

Report

Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	21 March 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Activity as at 2 March 2018
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Update the Risk and Audit Scrutiny Forum on progress by, and performance of, the Internal Audit service in the period to 2 March 2018

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that progress and performance is noted

3. Background

3.1. Findings from internal audit assignments are reported to the Forum throughout the year. The last progress report to the Forum was in January 2018. This reported on work completed in the period 14 October to 29 December 2017. This report covers all work completed in the period 30 December 2017 to 2 March 2018. Performance information is also included.

4. Performance

4.1. As at 2 March 2018, approximately 97% of the 2017/2018 Audit Plan has been started and 72% of reports are at draft stage. The other key performance indicators reflecting quality, on time and within budget for the period to 31 January 2018 are summarised in Appendix One together with explanations. 71% of draft reports have been delivered on time and 84% within budget against targets of 80% respectively. Quality continues to be monitored through internal quality control procedures.

4.2. Client contributions to the delivery of the audit plan take the form of responding to draft reports, agreeing to closing meetings and signing reports quickly, once agreed. 71% of audit assignments were concluded to a signed action plan within four weeks of the issue of a draft report against a target set of 80%.

4.3. Forum members are asked to note performance.

5. Findings

5.1. Appendix Two lists all assignments completed in the period 30 December 2017 to 2 March 2018 and the key messages, in respect of the following significant assignments completed in this period, have been appended to this report:

- ◆ I217050 Debtors System (Appendix Three)
- ◆ I541015 Cyber Security Malware Protection (Appendix Four)
- ◆ I343041 Completion and Snagging Process (Appendix Five)

5.2. Forum members are asked to note findings.

6. Progress against Strategy

6.1. The Public Sector Internal Audit Standards (PSIAS) requires progress against the audit strategy to be monitored and reported to the Forum as part of regular monitoring reports that are presented at each meeting.

6.2. Delivery of the strategy will be evidenced by completion of the 2017/2018 Plan and this will be monitored through the performance indicators regularly reported to the Forum. Any subsequent changes to the Plan will be presented to the Forum which will include an assessment as to the impact such changes would have on the delivery of the overall audit strategy.

7. Independent Review of Compliance with PSIAS

7.1. This review has now concluded and the final report included later in the agenda for noting.

8. Employee Implications

8.1. There are no employee issues.

9. Financial Implications

9.1. At present a breakeven position is forecast to the end of the financial year for the Internal Audit section.

10. Other Implications

10.1. The main risks to the delivery of the Audit Plan are vacancies and team up-skilling requirements, unforeseen service demands and delays with client sign-off. These are mainly mitigated by coaching and training, regular meetings and escalation processes as well as inclusion of contingency time within the annual plan.

10.2. There are no implications for sustainability in terms of the information contained in this report.

11. Equality Impact Assessment and Consultation Arrangements

11.1. There is no requirement to equality assess the contents of this report.

11.2. Heads of Service are consulted on each and every audit assignment.

Paul Manning

Executive Director (Finance and Corporate Resources)

2 March 2018

Link(s) to Council Objectives/Ambitions/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ◆ Internal Audit Plan 2017/2018 to RASF 7 March 2017
- ◆ Progress report to RASF 14 June 2017
- ◆ Progress report to RASF 20 September 2017
- ◆ Internal Audit Plan 2017/2018 to RASF 20 September 2017
- ◆ Progress report to RASF 1 November 2017
- ◆ Progress report to RASF 24 January 2018

List of Background Papers

- ◆ Figtree extracts of Action Plans

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Key audit performance indicators as at 31 January 2018

Appendix One

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	32/38	84%	80%	
Draft reports delivered within 6 weeks of file review	22/31	71%	80%	Anticipate target will be met by 31 March 2018.
2017/2018 Audit Plan completed to draft by 31 March 2018	14/79	18%	100%	Approximately 97% of 2017/2018 Audit Plan has been started and 72% of reports are at draft stage as at 2 March 2018.
Internal Audit recommendations delivered on time	67/68	99%	90%	
Client to agree findings and actions within 4 weeks of draft issue	20/28	71%	80%	Anticipate that target will be met by 31 March 2018.

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
Prior Year				
I217050	Debtors System	23/11/2017	08/01/2018	See Appendix Three
I541015	Cyber Security – Malware Protection	20/11/2017	08/01/2018	See Appendix Four
I214048	Care Homes General Fund	28/04/2017	15/01/2018	Adequate assurance was obtained that the General Fund Account at each sampled Care Home and Day Care Centre was being administered mainly in compliance with procedures but not fully. Issues were identified within each Unit which required to be improved. Recommendations have been made to address these issues and will be followed up in due course.
I343041	Completion and Snagging Process	31/03/2017	16/02/2018	See Appendix Five
I676091	Whistle Blowing – Conflict of Interest	03/11/2017	16/02/2018	Allegation around conflict of interest which resulted in disciplinary action being taken against a number of employees. Procedures and controls required to be improved across all procurement practices. An action plan has been developed and will be followed up in due course.

