

Internal Audit Assurance to the Accounting Officer

Companies House Internal Audit
April 2008

Companies House Internal Audit Annual Report



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1 Background and scope

Background to this report

The Government Internal Audit Standards (“GIAS”) require that the Head of Internal Audit provide a written report to the Accounting Officer timed to inform the organisation’s annual Statement on Internal Control. As such, the purpose of this report is to present our annual opinion of the adequacy and effectiveness of the organisation’s system of internal control. This report is based upon the work agreed in the annual internal audit plan and conducted during the year.

Whilst our report is a key element of the assurance framework required to inform the Statement of Internal Control, there are also a number of other sources from which the Accounting Officer should gain assurance. The level of assurance required from Internal Audit was agreed with management and the Audit Committee at the beginning of the year and presented in our annual internal audit plan. As such, our opinion does not supplant the Accounting Officer’s responsibility for forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

This report covers the period from 1 April 2007 to 31 March 2008.

The Companies House Internal Audit Service is delivered in partnership by BERR Internal Audit and Companies House Assurance, Risk and Consultancy team. PriceWaterhouseCoopers are engaged via BERR to provide additional, specialist resources as required.

Jon Whitfield, BERR Director of Internal Audit (Head of Internal Audit)

Simon Morgan, Companies House, Acting Head of ARC

2 Our annual opinion

Annual opinion on internal controls

GIAS requires me, as Head of Internal Audit, to provide an opinion to the Accounting Officer on the overall adequacy and effectiveness of the organisation's: risk management; control; and, governance processes. Collectively we refer to these activities as "the system of internal control".

My opinion has been informed primarily, by the scope of internal audit work undertaken and interpretation of the findings from individual assignments. I have also taken account of the outcome of the annual review of corporate governance, my knowledge of the business environment, known instances of fraud, and the work of others, such as the National Audit Office (NAO), OGC Gateway review teams and Investors in People assessors.

We planned our work so that we had a reasonable expectation of detecting significant control weaknesses in each of the areas covered. However, internal audit procedures alone, although they are carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations should not be the sole means relied upon to disclose fraud, defalcations or other irregularities which may exist.

During the financial year Internal Audit gave "unsatisfactory" opinions within review reports of the CHIPS, Companies Act Programmes (CAP) and the security of specific aspects of the E-Filing System. Actions arising from the review of CHIPS were implemented mid year. As a result of the other reviews, the need for improvement was identified during quarter three and steps commenced to deliver this.

The successful delivery of CHIPS has addressed many of the outstanding issues regarding e-filing: the main outstanding issue regarding the security of authentication codes is being actively managed.

Management recognised the risks within the Companies Act Programme which meant that CH could not be absolutely confident of successful delivery of the programme by the October 2008 deadline. This contributed to a decision by Ministers to move the main implementation date to 2009 to increase confidence in delivery: programme status is now classified as "Amber/Green".

In deciding an overall opinion, I considered the results from all the reviews conducted during the year. All but one other reviews provided a "satisfactory" rating over the general control environment. Internal Audit acknowledged the strategic importance of E-Filing and the Companies Act Programme but recognised the mitigating actions noted above as reflecting positively on the control environment. Consequently, overall, an opinion of "Satisfactory" can be given by Internal Audit on the design, adequacy and effectiveness of the system of internal control operating during the year.

Other matters

Data handling security has increased in profile over the last year. ARC validated the submission to Cabinet Office on the data-types retained and handled by Companies House. Whilst we have made some recommendations for improvement, we agreed with managements' assessment that the organisation's processes are generally satisfactory.

During the course of the financial year we have not become aware of any other issues that we believe could, or have had, a significant impact upon the Agency's system of internal control.

3 Internal audit work conducted

2007-08 internal audit plan

Our internal audit work has been conducted in accordance with Government Internal Audit Standards and the agreed Annual Internal Audit plan.

The Annual Internal Audit plan was agreed with the Audit Committee in March 2007.

All work has been completed as agreed with the exception of the IT Infrastructure, Product Development & Management and Finance Audit Reviews which are in draft report stage.

The results of individual audit assignments (and summary of key findings from each review)

Annex A sets out the definitions for the ratings applied to internal audit reports during the year.

The following table summarises the reports issued and the opinion provided.

The results of individual audit assignments (and summary of key findings from each review)

We set out below the results of our work in terms of the number and relative priority of findings.

