended to report our findings as they relate to:

- progress made by the Council in relation to the National Fraud Initiative;
- the IT general control environment in place at the Council; and
- our review of principal accounting systems not already included in our March interim management report.

The matters included in this report are only those which have come to our attention during our work in connection with the *Code* and therefore are not all of the weaknesses which may exist in the Council's systems of internal control.

National Fraud Initiative

The NFI is the Audit Commission's data matching exercise. 2006-07 is the second year that Scottish local authorities have been required to participate in the exercise. We have undertaken a review to ensure that the Council has put in place the appropriate systems and processes in order to meet the requirements of this recurring exercise. Whilst the arrangements in place have been found to work effectively and good progress has been made in some areas, at the time of our review there are still a large number of housing and council tax benefit related matches not yet cleared, many of which are of a high priority. We have made one grade two (material) recommendation to reflect this, along with four grade three (minor) recommendations.

IT general controls

We have reviewed the Council's IT general controls as they relate to financial reporting. Our review found one significant (grade one) recommendation related to the arrangements currently in place around the payroll system. The payroll system security officer role is performed by members of the payroll exchequer department, who provide system access to users of the system. The exchequer section head currently acts as the principal security officer and also has a high level user account enabling processing to the payroll. This presents an issue in respect of segregation of duties.

In addition we have made six grade two (material) and four grade three (minor) recommendations to improve the overall governance arrangements.

Review of key financial controls

We have not identified any grade one (significant) recommendations arising from our review of the Council's key financial systems considered within the scope of this report. We have, however, identified two grade two (material) recommendations and a further four grade three (minor) recommendations.

Recommendations

Detailed recommendations to address the matters identified are outlined in the appendices to this report, in the form of an action plan. Management responses and details of planned action are also included within the action plan. The table below summarises the recommendations made, by grade, and area of work.

Priority of recommendation	No. of recommendations		
	National Fraud Initiative	Key IT general controls	Key financial controls
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. The weakness may therefore give rise to loss or error.	**Nil**	**1**	**Nil**
Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**1**	**6**	**2**
Grade three (minor) observations are those to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.	**4**	**4**	**4**

Introduction

Management is responsible for establishing arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring the legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice.

One of the key elements of robust corporate governance arrangements within an organisation is sound systems of internal control. Over the period of our appointment as the external auditors of West Dunbartonshire Council ("the Council") we review not only those systems that may be considered to be material in relation to the opinion on the financial statements, but also those which require to be considered as part of the wider dimension of public sector audit.

Objectives

Our audit is carried out in accordance with our statutory responsibilities under the Local Government (Scotland) Act 1973 and the wider responsibilities embodied in Audit Scotland's Code of Audit Practice ("the Code") and through the application of International Standards on Auditing (UK and Ireland). Our work in this area and this report meets the following objective under the revised Code applicable to 2006-07:

- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland): the Council's corporate governance arrangements as they relate to its review of systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and the prevention and detection of corruption, and its financial position.

Purpose

We have completed the second phase of our interim audit fieldwork as part of our audit of the 2006-07 financial statements. Accordingly, this document is intended to report our findings as they relate to:

- the arrangements made in relation to the National Fraud Initiative ("NFI");
- the IT general control arrangements of the Council as they relate to financial reporting; and
- our review of principal accounting systems to assess whether the related controls were designed appropriately and operating effectively to prevent or detect a material misstatement of the financial statements.

Our audit work was undertaken in March and April 2007 and involved discussions with key staff to help us gain an understanding of the systems, supplemented by detailed testing as appropriate. As indicated in our Audit Planning Memorandum, we have relied upon the work of internal audit during our review to minimise duplication of effort and to ensure maximum benefit from the combined audit resources. For this report, we intend to place reliance on the work internal audit have undertaken on housing and council tax benefit and accounts payable. We have therefore tailored our testing in these areas accordingly and only reported on the work we completed.

Acknowledgement

We wish to place on record our appreciation of the co-operation extended to us by Council staff throughout the course of this work.

National Fraud Initiative

Background

The NFI is the Audit Commission's data matching exercise. 2006-07 is the second time that Scottish local authorities have been required to participate in the exercise and we have undertaken a review to ensure that the Council has put in place the appropriate systems and processes in order to meet the requirements of this recurring exercise. Recommendations in relation to the process are at appendix I.

