EXTRACTS FROM AUDIT REPORTS WITH MODERATE OR LOW LEVEL OF ASSURANCE ISSUED QUARTER 3 2012/13

Corporate Property Portfolio Management – 31 Dec 2012

FROM:	Audit and Risk Manager	**SUBJECT:**	Corporate Property Portfolio Management
TO:	Head of Development Services		
C.C.	Chief Executive Deputy Chief Executive (BH) Head of Finance Economic Development and Regeneration Manager Estates Manager	**DATE:**	31 Dec 2012

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1.   INTRODUCTION

1.1   As part of the 2012/2013 Audit Plan an audit has recently been completed on the systems and procedures in place to manage the council's Corporate Property Portfolio; those properties that are classed as non-operational and held, in part, for investment purposes.

1.2   This report outlines the approach to the audit and presents the findings and conclusions arising.

2.   SCOPE AND OBJECTIVES OF THE AUDIT

2.1   The audit was undertaken in order to establish and test the financial and management controls in place.

2.2   The audit programme identified the expected controls and the possible risks that might arise in the absence of those controls.

2.3   The controls examined were as follows:

(a)   Arrangements are in place for the overall strategic management of non-operational corporate property (NOCP).

(b)   There is an accurate and up to date register or database of all NOCP.

(c)   There is a policy on the types of lettings and uses for NOCP.

(d)   There is a lease or licence for each letting and terms and conditions are adequately defined.

(e)   Rents are set at market rates, reviewed, billed and monitored.

(f)   All properties are insured at current values and insurance is recharged where appropriate.

(g)   Any risks associated with NOCP are identified, recorded and managed.

(h)   Budgetary control procedures are in place and complied with.

(i)   Arrangements are in place to promote/market the availability of NOCP.

3.   BACKGROUND

3.1   The council maintains a portfolio of NOCP for investment purposes. Most of it would have been acquired before 1974 and in some cases property would have been acquired in advance for capital schemes that never took place. For example, at one stage Hamilton Terrace was identified as a potential site for the replacement for the old Pump Rooms Swimming Pool.

3.2   Properties in the portfolio include shops, offices, clubhouses, take-aways and launderettes.

3.3   Properties are held by both the General Fund (GF) and the Housing Revenue Account (HRA). The HRA properties are nearly all shops that were built at the same time as the estates where they are located.

3.4   Responsibility for NOCP has moved between service areas on a number of occasions and currently sits with Economic Development and Regeneration within Development Services. The operational management of the properties is dealt with by the Estates Manager.

3.5   Rental income for GF properties in 2011/2012 was £603,000 and for HRA properties £336,000.

4.   FINDINGS AND RECOMMENDATIONS

4.1   The findings and recommendations from the audit are listed below.

4.2   In overall terms the audit concluded that there are reasonable controls in place for the management of NOCP but certain aspects of the function are somewhat imprecise and confusing. That is not to say that there are areas of great concern but more a case of there needing to be some improvement in terms of clarity and consistency.

4.3   The findings and recommendations are as follows:

4.4   **Overall management of NOCP**

4.4.1   Executive has recently approved the creation of a Limited Liability

Partnership to assist the council's asset management. One of its purposes will be to help deliver the council's Asset Management Plan and Fit for the Future through the management of surplus assets.

4.4.2   Currently the strategic direction for corporate property is driven by the Strategic Asset Group, a group comprising mainly Heads of Service.

4.4.3   At the day to day operational level there is an Estate Management Group consisting of officers from Economic Development and Regeneration, Legal, Finance and the Valuation Office. The group deals with such things as progress on current leases, rent arrears and issues relating to specific properties.

4.5   Accurate and up to date property details

4.5.1   Details of the NOCPs are held in a variety of sources including Active H, deeds and leases, income records, capital asset registers, insurance policies, etc.

4.5.2   As the records are held for different purposes they tend to stand alone and there is little cross matching to reconcile them against each other. That coupled with some uncertainty and lack of definition as to what constitutes NOCP means that there is a degree of uncertainty around the number of NOCPs and there is no definitive list.

4.5.3   Generally speaking people broadly know what the NOCPs are but there is a degree of blurring around certain properties e.g. cemetery lodges, some properties in open spaces, enterprise properties.

4.5.4   The issue has been recognised by the Economic Development and Regeneration Manager as an area that needs attention in order to achieve a greater degree of clarity and accountability.

