ISLE OF ANGLESEY COUNTY COUNCIL

COMMITTEE:	**AUDIT COMMITTEE**
DATE:	**10 DECEMBER 2014**
TITLE OF REPORT:	**PROGRESS REPORT ON INTERNAL AUDIT 01 APRIL 2014 – 14 NOVEMBER 2014**
PURPOSE OF REPORT:	**FOR INFORMATION**
REPORT BY:	**AUDIT MANAGER**
ACTION:	**N/A**

1. INTRODUCTION

1.1 The Operational Plan for 2014-15 was presented to and accepted by the Audit Committee at its meeting held on 10 April 2014. The Plan was produced in consultation with the External Auditor, the Section 151 Officer and various meetings and communications with Heads of Service.

1.2 The following report summarises the work of the Internal Audit Section up to the 11 November 2014 and gives a summary for each of the final reports issued since the last Audit Committee.

1.3 Final reports which result in a 'Red Assurance' opinion will be subject to a Follow Up review which will include an audit opinion on the progress of management in implementing the recommendations categorised as High and Medium within the original final report. The results of the Follow Up review will be presented to the next Audit Committee.

1.4 There were no reviews in the previous period which resulted in a 'Red Assurance' opinion.

1.5 The Internal Audit Service uses a Risk Based approach wherever possible but may use System Based, Key Controls, Establishment or Advisory reviews if these approaches are more appropriate.

1.6 The individual final reports are available to members of this Committee, in confidence, on request to the Audit Manager.

2. REPORTS ISSUED SINCE LAST UPDATE REPORT

Listed below are the Final Internal Audit Reports issued since the last progress report to Committee along with a summary of the results of each review.

2.1.1 **Logical Access Controls & Segregation of Duties -** An audit of System Controls - Logical access & Segregation of Duties was undertaken as part of the approved internal audit periodic plan for 2014/15. The Council's Financial

Procedure Rules at 4.8.3.2.1 state that each Responsible Officer (paragraph 4.8.2.6 defines a “Responsible Officer” as a Corporate Director or Head of Service or such other person who has been given authority under the Council’s Delegation Scheme) is required to maintain proper security at all times over money and all other assets under his or her control, and for security of access to computer systems.

Internal Audit has identified numerous instances of control weakness in relation to system and data security and lack of enforced segregation of duties during previous reviews of the Council’s systems and applications. This review was therefore designed to identify gaps in corporate policy and controls and provide a basis for more clearly defining roles, responsibilities and accountability in relation to system and data security.

The following areas of control weakness were identified during the review:

Listing of Systems - There was no comprehensive corporate listing of all of the Council’s computerised systems and electronic data storage systems. This increases the risk that there are unidentified systems in place which are not subject to appropriate security standards.

Policy Declarations - The Council does not have a policy compliance process in place which requires a signed (physical or electronic) declaration that relevant users have read, understood and agreed to abide by corporate ICT policies including those relating to security of systems and segregation of duties. This increases the risk that users are not aware of the Council’s ICT policies and procedures and that they therefore do not comply with them.

At the time of review there was no procedure in place to ensure that new starters granted access to the Council’s network had read, understood and agreed to abide by the Council’s key ICT policies.

Defined Roles and Responsibilities - The roles, responsibilities and accountability for system security and segregation of duties on the Council’s computerised systems and electronic data storage systems has not been formally defined or assigned for each of the identified Council systems. During our review we found some confusion over the role, responsibilities and accountability of individuals designated as ‘data owners’ and ‘system administrators’ with regard to system security and application of segregation of duties. The review found in some instances during testing that the lack of clarity on the roles of ‘data owners’ and ‘system administrators’ had resulted in system security and segregation of duties not being compliant with Council standards where these were formally documented.

ICT Security / Access Control Policy – The Council’s current ICT polices do not fully define logical access and system security controls in line with the best practice included in the ISO 27002:2005 Code of Practice for Information Security. Such guidance includes the setting of security controls at a level determined by the sensitivity of the data held on individual systems. Current ICT policies do not define corporate standards of procedure over the setting up of new users, the amendment of existing access rights or the prompt removal of leavers.

Audit testing identified that a number of systems in our sample did not have logical access controls and / or access rights set in line with current Council ICT policies. This increases the risk of unauthorised access, amendment or deletion of Council data.

Mobile Devices – The Council has issued a number of mobile devices including iPads to senior management and to Members. Such mobile devices do not allow the enforcement of logical access controls in line with current Council ICT Policies in terms of password length, format or force change. The Council needs to consider the type of data that is potentially stored on such devices when updating its policies to include the security of mobile devices.