The aim of the NFI is to match data across local authorities and other public sector bodies to help reduce the level of housing benefit fraud, occupational pension fraud and tenancy fraud.

Access to the Council's NFI results

The results of the 2006-07 exercise were made available to the Council on 29 January 2007 through the NFI's web based application, in line with all other participating organisations. Access to the results was provided initially only to the head of finance and set up of other users was subsequently delegated to the key NFI contact. Access was provided independently to ourselves as local auditors and we have been able to review online the progress made by the Council in investigating its results. The majority of data matches for the Council were housing benefit related, with the remainder primarily related to payroll matches.

The web based application also gives an indicative priority to each match to provide assistance to the Council in directing resources to "high priority" matches first. High priority matches are assessed as those which, if related to actual fraud, could give rise to an estimated greater loss.

Data protection requirements

In accordance with data protection and human rights legislation all data subjects must be properly notified that their data is to be used for the NFI 2006-07 data matching exercise. In accordance with data protection requirements, the Council submitted the NFI Form 3 in September 2006 and informed staff of the NFI initiative through a message on payslips. The housing benefit application form does not directly mention the National Fraud Initiative but informs claimants that the information provided will be subject to data matching exercises. A notice to the general public was also included in the Council newsletter.

NFI 2006-07 web application

All participating bodies should have access to NFI 2006-07 results through the web application. The Council has ten users, all of whom have access to the internet and the web application. Review of access logs found that the lead auditor and the members of staff working on the matches have frequently accessed the application. The application also allows participating bodies to run exception reports to identify invalid password logins, or out of hours activity by users.

Training

The officers involved in NFI 2006-07 should be familiar with the use of the NFI web application. The key contact was both involved in the 2004-05 process and attended the training sessions provided by Audit Scotland in November 2006. A number of other officers involved in the NFI also attended the Audit Scotland training sessions.

Planning and control

In order to effectively coordinate the exercise, the Council should have a structured approach to manage, monitor, control and deliver the NFI exercise. It is essential to the success of the exercise that individuals are clear as to their responsibilities and the approach to be taken.

The Council has nominated a senior internal auditor to lead and coordinate the exercise at the Council. Regular communication is maintained internally and initial findings were reported to the corporate management team on 7 May 2007. It is expected that regular updates will be reported to the corporate management team on an ongoing basis thereafter.

Prioritisation of the work

The Council provided the required data and received the results from the exercise in January 2007. A planned and prioritised approach to the reviewing of matches should have then been established by the Council. Whilst the Council is not expected to investigate all matches, it should document the reasons why an investigation has not taken place. The protocol guidance states that 'high' priority matches are to be investigated first, followed by 'medium' and then 'low' priority.

Our review highlighted that, whilst there is a process for following up the matches and that this is in accordance with the guidance, there is no formalised detailed timetable determining when the investigations will be completed according to key milestones.

Approach to different types of matches

A planned approach should be formulated for each category of data match as some of the reports contain different types of matches. The Council has assigned responsibility for investigating benefits related matches to the housing and council tax benefits team. The remaining cases are investigated by the internal audit team. This approach and the staff involved are consistent with that taken by the Council for the 2004-05 NFI. Both the benefits and the internal audit teams have prepared formal strategy documents outlining their planned response to the NFI matches.

Investigation

In order for the NFI exercise to be effective, it is essential that the Council has an appropriate system for carrying out investigations of matches and documenting the results. In line with this, the Council should maintain the appropriate documentation to evidence:

- what action has been taken to investigate the match;
- the conclusions of the investigation; and
- what further action is required.

Our review highlighted that the high priority matches have been investigated first and that information was documented within the web application to support the outcomes. A separate file is also maintained to ensure appropriate supporting documentation is held for all completed investigations.

Reporting procedures

The results of NFI investigations will need to be communicated appropriately both internally and externally. The Council is using the web interface to record its investigations and do not intend to make hard copy returns. Use of the web interface and regular communication with the external auditors ensures that results are reported externally. Results of the NFI data matching exercise are reported to the corporate management team, as outlined above.