4.5.5   Largely it is a question of tidying up and creating a better definition of NOCPs and formalising responsibility.

4.5.6   The situation does not represent a significant risk and there is no evidence that properties where a rental is charged are not recorded and managed appropriately.

4.6   Policy on lettings and usage

4.6.1   Historically there has been no need to adopt a formal policy on the letting and usage of properties.

4.6.2   A letting will be granted if there is appropriate planning consent in place, the proposed business or activity is legal and unlikely to embarrass the council and there is no conflict with neighbouring businesses or Council policies and objectives.

4.6.3   The use of the property will be detailed in the lease and any deviation from the intended use would have to be notified to the council either by

a neighbouring business or on an ad hoc basis as there are no formal compliance inspections.

4.6.4   For a number of years the Valuation Office Agency (VOA) was engaged by the council to provide property services including inspections. On the grounds of cost the inspection aspect of their service has been cancelled.

4.6.5   Prospective tenants for vacant properties are vetted and have to provide personal, business and financial records.

4.7   There is a lease for each letting

4.7.1   The terms and conditions of a letting are contained in a lease that is signed by both parties and filed together with all supporting correspondence and records in the Deeds Store on level 1 of Riverside House.

4.7.2   Access to the Deeds Store is via a coded lock but it was not clear how many people have access or who has overall responsibility for the security and availability of the contents of the Deeds Store.

4.7.3   Any long term unavailability of any of the packets in the Deeds Store would be unwelcome but it would not present an insurmountable problem as all deeds and leases have been registered with the Land Registry.

4.7.4   There is a card system whereby somebody removing a packet or a file inserts a card with appropriate details into the gap created by what has been removed but no other signing in and out record.

4.7.5   The nature of any filing system is that it is fit for purpose when it is established and then falls into disarray over time. This was the case with the Deeds Store a few years ago and it drew an adverse comment in the Statement of Accounts. A lot of time and effort was put into correcting the problem.

4.7.6   Access to the Deeds Store is probably going to be needed fairly infrequently so it should be possible to arrange supervised access by a section close by e.g. the DMC, and to introduce a better signing in and out record.

Risk

The absence of overall responsibility for the Deeds Store and no real knowledge of who has access could result in records being misplaced and misfiled.

Recommendation

Consideration should be given to assigning responsibility for the Deeds Store to a specified officer or section and for them to

provide supervised access and a more sophisticated document tracking system.

4.8   Rents are set at marked rates, reviewed, billed and monitored

4.8.1   Rents for properties are set at "open market rental value" at the beginning of a lease and then again at the review stage, if there is one.

4.8.2   Any rent review dates are included in the lease. The dates are included in the property details in Active H and review dates are diarised such that negotiations begin well in advance of the due date.

4.8.3   Initial rents or revised rents are based on knowledge of the market and advice from agents on comparable rents for similar properties.

4.8.4   Details of any new or revised rents are supplied to Legal for record purposes and to Finance for billing purposes.

4.8.5   Any non payment of rent is discussed at the monthly Estate Management Group and action is instigated if appropriate. Rent arrears for NOCPs is not a significant issue.

4.9   Properties are adequately insured and insurance is recharged

4.9.1   NOCP is insured as part of the Council's overall insurance cover but the property valuations have not been reviewed for a few years, again on the grounds of cost. This point has been raised as part of another audit and it is hoped that some risk management funds will be released to deal with the matter.

4.9.2   Recharging the cost of insurance to tenants is a confusing area that does need to be resolved. Without a detailed examination of the insurance position for each individual property it is impossible to say what the problem is.

4.9.3   What is clear is that the Council pays out more in insurance than it recovers. This is always likely to be the case as some tenants arrange their own insurance and some pay (or should pay) as part of a service charge.

4.9.4   The problem may be very minor but at this stage it is difficult to tell. What is certain is that the whole issue is untidy. Insurance is charged to a number of different cost centres and at least to Green Space Development, other Housing Property, Estate Management and Housing Supervision and Management.

4.9.5   In some cases, 37-41 Market Street, Warwick, for example, insurance is charged to Estate Management but the recharge is allocated to Housing Supervision and Management.

4.9.6   The whole question of insurance needs a thorough examination to ensure that all tenants are paying insurance where appropriate and that

all costs and income are allocated correctly.