The review also found that some laptops in our sample used for testing had not been appropriately encrypted in line with ICT Services' procedures. We were also informed of an instance where a mobile device had not been returned when the user had left the Council (since returned).

We requested ICT Services to verify for a sample of listed users who were known to have been issued with mobile devices but have since left the employment of the Council whether such devices had been returned upon leaving. ICT Services was unable to provide such information from the information held centrally within ICT.

We were informed that Members have been offered the opportunity to purchase their laptops issued to them by the Council when they left office. At the time of review Audit was unable to identify any procedures in place to ensure that such equipment is cleansed of all Council data prior to sale.

Controls over New Users, Amendments and Leavers – Audit testing of a sample of systems found that there were weaknesses in the control over the setting up of new users, amendment to existing users' access rights and the prompt removal of users' access rights when a user changes role or leaves the Council.

There are an increasing number of systems that have their initial logical access synchronised with their Active Directory log in for the network. Such systems rely on the controls in place for the set up of new users, amendment of rights and prompt removal of access to the network for users leaving the Council's employment; however we found that such controls relating to the network were also weak in these areas. For example new starter forms requesting access to the network evidencing the appropriate authorisation could not be located for a number of new starters tested and some known leavers still had active access rights on the network.

There is currently no corporate sharing of information in relation to starters and leavers which could be used by ICT for the network and 'system administrators' for other systems to use to review their current 'active users' lists on an ongoing basis.

Our finding concerning ICT Security / Access Control Policy in terms of formally defining and assigning the roles and responsibilities of system administrators is also relevant here.

Access Granted to Temporary and Agency staff – There is currently no formal policy and procedure for the setting up and prompt removal of the access rights of temporary or agency staff on the Council's network and systems. Audit testing of a sample of systems found that at least one such staff still had active access rights after they had left their positions with the Council. We also identified that forced removal of access rights for such staff was not being set in line with their known termination dates.

The parameter setting to force disablement of access rights after a user has not accessed the network for a set period was also not being utilised. This setting acts as a back up control where leavers have failed to have their access rights disabled promptly via normal procedures.

Segregation of Duties – Audit testing of a sample of Council systems found weaknesses in the enforcement of segregation of duties in a number of areas including; Payroll and Human Resources functions, Debtors, Creditors, and SX3. This increases the risk of the likelihood that errors (intentional or unintentional) will remain undetected.

The review also identified that there was a lack of compensating controls being introduced where segregation of duties cannot be fully system enforced via access rights or where reductions in staff preclude adequate segregation.

Opinion: An overall RED audit opinion resulted from the review with seven High, six Medium and two Low category recommendation being agreed with management.

2.1.2 **Information Governance Follow Up -** As part of the approved internal audit plan for 2014/15 we have undertaken a follow up review of the progress made by the Council to implement previous audit recommendations in the Information Governance Reports issued by the Council's external auditors, PriceWaterhouseCoopers in May 2011 and Internal Audit Follow up report of Information Governance in 2012/13.

Information Governance and Data Security have become high profile areas of risk over the past few years and following the Information Commissioners review in 2013/14 of Anglesey Council's information security measures a report was issued to provide improvements by October 2014. The Council at the time of the Information Commissioners report was required to sign a formal 'undertaking' (formal commitment to implement improvements) with the Information Commissioner.

Follow Up Conclusion – the Council has demonstrated good progress in implementing actions agreed to address recommendations made as 100% of the recommendations have, or are being addressed.

2.1.3 **Schools Key Controls Audit - Finance and Governance -** Two Final reports from audit work at two of the Council's schools were completed in the period. The reviews resulted in Green audit opinions. Recommendations to strengthen internal control weaknesses identified have been made with the relevant Headteachers concerned.

2.1.4 **School Financial Management – Budgets** – A review of School Financial Management Arrangements was included in the Internal Audit Operational Plan for 2014-15. Audit also received a request from the Director of Lifelong Learning and the Section 151 Officer to review the operational methods and procedures used by schools in managing their individual school budgets. The request was in response to a significant deficit being reported at one of the island's secondary schools. As the main concerns of management related to budget monitoring and outturns our work concentrated on these areas.

Opinion: This was an advisory review which resulted in the identification of four areas in which current arrangements could be enhanced.

2.1.5 **Third Sector Grants -** In a letter dated 8 May 2014 addressed to all Local Authority Leaders, the Minister for Local Government and Government Business drew attention to the Local Authority requirement to comply with the Welsh Government's Code of Practice for Funding the Third Sector.