Data quality

The effectiveness of NFI depends upon the quality of the data submission, as poor data quality will affect the quality of NFI matches. Report 83 records invalid National Insurance numbers, large numbers in this report indicate problems with collection and/or recording of data. We have reviewed the data matches for report number 83, which shows 236 matches in total. The Council employs around 6,000 officers. This report therefore suggests that around 4% of NI numbers are either invalid or that data has been entered to the NFI system incorrectly. To date, internal audit have investigated a sample of 26 (11%) of these matches and found no indication of fraud, further suggesting that the quality of National Insurance data is poor.

IT general controls

We have undertaken a review of the IT general controls environment at West Dunbartonshire Council. The scope of the work was as follows:

- access to programs & data;
- program changes;
- program development;
- computer operations; and
- end user computing.

The Council employs approximately 80 members of staff within its two sections, Customer Services and User Support and Systems and Business Development, overseen by the Head of ICT & Business development.

IT control environment

Key financial systems identified and covered by this review include the newly implemented FMIS Agresso general ledger, I-World council tax and benefits, Radius cash receipting, Cyborg payroll, Orbis National Non Domestic Rates and Saffron housing rents systems. The Radius cash receipting system sits on the Windows environment and the other key financial systems on a UNIX environment. The Council are currently considering the coverage and scheduling for Phase II of the FMIS Agresso system implementation.

We conducted an IT General Controls review to evaluate the design and implementation, and test the operating effectiveness of IT general controls relevant to the key financial systems.

Logical and physical access

Logical and physical access to IT computing resources should be appropriately restricted by the implementation of identification, authentication and authorisation mechanisms to reduce the risk of unauthorised/inappropriate access to the entity's relevant financial reporting applications or data.

Due to system security weaknesses within the Cyborg payroll system, the log-in ID and password file are unencrypted, and as a result, ICT have not been assigned security officer privileges to process access requests and password resets. This role is currently performed by the payroll exchequer section head or in her absence the exchequer manager. However, as the section head has processing functions, this presents a concern over appropriate segregation of duties.

Action plan recommendation 1 [Grade one]

There is no centralised process to ensure that ICT and payroll security officers are automatically notified of changes to user requirements or leavers to ensure prompt update or revocation of user access.

Action plan recommendation 2 [Grade two]

Review of the system access lists noted that a number of super user accounts (those with high level access to systems) have been granted in excess of those on the authorised list exposing the Council to a greater risk of unauthorised, unrestricted access to data.

Action plan recommendation 3 [Grade two]

Program changes

Program changes should be appropriately authorised, documented and tested.

We inspected the file of change control form requests and found that evidence was not readily available to ensure that all stages of the change control procedure were operating in practice.

Action plan recommendation 4 [Grade two]

Program development

New systems and applications being developed or acquired should be authorised, developed in accordance with defined methodology and tested prior to implementation.

For program development, the Council policy is to follow a modified Prince2 project methodology. However, the process followed and documentation of the approach did not always support this.

Resources should be allocated to perform robust user acceptance testing and documentation should be maintained which clearly defines the testing process and outcomes. Business acceptance sign-off should also be completed prior to implementing the live environment.

After the implementation has gone live a post implementation review should be undertaken with feedback from all involved parties to ensure action plans are in place to resolve outstanding issues and lessons learned contribute towards the success of future projects.

Action plan recommendation 5 [Grade two]

Computer operations

Appropriate backup and recovery procedures should be implemented so that data, transactions and programs that are necessary for financial reporting can be recovered. Procedures should be in place to effectively manage and resolve incidents, problems and errors for systems and applications and to ensure that system batch jobs are performed completely and accurately and in a timely manner.

Full restores are not tested as a scheduled process and, unless this is performed, there is a risk that full system recovery may not be possible or systems may not be recovered in an appropriate timeframe to meet Council requirements, impacting the ability to provide services.

Action plan recommendation 6 [Grade two]

End-user computing

End-user computing should be subject to the same level of rigour and structure as a general IT environment addressing access, change, development and computer operations.

During the phase 1 implementation of the FMIS Agresso system, spreadsheets were designed to manage the account table mapping data conversion. The spreadsheets perform an integral system function key to ensuring the validity of the financial reporting information and they have taken significant resource effort to create. However, controls are not in place to ensure that the spreadsheets are effectively managed for integrity, availability and against unauthorised access giving rise to a risk of corruption and loss which could have resource implications and cause disruption to business.

