

INTERNAL AUDIT – AUDIT UPDATE

SUMMARY:

This report describes the work carried out by Internal Audit for quarter 3 and the proposed work to be delivered for quarter 4.

RECOMMENDATION:

Members are requested to:

- i. Note the audit work carried out in quarter 3.
- ii. Note the update to the expected deliverables for quarter 4.

1 Introduction

1.1 This report is to provide Members with:

- An overview of the work completed by Internal Audit to date for quarter 3.
- An update of the progress made and any changes required for the expected deliverables for quarter 4, as approved by the Committee on the 25th September 2017.

2 Resources

2.1 The resources within the internal audit team currently remain the same as reported at the September meeting. Since this meeting, an appointment has been made to the role of Audit Manager. The newly appointed Audit Manager is currently on maternity leave and interim cover for this position is in place. Contractors continue to be utilised to provide assistance for the delivery of the Internal Audit Plan.

3 Audit Plan Summary 2017/18

3.1 An overview of the audit plan and status of audits included is shown below:

Work completed to date:

Audit	Opinion
Parking Machine Income	Reasonable
Heating Payments	Limited
Capital Programme: Activation Aldershot	Reasonable
Card Payments (Unplanned)	Reasonable
Transparency Code	Limited
Cyber Security	Reasonable
Contract Letting & Tendering	Reasonable
Purchase of Property	Limited

Follow Up	Opinion
External Tenants	Reasonable
Capital Projects	Reasonable
Aldershot/Farnborough Markets	Substantial
HMRC Requirements/Tax Requirements	Limited

Work in progress (wip)/to be started in quarter 4:

Audit	Status
Key financial system – FMS & Bank Reconciliation	Quarter 4
Key financial system – Purchase Ledger	wip
Key financial system – NNDR Billing Collection & NNDR Hardship Reliefs/Exemptions	wip
KFS – Payroll/Pay	wip
Capital Programme: Depot	Quarter 4
Portable IT Equipment (Unplanned)	wip

Follow Up	Status
IT Network Security	Quarter 4
Community Assets	wip
Parking Machine Income	Quarter 4

Unallocated work potentially to be dropped from the plan (per September committee update):

Audit
Planning Applications
Weekly Refuse & Recycling Collection Contract
Financial Borrowing

4 Audit reviews completed since September 2017

4.1 Cyber Security

The threat of cyber-attack is an increasing risk for all organisations with the consequences of such attacks leading in some cases to significant business disruption and loss of confidential or valuable data. The objectives of the audit were to evaluate; the level of preventative technical measures in place, arrangements for training staff in data protection and cyber security risks and the management of server patching to address security vulnerabilities on the network.

The report concluded a reasonable level of assurance and basic controls are in place to prevent an attack. Recommendations have been made to:

- Document policy and processes that address the arrangements in place to address security vulnerabilities.
- Deliver user education on data protection and security
- Update and revision of the Security Incident Response Plan
- GDPR preparatory activities should be quantified and key roles understood as a matter of priority.

The Council demonstrated a strong management system to deploy patches and has recently procured a tool to aid the identification and remediation of security vulnerabilities on the network. This continues to be a key preventative defence measure.

4.2 Contract Letting & Tendering

The scope of the audit review was to assess whether contracts were being awarded in accordance with financial regulations and contract rules, whilst ensuring value for money in the provision of goods and services.

The report concluded a reasonable assurance opinion although a number of recommendations were made to improve the control environment. Audit found only partial compliance with regards the retention of documentation being held to support procurement decisions and compliance with the Contract Standing Orders. Where the Procurement section had actively been used, controls were operating effectively with good documentation trails and complete recording on the Council's contract register. Key findings made in the review included:

- The Procurement Strategy had not been updated for a number of years.
- The Contracts Register was incomplete and information recorded inconsistent.
- Supplier frameworks set up by the Procurement section were not being fully utilised.
- A number of contracts reviewed were being rolled on without extension approval.
- As per the Contract Standing Orders, financial checks of contractors had not been undertaken for all contracts with a total value in excess of £50,000. This included on-going contracts where 'aggregation' had not been taken into account at the outset.

Overall, whilst there was a structured procurement framework in place, in order for the Council to achieve value for money going forward, the focus on compliance and financial savings needs to be driven by the Heads of Service with the robust support of senior management.

4.3 Purchase of Property & Land

An audit review of the purchase and sale of land and property was included as part of the approved Internal Audit plan. Subsequently, due to the timing of the review, the scope of the audit was reduced to exclude the sale of property and land. During the previous year, there had been very few property and land sales. This area will be reviewed separately when it is considered that the risk merits such work.

The overall audit opinion was Limited Assurance. The reason for this opinion was that a proposed Asset Management Strategy has yet to be implemented which should include the governance and parameters for investment property decisions. Recommendations were also made to:

- Improve the structure of record keeping, providing ease of review that key diligence checks and approvals are observed;
- Improve performance reporting to assess the success of investments made.
- Develop policies and procedures for acquisitions.

4.4 Aldershot/Farnborough Markets Follow Up

Audit work issued in March 2015 identified that the process for taking payment from market traders was a labour intensive manual process. As a result, adequate documentation was not held electronically to show the payments that had been made by each market trader. Findings also concluded that appropriate reconciliations were not being carried out.

A follow up of these findings revealed that four out of the five recommendations made have been implemented. The outstanding recommendation relates to holding the new stallholders contracts electronically. Implementation is planned at the end of the financial year. *(Opinion upgraded from reasonable to substantial assurance).*

4.5 HMRC Requirements & Tax Requirements

A follow up was undertaken to review arrangements in place to ensure that the Council had a robust mechanism for checking the employment status of workers before making payments through the purchase ledger.

The review found evidence that the HMRC tool for assessing employment status to comply with tax regulations (IR35) was now being used, however it was not clear that this was being routinely utilised by Managers and there was not always a sufficiently detailed explanation as to why an assessment had not been undertaken.

Recommendations have been made to detail procedures in place in Finance to collate information and reference checks that have been carried out more clearly as well as documenting Managers reasons why it was felt use of the HMRC tool was not required. Further audit review of compliance with IR35 regulations will be added to cyclical audit coverage of the purchase ledger key financial system.

4.6 *Other deliverables:*

Internal Audit have provided input and advice as part of the Risk Management Group which is overseeing the reconstitution of the Council's risk management processes and development of strategic and operational risk registers.

Input has also been provided to continuing work to ensure that the Council is set up to comply with the new General Data Protection Regulations (GDPR), which replaces the existing Data Protection Act from May 2018.

5. **Changes to scheduled audit work**

Since the previous internal audit update report in September, an additional review has been added to the audit plan in respect of portable IT equipment. The Head of Financial Services requested work to review controls in place particularly in respect of employees returning equipment when they leave employment. Work is currently underway and will be completed shortly.

Follow up of previous audit recommendations relating to IT network security has been added to the schedule and a follow up of recommendations made concerning the Parking Machine income review is being deferred, as these are reliant on the introduction of new parking machines, which had been delayed.

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References: *Internal Audit – Audit Plan* report, presented to the Committee on the 27th March 2017
2017/18 Internal Audit Plan