Third Sector organisations in terms of the Code of Practice can be defined as voluntary organisations who are bodies (other than local authorities or public bodies) whose activities -

- Are carried on otherwise than for profit, and

- Directly or indirectly benefit the whole or any part of Wales (whether or not they also benefit any other area).

The following areas of control weakness were identified during the review:

Staff Awareness – Not all relevant staff were aware of the existence of the Welsh Government's Code of Practice for Funding the Third Sector and therefore may not be complying with it.

Procedure and Guidance – There is no formally documented procedure and guidance on compliance with the Code and there has been no formal assignment of individuals corporately and within Services to be responsible and accountable for compliance with the Code. We could find no evidence that monitoring of compliance with the Code was being undertaken in practice.

Identifying Third Sector Grants - There is no corporate record of Third Sector Grants which are subject to the requirements of the Code of Practice for Funding the Third Sector or any other way of identifying these for corporate monitoring purposes. This means that it is not possible for the 'Finance Department and its Internal Audit Services' to provide monitoring or assurance on compliance with the Code.

Non Compliance with the Code – Our testing of a small sample of identified Third Sector Grants for compliance with selected key requirements of the Code found non compliance within the sample in relation to the requirements tested.

Opinion: An overall RED audit opinion resulted from the review with three High category recommendations being agreed with management.

2.1.6 **School Clothing Grant -** An audit of School Clothing Grants was undertaken as part of the approved internal audit periodic plan for 2014/15.

The purpose of the review was to provide assurance that the terms and conditions of the grant have been complied with and that the grant has been used for the purpose intended.

The review supports the Certification that is required to be completed for a three year period covering 2011/12 – 2013/14 to the effect that the grant has been spent and administered in accordance with the Welsh Government's terms and conditions of grant.

The review found that the Council was complying with the terms and conditions of the grant.

Opinion: An overall GREEN audit opinion resulted from the review with one Low category recommendation being agreed with management.

2.1.7 **Schools Follow Up -** As part of the approved Internal Audit periodic plan for 2014/15 we have undertaken a review to follow up progress made by Anglesey County Council schools to implement previous internal audit recommendations.

Opinion: The review found that management has demonstrated reasonable progress in implementing actions agreed to address internal audit recommendations. Outstanding recommendations were discussed with the relevant Head Teacher and re-iterated where appropriate.

2.1.8 **Plas Arthur Leisure Centre -** An audit of Plas Arthur Leisure Centre was undertaken as part of the approved internal audit periodic plan for 2014/15.

Plas Arthur Leisure Centre is one of five Council owned leisure centres situated on the Isle of Anglesey, providing sports, leisure and recreational facilities to the public. Total attendance at the Leisure Centre for the financial year 2013/14 is recorded as 210,754. Ledger records show that net expenditure at the Centre amounted to £186,122 in 2013/14.

Opinion: An overall GREEN audit opinion resulted from the review with one Medium and five Low category recommendations being agreed with management.

2.1.9 **National Fraud Initiative 2014 -** The National Fraud Initiative is a data-matching exercise that helps detect fraudulent and erroneous payments from the public purse across the UK. The National Fraud Initiative (NFI) runs every two years and matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions.

There are three main requirements that the Council must comply with. These relate to:

1) Release of required specified data sets in the format required by the Auditor General; and

2) Ensuring that adequate information is provided to those providing data to the Council that their data may be used for data matching purposes. Such information should be in the form of a Fair Processing Notice. The Council must complete a declaration to the effect that adequate FPNs have been provided for each data set covering the period of the data to be released.

3) Upload of required data to the NFI website within the timescales set out by the Auditor General.

Opinion: This was an advisory review which resulted in the identification of some data collection forms which did not include adequate references to data processing required by the Data Protection Act 1998 and the Code of Data Matching Practice (2008). Management is taking action to review and amend the non compliant data collection forms identified.

2.1.10 **Gaerwen Depot – Diesel -** The Council maintains diesel tanks at the Gaerwen Depot for the use of Council vehicles. In April 2012 Fleet Management (Environment and Technical Service) took over control of the administration of the Diesel stocks from the Building Maintenance Unit (BMU) (Housing Service).

This review concerned the arrangements in place for the management and security of the diesel stocks.

Opinion: This was an advisory review which resulted in the identification of three recommendations designed to strengthen control in this area.