Action plan recommendation 7 [Grade two]

In addition to the issues referred to above, four grade three (minor) recommendations have been raised within Appendix II.

Key financial controls

We have used our understanding of the Council to determine which classes of transactions are significant to the financial statements. We have developed individual audit objectives relating to each of these items, and identified and tested the key controls over each item where appropriate.

In this report, we outline our findings in respect of the design and operation of key controls over the following systems:

- provision of housing services;
- significant trading operations.
- payroll;
- non-pay expenditure and creditors; and
- debtors and non-government grant income.

In accordance with our Audit Planning Memorandum, we have placed reliance on the findings of internal audit in the following areas:

- payroll;
- non-pay expenditure and creditors; and
- debtors and non-government grant income.

Matters identified by internal audit in relation to these key financial processes have not been reproduced in this report. Our recommendations for action, not reported by internal audit, are included in the action plan in appendix III. We have not identified any grade one (significant) recommendations but outline below grade two (material) weaknesses identified in the existence and operation of key controls which will have an impact on our previously communicated planned audit approach.

Housing rents

The rent accounting system is only reconciled to the general ledger on an annual basis. There is a risk that discrepancies between the rent accounting system and the general ledger are not identified and rectified, impacting the accuracy of housing rents financial information held during the course of the year.

Manual journal entry

Manual journal entries to the general ledger are not required to be formally reviewed and authorised by a second officer, independent from the preparer. There is a risk that inaccurate or inappropriate journal entries are made to the general ledger, impacting the accuracy of the financial information held.

In addition four grade three (minor) recommendations have been included within our action plan.

Appendix I – action plan: NFI 2006-07

Priority of recommendation	
	Grade one (significant) observations are those relating to business issues, high level or other important internal controls. The weakness may therefore give rise to loss or error.
	Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.
	Grade three (minor) observations are those to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

	Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation date
1	Whilst reasonable progress has been made by the Council in investigating and clearing data matches, there are still a large number of data matches of 'high quality' still to be investigated, especially in relation to housing and council tax benefits. There is a risk that the Council does not investigate and clear all 'high' and 'medium' quality data matches within acceptable timescales. *Grade two*	Management should ensure that appropriate arrangements and resources are in place to complete investigations into all 'high' and 'medium' quality data matches allocated to the housing and council tax benefit section.	The work schedule for dealing with cases assigned to the Revenue Investigation Team has been reviewed. All reports except one high risk report and low priority reports have been fully sifted. Excluding the high risk report which is currently being worked on and low priority reports, further information is required on 83 cases. It is anticipated that all information will be requested to allow either closure of the case or further investigation by end October 07. This will allow completion of NFI exercise within given timescales.	Section Head, Housing Revenue Services 31 October 2007

	Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation date
2	There are a high number of data matches included within report 83, relating to National Insurance numbers. Internal audit have investigated a number of these hits and not found any fraudulent activity. This would indicate that the quality of data for this particular report is poor and there is a risk that this impacts the effectiveness of the NFI process as a whole. *Grade three*	It is recommended that management investigate the reason for any poor quality data relating to report 83 and take remedial action to prevent any recurrence.	Employees showing an incorrect NINO which does not relate to their age have been dealt with. A payroll exercise will be carried out later in the year to deal with the remaining cases (last alpha character which is incorrect).	Exchequer Accountant 31December 2007
3	The Council has been 'clearing' data matches on the NFI system where it regards responsibility as lying with a third party or where they are awaiting a response from a third party. There are no formal follow up procedures in place to ensure that these data matches are eventually resolved. A risk therefore exists that such data matches are not appropriately concluded. *Grade three*	Formal procedures should be established for following-up data match investigations that are regarded as dependent on actions of third parties to ensure that such data matches are not left unresolved.	It is considered that there is no requirement for following up data that has been passed by the Audit Commission via a disk to the Pension Service or Jobcentre Plus. This agreement has been reached as to the responsibility for data matches with DWP and COSLA. A full audit trail and record is kept of any matches that require further information & this information has been requested from a third party.	Complete

	Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation date
4	There appears to be differing approaches to tackling data matches between internal audit and the housing and council tax benefit team. Two separate strategy documents have been prepared and there appears to be differing systems for recording results of investigations and storing supporting documentation. *Grade three*	Management should review the approach to NFI investigations undertaken by internal audit and the benefits section to ensure consistency. In particular, the strategy for targeting data matches and the policy for retention of supporting documentation should be complimentary and consistent.	All matches investigated by the benefit team are correctly and properly recorded & are investigated to prosecution standards. Procedures for dealing with investigations arising from NFI data match are not treated any differently from any other investigations and accordingly accurate record and kept & maintained. The web based application provides a standard template which forces some degree of uniformity. However, a consolidated strategy document will be prepared prior for the next NFI exercise.	Manager of Audit 31 December 2007
5	Whilst the Council has declared in its two NFI strategy documents that it will aim to clear all 'high' and 'medium' quality matches as a priority, there is no formal detailed timetable or milestones for completing these investigations. There is therefore a risk that overall targets are not met. *Grade three*	A detailed timetable should be drawn up with clear milestones and targets. This will ensure that progress towards the Council's ultimate target of clearing all 'high' and 'medium' quality data matches can be monitored more effectively on an ongoing basis.	The need for a timetable is acknowledged, however it should be noted that the absence of such a document has not impeded the progress of Internal Audit in resolving the "high" and medium" matches. Also, see comments in recommendation 1, above.	Manager of Audit 31 December 2007

Appendix II – action plan: IT general controls

Priority of recommendation	
	Grade one (significant) observations are those relating to business issues, high level or other important internal controls. The weakness may therefore give rise to loss or error.
	Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.
	Grade three (minor) observations are those to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

	Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation date
1	It has been noted that the payroll system security officer role is performed by members of the payroll exchequer department, who provide system access to users of the system. This has arisen due to the weaknesses within the Cyborg payroll system, wherein passwords are not held in an encrypted format. It is recognised that this system weakness necessitates imposing stringent restriction to this privileged access account. However the exchequer section head acts as the principal security officer and also has a high level user account enabling processing to the payroll. This presents an issue in respect of segregation of duties. *Grade one*	It is recommended that the system suppliers be actively pursued to progress the password encryption functionality to enable to system administration to be separated from the business unit and to be performed by ICT. Until this functionality is implemented, it is recommended that responsibility for the security officer role be assigned to a Council officer not performing any payroll processing functions.	The Cyborg upgrade incorporates password encryption. ICT & Business Development will liaise with Finance to review security arrangements.	Head of ICT & Business Development and Head of Finance 31 October 2007

Issue, risk and priority		Recommendation and benefit	Management response	Responsible officer and implementation date
2	ICT circulate user system access lists to departments on a monthly basis and request advice on any changes. However, there is no centralised process to ensure that ICT and payroll security officers are automatically notified of changes to user requirements or leavers to ensure prompt update or revocation of user access. This represents a potential security risk as user system access may not be revoked or appropriately restricted in a timely manner. *Grade two*	It is recommended that an immediate review of users with access to the Council's systems should be undertaken to identify active access for any leavers and a formal procedure be implemented to ensure that ICT are notified promptly of leavers to facilitate timely revocation of the user's access. It is further recommended that each department should respond to the ICT user list circulated to advise of any changes to user requirements or to confirm that there have been no changes during the period.	A procedure was agreed with ICT & BD & Personnel to include a section within the termination form to notify ICT & BD to permit ICT to terminate users from all systems. The Helpdesk holds a record of all the systems a user has access to. This has not been implemented since there is no centralised Personnel function to administer the notification of leavers. ICT & BD will liaise with the user departments to refresh the contact details and develop a pro-forma which will be attached to the lists that will require to be completed and returned within an agreed timescale.	Head of ICT & Business Development 30 September 2007
3	Review of the system access lists noted that a number of super user accounts have been granted in excess of those on the authorised list. The greater the number of accounts with high level access the greater the risk of unauthorised, unrestricted access to data. *Grade two*	It is recommended that a review be carried out of high level access accounts with a view to removing when such access is not deemed to be necessary or appropriate. The activity on these super user accounts should be monitored independently and the requirement regularly reviewed.	Super user access will be reviewed and a monitoring procedure put in place.	Head of ICT & Business Development 30 September 2007