2017/2018				
I914072	SLLC Formal Follow Up 2017/2018	22/01/2018	22/01/2018	Reported to SLLC.
I924078	LVJB Formal Follow Up 2017/2018	30/01/2018	30/01/2018	Reported to LVJB.
I256065	Waste Contract Scrutiny Group	31/01/2018	31/01/2018	Participation in contract scrutiny group.
I916076	SLLC Fraud Alerts	16/02/2018	16/02/2018	Reported to SLLC.

Objective

The objective of the audit was to confirm that the Debtors system employs effective and robust controls over the authorisation and approval of invoices, credit notes and write offs, that access to the system was controlled and managed and that effective support mechanisms were in place to ensure the systems stability and efficient operation.

Key Summary

Overall there is a good level of assurance that the system controls that govern the processing and authorisation of transactions are in place and operational. Sample testing of invoices, credit notes and write offs confirmed that duty segregation was in place and effective workflow protocols were operating to escalate transactions for approval.

Access to the system is controlled and new users are required to document any request for access. A user's access within the system is effectively managed and permissions are granted appropriate to their role. Some issues were identified with regards to the visibility of user's entry and exit to the system and the ability to extract this data for analysis. Recommendations have been made to investigate this with IT services and the system vendor.

It was noted that system cleansing checks and reviews are only in place for user accounts and it is recommended that standing data relating to debtors accounts is also routinely periodically reviewed.

Though transactions are authorised, it was noted that the audit trail of the reasons behind the transaction could be improved with greater use of the system notes and document-linking functionality.

There is comprehensive documentation of the support mechanisms in place provided by the system vendor.

The issues that were identified have no impact on the system controls within the system; actions have been recommended which, if adopted and implemented, will add to the controls and processes already in place.

Identification of Key Findings

- All transactions within the system are authorised and duty segregation is in place.
- Routine data cleansing is restricted to user accounts
- Underutilisation of system functionality to support transactions

Areas for Improvement

- Process to extract user login activity
- Wider use of the system note and document attachment functionalities
- Regular and routine cleansing of debtor accounts for accuracy and completeness

Good Practice

- Segregation of duties implemented and operational
- System based controls in place to manage data input through mandatory fields
- User processes are documented and effective system support is in place.

Objective

The objective of the audit was to assess the policies in place in relation to malware prevention and confirm that they were robust and comprehensive. There was consideration of the risks around removable media devices, external attack and the management of incidents and the controls, processes and protocols in place to mitigate these risks.

Key Summary

Overall, there was adequate assurance that the security policy in relation to malware protection is comprehensive and considers the processes to mitigate the risks in relation to removable media, external attack and incident management.

It was confirmed that the use of removable media is controlled and protocols to monitor the use of these devices are in place.

The risk of infiltration of the Council's network either by an infected removable device or through an external attack is mitigated by the implementation of comprehensive anti-virus and security protocols. There was further assurance that these measures are regularly independently tested.

An incident management plan is currently in place and works in conjunction with the wider corporate contingency plan. Despite the incident management plan not having been tested in full there was assurance that individual IT related incidents have been effectively and efficiently dealt with and any risk to the Council's IT infrastructure mitigated.

The recommendations made in the action plan relate to documentation and policy issues at the periphery of the control environment and do not reflect on the adequacy of the technical controls in operation.

Identification of Key Findings

- Comprehensive suite of policy documentation.
- Technical controls in place are robust and there is effective monitoring of the control environment.
- IT related incidents are effectively and efficiently addressed.

Areas for Improvement

- Policy documentation to be reviewed and updated as necessary.
- IT Services to facilitate a refresh of the awareness of the risks and consequences of malware compromise with employees.
- Continuity planning documentation to be reviewed for the use of officer's personal information.

Good Practice

- An IT Acceptable Use policy is in place and is agreed by all employees when they login to the Corporate Network.
- Malware protection rules are appropriate, up to date, tested and monitored.
- IT incidents are addressed with minimum disruption to the Corporate IT estate.

Objective

The audit objective was to review the snagging/defects/completion process for primary schools modernisation projects and to confirm that expected controls were in place and working effectively and highlight any recurring issues in terms of delays.

Key Summary

The defined Housing and Technical Resources procedure for the snagging/defects/completion process generally represents best practice controls in this area, with expected controls identified. However, assurances that the controls were in operation was hindered by a lack of audit trail to substantiate the actions and/or decisions taken on some of the sample projects.

There was evidence of delays in works/repairs. Some of these are deemed unavoidable given the time pressures associated with new school terms, the involvement of third parties or requirements to carry out work outwith school terms.

Identification of Key Findings

- There are Housing and Technical Resources procedures and retention schedules in place to support the process, but there is some inconsistency in the application of the prescribed stages/documentation.
- In some instances, schools in the sample were occupied with outstanding snags.
- There were some delays in the completion of defects work.
- Certificates of making good defects were issued with exceptions although Final Certificates were not being granted whilst the exceptions were outstanding.

Areas for Improvement

- Updates to the procedural documents and retention schedules to support consistency in practice and robust audit trail

Good Practice

- Defined processes to be followed, as prescribed by Housing and Technical Resources, is generally in line with construction industry best practice.