Risks

Tenants may not be paying insurance appropriately.

Costs are not properly recorded in the accounts.

Recommendation

A detailed examination of the insurance situation for all NOCPs should be undertaken to ensure that it is being charged, recharged and allocated appropriately and correctly.

4.10   Risks are managed

4.10.1   The risk identified in the Development Services risk register relating to NOCPs is "not realising full value from assets" with the cause being "ineffective management of non operational assets".

4.10.2   In addition the Economic Development and Regeneration Manager has identified a situation that is not uncommon in other parts of the council. A lot of detailed knowledge about the operational management processes involved with NOCP and the history of individual properties is known only to the Estates Manager so there could be a problem in the case of any long term absence. Action will be taken to reduce the risk.

4.11   Budgetary control

4.11.1   The budgetary aspect of NOCP is like other aspects of the subject, somewhat fragmented. The Estates Manager is responsible for the letting of both GF and HRA properties but only responsible for some of the GF budgets. The Head of Housing and Property Services is responsible for the income from HRA properties.

4.11.2   The Estates Manager is also not responsible for the income for properties in the Green Space Development cost centre. However, all arrears are considered by the Estate Management Group.

4.12   Promotion and marketing of properties

4.12.1   Each time that an NOCP becomes vacant a number of local agents are contacted and one is selected to deal with the marketing of the property on a case by case basis. Whenever possible a "to let" board is situated in the proximity of a relevant property and all necessary contact details are provided.

5.   CONCLUSIONS

5.1   The audit concluded that there are reasonable controls in place to manage NOCP but a certain lack of clarity and consistency in some areas that needs to be addressed on order to improve control.

5.2 The audit can therefore give a **MODERATE** level of assurance that the systems and procedures in place are appropriate and working effectively.

ICT Business Applications: Active H Integrated Housing Management System – 14 Dec 2012

FROM:	Audit and Risk Manager	**SUBJECT:**	ICT Business Applications: Active H Integrated Housing Management System
TO:	Head of Housing & Property Services		
	Head of Corporate & Community Services	**DATE:**	14 Dec 2012
C.C.	Chief Executive		
	Head of Finance		
	ICT Services Manager		
	Business Manager		

1. INTRODUCTION

1.1 In accordance with the Audit Plan for 2012/13, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. This topic was last audited in September 2007.

1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2. BACKGROUND

2.1 The Active H integrated housing management system is supplied by MIS. The majority of system users are within Housing & Property Services, although there are a number of other users throughout the council, notably within the Customer Service Centre. Some contractors also have limited access to the system.

2.2 The application software is used via networked desktop PCs to connect and interact with a back-end SQL Server relational database management system installed on the Windows server operating system. The database server is installed on the server named 'MAXSQL' that sits

in the virtual server estate.

3. SCOPE AND OBJECTIVES OF AUDIT

3.1 The examination was undertaken to assess the adequacy of key controls in place for the applications supporting housing management to ensure the completeness, accuracy, security and effectiveness of data input, processing and output. These controls may be provided either by programming and configuration within the application systems or by manual controls exercised by users.

3.2 The review focused upon the key IT application controls based on the following system control objectives:

- An appropriate level of control is maintained over input, processing and output to ensure completeness and accuracy of data.
- A complete audit trail is maintained which allows an item to be traced from input through to its final resting place, and the final result broken down into its constituent parts.
- Arrangements exist for creating backup copies of data and programs, storing and retaining them securely, and recovering applications in the event of failure.
- Controls are in place to avoid breaches of any law, statutory, regulatory or contractual obligations, and of any security requirements.

3.3 The audit approach used the Application Controls module of the CIPFA Matrices for Information Technology supplemented by adapted elements of the Change Control module. The expected controls under these matrices are categorised into the following areas:

(1) Compliance
(2) Logical security controls
(3) User security controls
(4) Parameter data
(5) Transaction input
(6) Data processing
(7) Output
(8) System availability
(9) Audit trail
(10) Change control – application release

3.4 The audit approach was to evaluate the controls by completion of an Internal Control Questionnaire and undertaking compliance testing where appropriate by applying the CIPFA Matrices model. This was performed through:

- consultation and discussion with appropriate members of Housing & Property Services staff and the relevant Application Support Analyst
- inspection and analysis of relevant documentation, system reports, displays, data exports, etc.