Issue, risk and priority		Recommendation and benefit	Management response	Responsible officer and implementation date
4	We inspected the file of change control form requests created for the systems under review during the period of the audit to date; and although there is a documented process, evidence was not readily available to ensure that the procedure was operating in practice. From our discussions with staff, we understand that the change control process is complied with. However the documentation retention does not provide a clear audit trail of the change from request to processing to the live environment. We are therefore not able to confirm whether the issue is documentary or procedural. *Grade two*	It is recommended that the change control procedure should be updated to detail the documentation process. All documentation relating to a system change should be held together and this should include the authorised request, the testing and sign-off, or an indication of when testing is not required, and detail the process taken to implement to live. This will provide an audit trail detailing the purpose of the change and the process taken and will readily facilitate investigations of any issues arising from system changes.	The change control procedure will be reviewed and streamlined to provide an acceptable audit trail. ICT & BD is reviewing the option of retaining the documents on the Document Management system and linking to the Helpdesk call - this is dependant on funding being available.	Head of ICT & Business Development 31 December 2007
5	The FMIS Agresso was implemented with a go live date of 01/04/2006,. Project documentation was inspected as part of our review. The Council policy is to follow a modified Prince2 project methodology. However, the process followed and documentation of the approach did not always support this. Although Council project management was identified as a critical success factor in the PID, initially this responsibility was assumed by a representative of the suppliers, Agresso UK, until it was recognised that a more hands-on approach was needed to ensure the project was directed in accordance with the Council's requirements and prioritisation. This may have impacted on meeting milestone targets and benefit realisation. A testing plan was agreed with the suppliers, Agresso UK and tested successfully. However, evidence of	It is recommended that Council resources are identified to assume the responsibilities of the project management for Phase II of the FMIS Agresso system implementation. Resources should be allocated to perform robust user acceptance testing, and documentation should be maintained which clearly defines the testing process and outcomes. Business acceptance sign-off should also be completed prior to implementing the live environment. After the system has gone live a post implementation review should be undertaken with feedback from all involved parties to ensure action plans are in place to resolve outstanding issues, and lessons learned	ICT & Business Development have a part-time technical resource for FMIS phase 2. ICT & BD welcome the recommendation regarding the acceptance testing. ICT & BD have standards and procedures in place for acceptance testing which should have been adopted and followed by to ensure that no work is implemented into the live environment without full testing and documentation. A post implementation review was carried out by Finance and a snag list has been produced. ICT & BD have recommended that all outstanding problems are resolved before commencing with Phase 11. Finance are currently creating a phase 2 project plan prioritising the work.	Manager of Exchequer 31 December 2007

Issue, risk and priority		Recommendation and benefit	Management response	Responsible officer and implementation date
	testing sign-off was not available for inspection. Formal documentation of the testing process, outcomes and completion sign-off is essential in understanding and resolving issues both before and after going live. The post implementation review does also not comprehensively evaluate the successes and issues over the life of the project. This is required to benefit from lessons learned during the project. *Grade two*	contribute towards the success of future projects.		
6	A system restore is tested by running a dummy file to verify system recoverability. Data restores are undertaken in response to requests made. However, full restores are not tested as a scheduled process. Whilst it is recognised that full restore testing is dependent upon infrastructure and capacity, unless this is performed, there is a risk that full system recovery may not be possible or systems may not be recovered in an appropriate timeframe to meet business requirements, impacting the ability to provide services. *Grade two*	It is recommended that full restore testing should be scheduled to ensure that recovery of fully working systems may be achievable and any issues are identified and rectified in a timely manner.	ICT & BD are currently working on a restore schedule for all business critical systems. Hardware will have to be identified for some of the systems.	Head of ICT & Business Development 31 December 2007