Audit	Date completed	Assignment opinion	Number of findings	
			Urgent action is required	Action is necessary
CHIPS Assurance				
Implementation – Readiness for Go live Criteria Metrics Validation	July 2007	N/A	11	9
Validation of Testing	July 2007	Improvement Required	8	1
Challenge review on Key risks/go live criteria	Oct 07	N/A	N/A	N/A
Fact Finding Summary	Dec 07	N/A	N/A	N/A
User Simulation Validation exercise	Dec 07	N/A	N/A	N/A
Infosec Compliance assessment	Jan 08	Satisfactory	0	2
Meeting of Go live Criteria Validation	Feb 08	N/A	N/A	N/A
Data Handling Procedures	Ongoing programme in run-up to Go Live to estimate likely additional staffing requirements for CHIPS.			
Attendance at Programme Board to provide independent challenge.	07/08	N/A	N/A	N/A

CAP Assurance				
Milestones report – Requirements review and follow-up	Aug 2007	Improvement required	8	4
Review of Analysis and Development phase.	Nov 2007	Improvement required	7	5
Attendance at Programme boards for CAP by ARC to provide independent challenge.	07/08	N/A	N/A	N/A
STAR Assurance	As previously agreed, STAR Programme was de-prioritised by CH during the year, so no audit activity was carried out.			
ISO 14001 – Environmental Management				
(Sept 2007 - Crown Way Site)	Oct 2007	Satisfactory	0	5
Environmental Audit (Dec 2007 Axys Building)	Jan 2008	Satisfactory	0	3
(March 2008 - Crown Way)	Apr 2008	Satisfactory	To be confirmed	To be confirmed
ISO27001 - Information Security, e filing	Dec 07	Unsatisfactory	4	8
VER/VES Payments	Not performed. As previously agreed, assurance taken off the BERR Pensions quality routines			
Finance Compliance	Apr 2008	Satisfactory	To be confirmed	To be confirmed
Product Development and Management	Apr 2008	Improvement Required		9
IT Infrastructure	May 2008	Satisfactory	To be confirmed	To be confirmed

Summary of key findings and limitations of scope

Review	Scope	Findings, overall assessment and management response
CHIPS Assurance		
CHIPS - Implementation – Readiness for Go live Criteria Metrics Validation	To provide a point in time assurance over the metrics detailed in the section “Implementation – Readiness for Go live Criteria” of the “Systems Platform” document (dated June 21 st 2007).	Management agreed reports findings and accepted all recommendations. No overall opinion required, but specific commentary against each of the 7 Criteria used within the Go Live implementation schedule. There were areas of non compliance within in each of the Criteria
CHIPS – Validation of Testing	The review of the CHIPS test coverage ensured that it was: <ul style="list-style-type: none"> • Sufficiently rigorous; • Complete; • Covered key functional areas; and • Appropriately timed and planned to help lead us achieve the project’s milestones. 	Of the seven areas considered within the scope of the review, Two were given a RED status, 4 Amber, and 1 Green.
CHIPS – Challenge review on Key risks/go live criteria	To provide constructive challenge to the content of the Go live /key risks matrix	Recommendations on overall structure and content of the document, including suggested evidence required to validate. Comments fed back to programme.
CHIPS Fact Finding Summary	A timeline-based summary of the genesis of CHIPS and the issues encountered.	N/A
CHIPS – User Simulation Validation exercise	Independent assessment of delivery of functionality, system performance and user support during dry-run implementation.	Validated previous ARC performance estimates and management-agreed additions to the lessons learned documentation.
CHIPS Infosec Compliance assessment	Assessment of system against Government security standard.	CHIPS well within acceptable risk tolerances. Minor recommendations on logical access and ISO27001 scope.
CHIPS – Meeting of Go live Criteria Validation	To undertake an independent validation of the evidence to support compliance with the seven go live criteria.	Minor non-compliance noted. These were not of a significant enough nature to impact the decision by Board to go-live.
Chips Data Handling Procedures	Assessment of potential issues – including resource shortfalls – given CHIPS system design and performance.	Fed into Go-Live Criteria and signed-off staffing plans.

Review	Scope	Findings, overall assessment and management response
CAP Assurance		
CAP milestones report – Requirements review and follow-up	<p>The initial scope was to cover:</p> <ul style="list-style-type: none"> • CAP Requirements; • Follow Up of Actions of Previous Reviews; • Criteria for CHIPS Go, No Go/Enactment of Contingency for CAP; • CHIPS test case V core requirements coverage; • Compliance review SIT final exit report. 	<p>Report and all recommendations were accepted by management. Overall conclusion was Amber – Improvement required.</p>
CAP – Review of Analysis and Development phase.	<p>The key audit objectives were to:</p> <ul style="list-style-type: none"> • Ensure that the requirements held within Caliber, (which constitute, Sections of the ACT, Business Positions and Solutions), have been accurately captured, and signed off by the business. • Ensure that there are effective processes in place to deliver the agreed business positions/solutions and that the associated plans have reasonable estimations for timescales and resource. • Ensure that there are clear processes in place for issues and risks to be escalated within the project for a timely resolution, so that the overall deadline of October 2008 is not impacted. • Ensure that the governance process is effectively supporting and guiding delivery. • To review the robustness of the exit and entry criteria between the requirements, analysis and development phases • Ensure that the key lessons learnt from CHIPS are understood and brought into plan. In-particular to consider the following key areas of learning 	<p>All recommendations were accepted by management. – Overall Opinion - RED “High Managed Risk”.</p>