4. FINDINGS

4.1 Compliance

4.1.1   This area of the review covers compliance controls to ensure that the application meets any regulatory and statutory requirements and its use complies with relevant internal policies.

4.1.2   The Council is registered to process person identifiable data as evidenced by the Data Protection registration document, registration number Z623925X. The main use of the system is covered under 'Purpose Three' (Property Management).

4.1.3   The use of Active H is subject to internal policies such as the corporate Information Security & Conduct Policy (ISCP) and relevant sub-policies. The ISCP tends to set out how individuals who manage or use the applications should act, rather than setting out requirements for the actual applications.

4.1.4   For example, access control, covered under Section 24 of the ISCP (Password & Logins) states that Employees and Members must adopt sound password practices, including complexity, regular changing etc, so unless the system constraints will not allow these things, it is up to the user to ensure that they comply with these requirements.

4.1.5   One of the relevant sub-policies is the Data Handling Policy. This covers, amongst other things, the requirement for all data held by the council to be classified. Upon discussion with the system owner and system administrators, it was identified that none of the relevant staff were aware of whether the data held on Active H had been classified in line with the policy.

Risk

Breach of internal policies.

Recommendation

The need for classifying the data held within Active H should be reviewed, with steps taken accordingly depending on the outcome of this review.

4.2 Logical Security Controls

4.2.1   Within the confines of the inherent design of the application, the logical controls meet the expected standards of security. Individual user accounts and passwords are set up, with access to create, amend and delete users being restricted to system administrators. The user accounts are assigned to one or more roles that are designed to allow access to specific functions and modules as considered necessary for the users to undertake their duties. The system will then only display the functions that the user has access to.

4.2.2   Whilst there is a level of control within the system to enforce some password discipline, such as minimum length, blocking the use of previously used passwords (last ten), prohibiting certain passwords (e.g. those that contain part of the username) and the frequency with which passwords should be changed, some of these are not as rigid as they could be.

4.2.3   Some controls cannot be enforced by the system, such as requiring a mix of different character types (i.e. alphanumeric and special characters), but other controls could be strengthened by changing parameters on the system. Current settings only require passwords to be a minimum of five characters and they only have to be changed every 120 days.

Risk

Unauthorised system access enabled by weak password control.

Recommendation

Password control should be strengthened by amending parameters within the system. Minimum length requirement should be set to eight characters and frequency of password changes should be reduced to every 90 days in line with other systems in use.

4.2.4   It was also noted that the current settings do not enforce the locking out of user accounts should they fail to enter the correct password after a specific number of attempts.

Risk

Unauthorised system access enabled by weak password control.

Recommendation

The 'account lockout threshold' within the security parameters should be amended to lock users out after a specific number of unsuccessful attempts.

4.2.5   Control over access to the database and operating system has been examined by the IT Audit Partner. Three specific issues were highlighted which can be summarised as:

(a)   The purpose and origin of the instance-level 'administrator' account is unclear.

Risk

Unauthorised administrative access to all databases that are hosted on the SQL Server instance.

Recommendation

The purpose and origin of the instance-level 'administrator' should be ascertained. The privileges assigned to this account should subsequently be adjusted as appropriate.

(b) A review of the logins assigned to the dbo_owner role has not recently been undertaken

Risk

Unauthorised administrative access to the database.

Recommendation

A review of the logins assigned to the dbo_owner role should be undertaken. Changes should subsequently be made as appropriate to ensure that only those with a genuine operational need retain this level of privilege and that the correct domain account for each Application Support user is used where administrative privileges are to be retained.

(c) A review of the privileges and permissions assigned to users through the ActiveHGRP database role has not been undertaken.

Risk

Inappropriate access to privileges and permissions for the underlying database.

Recommendation

The privileges and permissions provided to the ActiveHGRP database role should be confirmed. The risk associated with users being inappropriately assigned to this role should subsequently be assessed. If the risk is deemed sufficient to require review, the domain and SQL Server-level accounts assigned to the role should be reviewed to ensure that only current members of staff and other authorised accounts remain assigned to the role. The review should include membership of all domain groups assigned to the role, including through nested domain groups such as WARWICKDC\engineers, which is assigned to the WARWICKDC\Housing ActiveH Access domain group.

4.3   User Security Controls

4.3.1   Users of Active H are made aware of their responsibilities when using the application via sign-up to the Information Security and Conduct Policy and upon completion of their on-line ICT induction.