Issue, risk and priority		Recommendation and benefit	Management response	Responsible officer and implementation date
7	During the phase 1 implementation of the FMIS Agresso system, spreadsheets were designed to manage the account table mapping for the interface data conversion. These spreadsheet models were designed originally with the assistance of representatives from Agresso UK, and testing was performed at a summary level to confirm that all account balances were transferred. Subsequent updates are made as requested with no further integrity testing performed. The spreadsheet models are held in a restricted access folder on the network. The spreadsheets have not been password protected and are not independently backed up. The spreadsheets are not managed by version control and no log of changes made is maintained. The spreadsheets perform an integral system function key to ensuring the validity of the financial reporting information and they have taken significant resource effort to create. Therefore, unless strong system controls are applied to the management of these spreadsheets, there is risk of corruption and loss which could have resource implications and cause disruption to business. *Grade two*	It is recommended that the following control measures be applied to the account table mapping data conversion spreadsheets: • provided the automated process restraints permit, the spreadsheets should be password protected restricting modification; • validation of changes made to the tables should be performed regularly to ensure the spreadsheets continue to operate with integrity; and • changes to the spreadsheets should be version control managed with a clear record of the changes made for each conversion. Using a structured system approach to the management of the spreadsheets will help to ensure that the spreadsheets function as required and prevent loss or corruption of data.	Recommendations will be fully investigated and changes implemented as required. Phase 2 of the project is addressing the look up tables and conversion routines and replacing with proper interfaces from system to system. ICT & BD have recommended that due to the risk associated to the conversion process and the resources required that this is given high priority in phase 2.	Manager of exchequer 31 December 2007

Issue, risk and priority		Recommendation and benefit	Management response	Responsible officer and implementation date
8	It was noted that user access requests must be authorised by a designated business unit approver and detail the access requirements. However, six instances of our testing selection indicated that this policy is not always strictly adhered to and that some user access was greater than that on the authorisation documentation. User system access that is not in line with that authorised represents a potential security risk. From discussions with staff, we understand that the user access request process is adhered to. However, the documentation is not filed and held in a manner as to readily facilitate identification of user access requested, and confirmation that access has been granted in accordance with that authorised. Therefore, we are not able to be certain whether the issue is documentary or procedural. *Grade three*	Granting user access in line with an approved request helps to restrict user access to business requirements and prevent unauthorised access. It is recommended that user system access is based on approved and authorised requests. It is also recommended that access request documentation is held in such a manner to facilitate verification of an individual user's access privileges.	The authorisation of access is in place and procedures are updated on a regular basis to address any changes. The user access is currently only granted by authorised signatories within each department for their service. The problem is that the audit trail is not effective. ICT & BD will refresh this procedure and look at the retention of user access documentation by person and not by helpdesk number.	Head of ICT & Business Development 31 December 2007
9	It was noted during our review of the password settings that not all systems have the functionality to enforce the Council's password policy requirements. Passwords are employed as an authentication method. However, there is a risk of a password being compromised when the password is not of sufficient strength or is not changed on a regular basis *Grade three*	An exercise should be carried out to identify any weak passwords currently in existence and changes made to ensure these passwords comply with the Council's standard password policy. This process should then be undertaken on an ongoing basis to ensure that no weak passwords are maintained within these systems.	ICT & BD has previously carried out a brute force hacking exercise on the network passwords and a new policy was implemented to address the issues identified. On the application systems we are restricted on some systems as we rely on the third parties to implement their security.	Head of ICT & Business Development 30 November 2007

	Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation date
10	It is noted that data conversion for the interface mapping table work-around are processed on a request basis and is not formally scheduled. This could give rise to resource issues and conversions not being processed when required. *Grade three*	It is recommended that to most efficiently allocate resource and to ensure that data conversion is performed in a timely manner that the requirements for data conversion be defined in a manner as to enable them to be incorporated within the scheduled batch job routines.	ICT & BD will discuss with Finance their requirements and agree a schedule and procedure to carry out the conversions as an interim solution until Phase 11 has been implemented. The conversion routines will be replaced with a automated procedure in Phase 11 of the FMIS project.	Head of ICT & Business Development 31 October 2007
11	It was observed that no message is given at the point of log-on to the Council network advising that users should only access the Council's network if authorised to do so and will be subject to Council policies while accessing Council systems. Such a warning message is recognised as best practice to help protect the Council against unauthorised access to its systems. *Grade three*	It is recommended that the Council consider placing a warning message on the network at the point of logging on, advising users that the log-on process should only be continued if the user is authorised to do so. A log-on warning message provides additional legal protection against unauthorised access to the Council's systems.	A message will be introduced.	Head of ICT & Business Development 30 September 2007

Appendix III – action plan: key financial controls

Priority of recommendation	
	Grade one (significant) observations are those relating to business issues, high level or other important internal controls. The weakness may therefore give rise to loss or error.
	Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.
	Grade three (minor) observations are those to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

	Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer / implementation date
1	The rent accounting system is only reconciled to the general ledger on an annual basis. There is a risk that discrepancies between the rent accounting system and the general ledger are not identified and rectified, impacting the accuracy of housing rents financial information held during the course of the year. *Grade two*	Reconciliations should be formally prepared between the rent accounting system and the general ledger on a regular basis, and at least quarterly. This will reflect best practice and ensure that differences between the two systems are identified and addressed on a timely basis.	The rent accounting system's output is input directly into the financial ledger each month and therefore there are no reconciliation issues. The only outstanding reconciliation issue is the cash received per the rent accounting system and the financial ledger. The different payment methods require to be streamlined in order to assist in this cash reconciliation. However the year end reconciliation was successfully completed. It should be possible however to prepare quarterly formal reconciliations between the rent accounting system and the financial ledger once the different cash payment methods have been streamlined	Manager of Accounting / Manager of Housing Operations / Manager of finance (HEED) 31 December 2007

	Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer / implementation date
2	Manual journal entries to the general ledger are not required to be formally reviewed and authorised by a second officer, independent from the preparer. There is a risk that inaccurate or inappropriate journal entries are made to the general ledger, impacting the accuracy of the financial information held. *Grade two*	All journals should involve two officers: a preparing officer and an independent reviewing officer. Manual journal entry forms should then be used to document the nature of the adjustment, the date and the names of the preparing and reviewing officers.	Journal entries created by the Head of Finance, Corporate Finance Managers and Section Heads will be subject to random monthly scrutiny by way of a system report and reviewed by an independent senior member of staff. Journals created by staff other than those noted will continue to have their journals countersigned by a senior Corporate Finance Officer after review and prior to input. All staff have been advised of the process.	Head of Finance 30 September 2007
3	The Council demonstrates good practice by reconciling the cash receipting system to bank balances on a daily basis. However, this key control is not evidenced to show who has completed the reconciliation. *Grade three*	In order to ensure a complete audit trail is in place, the preparing officer should evidence the cash receipting – bank reconciliations.	The cash control sheet is currently signed by the teller and by the staff member completing the banking. Staff within the cash office have been advised that they should now formally sign/initial the cash receipting system report.	Manager of Accounting Corporate Finance 30 September 2007
4	There are strong segregation of duties controls in place within the leisure significant trading operation ("STO") for the processing of direct debit instructions. However, the monthly summary sheet provided to finance is not evidenced as reviewed and authorised by STO management. *Grade three*	We recommend that the monthly direct debit instruction sheet is evidenced by leisure STO management as reviewed and authorised prior to being passed to the finance section for action.	A system will be put in place where the direct debit run and the payroll deductions are authorised by a members of the management team each month.	Section Head Leisure HRES 30 September 2007

	Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer / implementation date
5	The CDCH3 forms used by the catering STO to record the dining sales, from which the billing is prepared and trading operation income generated, require authorisation by the head teacher. Audit testing found that this authorisation control was not being completed as a matter of procedure and in such cases, the bills were being prepared regardless. There is therefore a risk that authorisation controls are not operating effectively and that erroneous or inappropriate bills are issued. *Grade three*	All CDCH3 forms should be formally evidenced as reviewed and authorised by the head teacher or appropriate authorised signatory prior to bills being prepared. This will ensure that authorisation controls over the catering STO billing are operating effectively and that only accurate bills are issued.	Departmental staff will be asked to ensure all forms are signed before processing (head teachers will be reminded to sign the forms within a set period of time). Finance staff will be asked only to process the forms if appropriately signed. This will be monitored and reviewed to ensure no major effect on the budgetary control process and action will be taken as necessary	Finance Manager HRES Manager of Accounting 30 September 2007
6	There are no formal up to date procedures covering the collection of income and the raising and monitoring of debts. There is a risk that Council policy in this respect is not formalised and followed by finance officers. *Grade three*	Formal written procedures should be developed covering the collection of income and raising and monitoring of debts. This will ensure that there is clarity over approved procedure.	This will be taken forward when new management structures are in place – when revenues, benefits and cash collection will all be within finance's remit.	Manager of Exchequer / Manager of Accounting 31 December 2007

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