2.1.11 **Closure of Accounts Processes 2013/14 -** An audit of Closure of Accounts13/14 Timetable - Process Review was undertaken as part of the approved internal audit periodic plan for 2014/15. The review was undertaken in order to provide corporate assurance over the processes in place for the closure of the 2013/14 accounts which due to past issues surrounding closure is considered a significant corporate risk. Issues relating to vacancies within the senior management of the Finance Service and to the Section 151 Officer role have added to the risks in this area.

The review found that a number of areas of good practice were being introduced by the Interim Accountant at the time of our review. However, closure was only completed on the deadline day in September 2014 and therefore it is essential that improvements continue to be made in this area for the closure processes for the 2014/15 accounts.

Opinion: An overall GREEN audit opinion resulted from the review with one Medium and one Low category recommendations being agreed with management. However, this opinion was based on ongoing improvements in processes being undertaken at that time which need to be sustained on an ongoing basis.

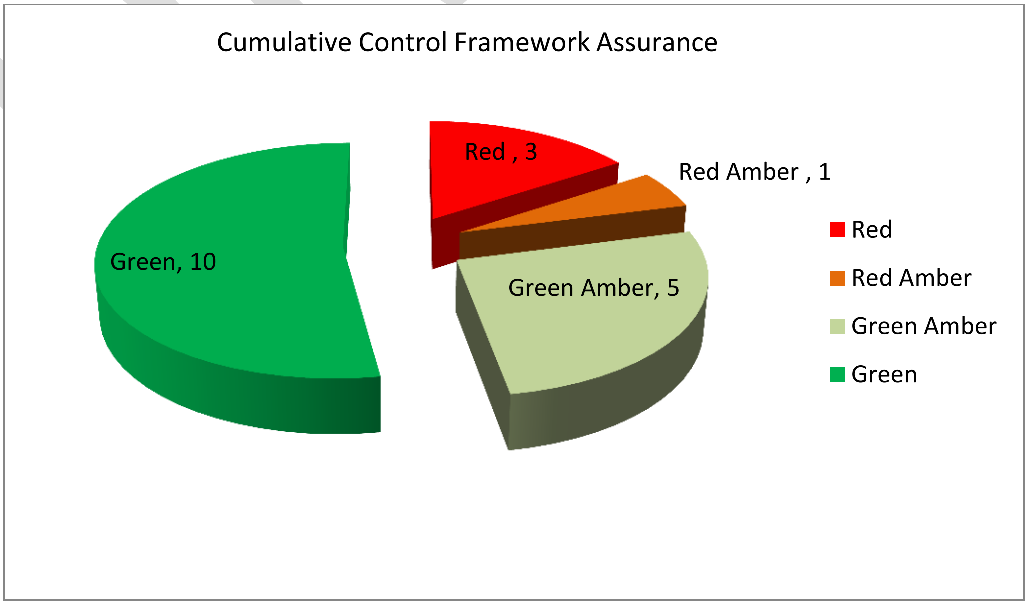
2.1.12 **Amlwch Leisure Centre -** Amlwch Leisure Centre is one of five Council owned leisure centres situated on the Isle of Anglesey providing sports, leisure and recreational facilities to the public. Total attendance at the Leisure Centre for the financial year 2013/14 is recorded as 158,821.

The review covered a range of financial and non financial controls operating at the Leisure Centre.

Opinion: An overall GREEN audit opinion resulted from the review with five Low category recommendations being agreed with management.

2.2 **Summary of Outcomes of Reports Issued to Date** – since the 01 April 2014 we have issued seven final reports from the Internal Audit Operational Plan 2013-14; and nineteen from the 2014-15 plan. To date therefore a total of twenty-six final reports has been issued in 2014-15.

A summary of the grades given for the 19 final reports issued from the 2014-15 Plan with RAG opinions is shown in the pie chart below:



This pie chart will be updated cumulatively in each subsequent Internal Audit Progress Report and will therefore provide an indicator of the audit opinion of the overall control framework which will be reported in the Annual Report of the Chief Audit Executive.