4.3.2   The system administrator questioned (Senior Finance Officer (SFO))
         highlighted that he is provided with lists of leavers via the Rents &
         Finance Manager. Users identified via these lists will have their access
         privileges disabled, although they are not deleted from the system as
         this may affect historic transactions that remain on the system.

4.3.3   An annual review of access is also performed by the SFO, with emails
         being sent to each department to ascertain if users within the
         department are still require the access permissions which they have
         been granted.

4.3.4   Details of the current users and their access permissions were reviewed
         and questions were raised with the SFO with regards to some of the
         current access privileges. He highlighted that some of the roles
         assigned were historic and access needs would be confirmed again as
         part of the next annual review.

4.4   Parameter Data

4.4.1   The nature of the application means there are no known parameters that
         require periodic manual updating. Amendments to parameters such as
         the repairs authorisation limits are ad-hoc and require relevant access
         levels that were found to be appropriately controlled.

4.5   Transaction Input and Data Processing

4.5.1   There majority of input onto the system is manual, and is largely
         controlled via the use of drop-down lists, mandatory entries, default
         values etc. Overall, there is no supporting documentation for this input,
         with the exception of Home Choice applications that are input onto the
         lettings module. The forms are marked with the relevant, system
         generated, application number to confirm that they have been entered.

4.5.2   The only other form of input relates to cash and benefit postings to the
         rents module. Files are received from the relevant systems (PARIS and
         Civica Open Revenues) and are uploaded onto Active H. Reconciliations
         are performed between the amounts uploaded onto Active H and the
         corresponding import files to ensure that all relevant amounts have been
         input appropriately.

4.5.3   On the whole, this processing does not require any coordination with
         other system inputs. However, when debit raises are being undertaken,
         an email will be sent round to Housing & Property Services staff to ask
         them to come out of the rent accounts to ensure that the process can
         operate smoothly.

4.5.4   However, if an account has been left open, the system will identify which
         accounts had not been processed, and the process can then be rerun for
         the selected accounts.

4.6 Output

4.6.1 Output from the system is generally management information reports that are individually generated and, as such, there is no requirement for controls to be in place. Some letters are generated by the system in relation to housing applications but again, these are individually generated and are collected directly by the staff member who has generated them.

4.7 System Availability

4.7.1 System availability is assured by centralised database management, system back-up and test restore operations overseen by the ICT Infrastructure Team. An audit of ICT Backup Strategy, Processes and Procedures has recently been undertaken by our contracted IT Audit partner, so the processes were not examined as part of this audit.

4.8 Audit Trail

4.8.1 The purpose of an audit trail is to ensure that:

- sources of transactions or amendments to standing data are traceable
- output data is verifiable
- inter-system data flows can be reconciled to substantiate financial ledgers
- the guilty party in the event of a fraud or irregularity can be identified.

4.8.2 Within Active H, amendments to rent accounts are logged by default. System administrators can also select whether other tables are to be logged or not. However, the Application Support Analyst advised that system performance is affected by use of the facility so the logging of additional tables was not generally undertaken.

4.8.3 Upon review it was identified that five additional tables are being logged. However, the system administrator questioned did not know how to find the audit logs and advised that they were not reviewed.

Risk

Sources and instigators of suspect transactions or unauthorised data changes cannot be identified.

Recommendation

The use of the audit logging function should be reviewed to ensure that the tables being logged are of use to management and the system administrators.

4.9   Change Control – Application Release

4.9.1   Updates to the business application system should follow a course of action prescribed within the Council's (ICT) Change Management Policy and the Business Application Release processes contained therein.

4.9.2   Paperwork for the latest upgrade was found to be in place and had been completed appropriately, with checklists being completed and the tests performed having been signed off on behalf of the system owner.

4.9.3   Detailed testing documentation was provided by the System & Performance Improvement Officer who advised that, in general, the testing had worked well, although one subsequent issue had been noted due to the tests undertaken by staff on one specific module. However, she advised that this had been rectified quickly.

5.   SUMMARY & CONCLUSION

5.1   Following our review, we are able to give a **MODERATE** degree of assurance that the systems and controls in place surrounding the use of the Active H Integrated Housing Management System are appropriate and are working effectively.

5.3   Issues were identified relating to the classification of data held within the system, the password strength and user lock out settings that are currently in place, database access restrictions and the use of the audit logging.