Review	Scope	Findings, overall assessment and management response
<p>Environmental Audit (September 2007)- Crown Way (December 2007)- Nantgarw (March 2008) Crown Way</p>	<p>To look at agreed actions arising from previous audit and specific sections of the ISO 14001:2004 Environmental Standard.</p>	<p>Overall Assessment(s)- Satisfactory</p> <p>A number of relatively low-level observations were raised against the Standard, which have been followed-up successfully with management. The main thrust of our effort was to work with the Environmental Officer to generate SMART targets to be owned at Board level with clear benefits to both CH and the wider community.</p>
<p>ISO27001 Information Security - eFiling</p>	<p>During the auditing period September - October 2007 the following sections of ISO 27001 have been audited: A5.1.1. to A15.3.2.</p> <p>The review focused on the information flow from input to output on electronic data handling (customer information), to ensure that basic security checks are adequate and that the appropriate procedures are followed and managed, in accordance with Companies House IS Policies and ISO27001.</p>	<p>Overall assessment - Unsatisfactory</p> <p>We found significant weaknesses in control, particularly over the management of authentication code requests and logical access control to STEM. These significantly undermined the security of the Register. Recommendations have been made to address these, however due to a mix of delays in technical changes and a culture of acceptance of these weaknesses several have been only partially or not accepted.</p>
<p>VER/VES Payments</p>	<p>Not performed. As previously agreed, assurance taken off the BERR Pensions quality routines.</p>	
<p>Finance Compliance</p>	<p>The agreed scope of the review was to look at information gathered to determine whether any procedural changes had taken place in the following areas:</p> <p>Creditors, Debtors, Travel & Subsistence, Banking & Cash, Ledger Management, Budget Management, Commitment Accounting, Financial Reporting, Security, Fixed Assets, Financial Systems, Support, Late Filing Penalties-Fees Recovery</p>	<p>Overall assessment - Satisfactory</p> <p>We have made some findings and recommendations as part of this audit. These have been presented verbally to a positive reception, but the report has not been formally signed-off at this date.</p>
<p>IT Infrastructure</p>	<p>Scope: The alignment of the IT and Corporate</p>	<p>Arc review the risk profile of the IT areas quarterly.</p>

Review	Scope	Findings, overall assessment and management response
	<p>Strategies;</p> <p>The alignment of policies on refreshing technology with the IT Strategy;</p> <p>Current assessment of risk exposure resulting from any postponement of procurement and mitigating strategies put in place;</p> <p>The maturity of any co-ordinated procurement strategy.</p>	<p>Management have recognised issues and developed an IT Strategy encompassing the issues in scope. ARC will feed back on the content of the Strategy.</p>
<p>Product Development and management</p>	<p>How products are managed through the lifecycle of:</p> <ol style="list-style-type: none"> 1. Development stage 2. Market introduction stage 3. Growth stage 4. Mature stage 5. Decline or Stability stage <p>This will include the following areas:</p> <p>Strategic Product Planning; Product Portfolio Management; Product Conception; Product Development; Product Pricing; New Product Release Management; Post Implementation Reviews; Live Product Management.</p>	<p>Overall assessment – Improvement Required</p> <p>We have made findings and recommendations as part of this audit. These have been discussed with the Director of Corporate Strategy and will form the basis of a Board Paper in June 2008.</p>

Implications for next year's internal audit plan

Risks identified in 2007/08 have been taken into account in updating our internal audit risk assessment. This assessment contributes to our 2008/09 internal audit plan.

4 Appendix A - Audit Opinions

 **Unsatisfactory**

There are one or more weaknesses in control that individually or taken together seriously endanger the achievement of objectives. Immediate action is required to address the exposed risks and achieve an acceptable level of control.

 **Improvement Required**

There are weaknesses in control that either individually or taken together could have an adverse impact on achievement of objectives. Management should address these within an appropriate timeframe to strengthen the overall control environment.

 **Satisfactory**

A sound system of control exists which is consistently applied and should be effective in providing for management of risks to objectives.

 **Well controlled**

There are areas where processes are well controlled that could be recognised and highlighted as best practice in managing risks and controls to meet Departmental objectives.