3 INTERNAL AUDIT FORWARD WORK PROGRAMME

Scheduled Review Title	Service Area	Current Status
Logical Access Controls - Compliance	Corporate	FINAL
Information Governance – Follow Up	Corporate	FINAL
Ysgol Henblas	Lifelong	FINAL
School Financial Management – Budgets	Lifelong	FINAL
Third Sector Scheme	Corporate	FINAL
School Clothing Grants	Lifelong	FINAL
Schools Follow Up	Corporate	FINAL
Plas Arthur – Leisure Centre	Community	FINAL
NFI 2014	Corporate	FINAL
Gaerwen Diesel Stocks	Highways	FINAL
Ysgol Cylch y Garn	Lifelong	FINAL
Closure of Accounts - Processes	Finance	FINAL
Amlwch Leisure Centre	Community	FINAL
TalNet	Partnership	Draft Report Issued
Maritime Fuel	Community	Draft Report Issued
Homelessness	Housing	Draft Report Issued
Sports Development	Community	Draft Report Issued
Teachers' Payroll	Education	Draft Report Issued
Ysgol Pentraeth	Lifelong	Draft Report Issued
Creditors	Finance	Work in Progress
Debtors	Finance	Work in Progress
Main Accounting System	Finance	Work in Progress
Cashiers	Finance	Work in Progress
National Non Domestic Rates	Finance	Work in Progress
Council Tax	Finance	Work in Progress
Information and Decision Flows Mapping	Finance	Work in Progress

Highways Rechargeable Works	Highways	Work in Progress

4. REFERRALS

4.1 During the course of the year the Internal Audit Section is required to carry out work on matters which come to light during the programmed audit work, or matters which are brought to its attention by other Departments, or work which other Departments request the Internal Audit Section to carry out. Work may also be requested by the External Auditor to provide information or to assist in the provision of information. Some of these referrals result in the issue of formal audit reports whilst others will be recorded in File Notes (e.g. where the allegation / information is found to be incorrect and therefore there is nothing to report, or the amount of work is not sufficient to warrant a full audit report or the matter is covered by an External Auditor's report).

4.2 A number of File Notes have been produced in the period to date in 2014/15. None of the work resulting in a File Note has identified any evidence of fraud or irregularity.

4.3 As previously reported to the Audit Committee one referral from 2012/13 is being investigated by the Police. The Internal Audit Team received a draft statement from the Police which was completed and returned in August 2014. The Committee will be informed of the outcome of this case in due course.

5. RECOMMENDATION TRACKING

5.1 For reporting to this Committee only recommendations made since 01-04-2012 have been included in the recommendation tracking analysis.

5.2 The percentage implementation rate at 31 October was 56% of ‘High’ and ‘Medium’ recommendations having been recorded as implemented. The performance in relation to recommendations other than those in Education is 84% (Figures as at 31-10-14).

We are liaising with the Education Service on improvements to the process for the reporting of implementation rates within schools.

5.3 A graph showing the breakdown of recommendation implementation by Service is provided at Appendix A.

6. CURRENT AUDIT CONCERNS

6.1 A report on progress made on the previously reported areas of Internal Audit concern was presented to the Committee by the Deputy Chief Executive at its September 2014 meeting.

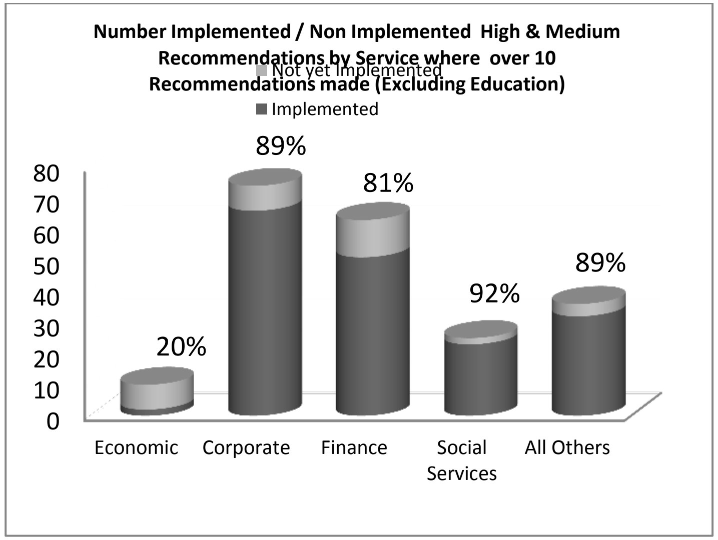
AUDIT MANAGER
10 DECEMBER 2014

APPENDIX A

Recommendation Tracking Table –Non Education High & Medium Recommendations Created Since 01-04-2012 Progress Table: % implemented / non implemented of high and medium category recommendations by service where over 10 recommendations made But excluding Education; which total at the end of the period was **84%** of all such recommendations.

In our opinion therefore based on the self assessed data in the Progress Table above the Council has made **'good progress'** in the period in implementing High and Medium categorised Internal Audit recommendations.

NB it should be noted that the increased implementation rate is the result of data cleansing of recommendations by Internal Audit and the amendment of a number of target dates for implementation due to recommendations 'being partly implemented' with some work ongoing or where the assigned 'responsible officer' for implementation has changed.



Overall 84%