Fareham Borough Council
Audit & Governance Committee
Quarterly Audit Progress Report

June 2015

This report has been prepared on the basis of the limitations set out on page 11

1. Introduction and background

1.1 This report has been prepared for the Members of the Audit & Governance Committee at Fareham Borough Council. This report highlights the progress made to date for delivery of the 2014/15 Internal Audit Plan.

2. Promoting internal control

2.1 To promote internal control within the Authority, Internal Audit will report to Committee in the following format:

- An update on progress against delivery of the plan, including an update on any Significant Control Weaknesses and on any proposed amendments to the Internal Audit Plan;

- Report back on the specific audits finalised since the last meeting of the Audit & Governance Committee, including scope, weaknesses identified and confirmation that management actions have been agreed to address the weakness. Audit opinions are Strong, Reasonable, Limited, or Minimal. Recommendations and actions in the report are categorised using a 3 point scale used on the Council's action management system. Both rating systems are detailed within Annex Three of this report; and

- Update Members on the current situation regarding limited areas previously reported to Committee. This will inform Members of the action taken by Officers to resolve internal audit issues.

3. 2014/15 Progress

3.1 The current status of the agreed 2014/15 Internal Audit Plan is detailed in Annex One along with the number of days delivered. Audits have been completed in accordance with the timings agreed with the Head of Audit & Assurance, and as approved by the Audit & Governance Committee.

3.2 The latest, progress against the 2014/15 plan is as follows:

2014/15 Plan	Last Committee	This Committee
Number of audits in plan	21	21
Number of audits finalised	3 (14%)	8 (38%)
Number of reports issued at draft	0 (0%)	5 (24%)
Number of audits commenced	13 (62%)	8 (38%)
Number of planned audit days delivered	84/223 (38%)	194/225.5 (86%)

3.3 At the time of this report, the field work for all the audits in the plan has been completed and 86% of the allocated days from the 2014/15 Internal Audit Plan have been completed against the planned days.

4. Changes to the 2014/15 plan

4.1 The following allocations from the contingency have been made to the plan since it was reported to Committee in November 2014:

- Two additional days each have been added to the planned time for the Accounts Payable and Penetration Testing service engagement audits and one extra day each added to the planned time for the Database Administration and Information Governance Opinion work to allow adequate time for completion of these audits. The rest of the remaining contingency for the year has been allocated to the Data Protection audit.

5. Detailed progress since the last Audit and Governance Committee

5.1 Since the previous Audit & Governance Committee, four formal reports and one Management Letter have been issued in final version as listed below with the opinions given and level of recommendations made:

Audit	Assurance	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
2014/15 Plan				
Cheque Control	Reasonable	-	2	-
Virtual Procurement Card	Reasonable	-	1	-
Penetration Testing Service Engagement	Reasonable	2	1	-
IT Recommendations Follow Up	Not Applicable	-	-	1
Policy Compliance Checks [Management Letter]	Not Applicable	-	-	-

The above presents the key highlights; however, to enable Management and Members to focus on the areas of concern, we have provided a summary of all finalised reports since the last Committee, as detailed within Annex Two. A summary of the findings from the Management Letter will be included in the Head of Internal Audit's Annual Report.

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarters 1 and 2											
1	Legionella and Gas Safety Risks Follow Up	5	5	Final Report	Reasonable	-	3	-	6	9	-
2	Contract Completion (Final Accounts)	10	7.65	Draft Report							
3	Tenancy Management	10	9.5	Draft Report							
4	Community Parks and Open Spaces	6	6	Final Report	Strong	-	-	1	-	-	-
5	Foreshore (Beach Hut Income)	5	5	Final Report	Strong	-	1	2	-	-	-
Quarters 3 and 4											
6	Cheque Control	6	6	Final Report	Reasonable	-	2	2	-	-	-
7	Policy Compliance Checks	12	12	Management Letter Produced	Not Applicable	-	-	-	-	-	-
8	Benefits	30	25.35	Exit Meeting							
9	Payroll (Light Touch)	7	6.5	Exit Meeting							
10	Accounts Receivable	12	9.5	Exit Meeting							
	Revenues			Note 1							
11	Accounts Payable (Light Touch)	9	8.7	Exit Meeting							
12	Income Collection & Banking	15	11.8	Exit							

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
				Meeting							
13	Data Protection	7.5	3.4	In Progress							
14	Virtual Procurement Card	3	3	Final Report	Reasonable	-	1	1	-	-	-
15	PAYE	12	11	Draft Report							
16	VAT	12	11	Draft Report							
Computer Audit											
17	Payroll & Personnel System (CHRIS 21)	10	9.5	Draft Report							
18	Penetration Testing Service Engagement	12	11.2	Final Report	Reasonable	2	1	2	5	-	-
19	Database Administration	9	5	In Progress							
20	Information Governance Opinion	6	4	In Progress							
21	Recommendation Follow Ups	3	3	Final Report	Not Applicable	-	-	-	10	1	2
Other											
Audit Committee		4	4								
Audit Management		16	16								
TOTAL		225.5	194.10 (86%)			-	6 55%	5 45%	6 40%	9 60%	0 0%

Note 1: Audit removed following review of 2014/15 by Head of Audit & Assurance.

Summary of Findings from Completed Audits

2014/15 Cheque Control

Audit Opinion and Direction of Travel

Reasonable						
☺						
Direction of Travel:			No previous comparable audit			
Area of Scope	**New Recommendations Raised**			**Previous Essential and Important Recommendations**		
	Essential (●❄)	**Important (▲)**	**Advisory (៉)**	**Implemented**	**Cancelled**	**Non Implemented**
Security Features and Crossing in the Cheque Design	-	-	-	-	-	-
Storage and Accounting for Blank Stock	-	-	-	-	-	-
Issuing of Cheque Stock for Use and Reconciliation of Cheque Runs	-	-	-	-	-	-
Use of Urgent Cheques Outside Main Cheque Runs	-	-	1 *	-	-	-
Returned Cheques	-	-	1 *	-	-	-
Procedures to Process and Follow Up Un-presented Cheques	-	1	1	-	-	-
Back Up Arrangements for Cheque Printer	-	1	-	-	-	-

*The advisory issue raised covers the finding in both areas

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important	Current policy stipulates that un-presented cheque reports should be monitored on a quarterly basis and those more than 6 months old stopped at the bank. Whilst this is done for benefits cheques the procedure no longer happens for all supplier cheques. However, any un-presented cheques over £10,000 are being monitored.	No – Risk Accepted by Management
Important	Definitive back-up arrangements do not exist for the Council's cheque printer, other than resorting to hand writing cheques. However, the focus is to reduce the level of payments being made by cheque (currently 6%).	No – Risk Accepted by Management

2014/15 Virtual Procurement Card

Reasonable
☺

Direction of Travel:	No previous audit

Areas of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (💣)	Important (▲)	Advisory (卍)	Implemented	Cancelled	Non Implemented
Central records of accounts arranged with RBS	-	-	-	-	-	-
Management of Users	-	-	-	-	-	-
Logon Controls with suppliers	-	-	1	-	-	-
Management of catalogue items	-	-	-	-	-	-
Records of purchases made by services	-	-	-	-	-	-
Approval of purchases on statements	-	1	-	-	-	-
Posting of purchase transactions into accounts	-	-	-	-	-	-
Copy receipts and accounting for VAT	-	-	-	-	-	
Business continuity arrangements	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important	The approval process takes place after purchases are made and consists of managers reviewing monthly statements of spend. However, there is insufficient detail on the statements to allow proper checking of purchases made as they do not show the items purchased or the purchase date.	Yes

2014/15 Penetration Testing Service Engagement

Reasonable						
☺						
Direction of Travel:			No previous audit			
Areas of Scope	**New Recommendations Raised**			**Previous Essential and Important Recommendations**		
	Essential (💣)	**Important (▲)**	**Advisory (🗊)**	**Implemented**	**Cancelled**	**Non Implemented**
Penetration Testing Strategy	2	-	1	-	-	-
Scoping Penetration Testing	-	-	1	-	-	-
Onsite testing by Penetration Tester	-	-	-	-	-	-
Reporting Penetration Test findings	-	1	-	-	-	-
Follow up of relevant recommendations relating to network security.	-	-	-	5	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Essential	The vulnerability scanning carried out by the IT team does not currently cover all vulnerabilities, misconfigurations, default passwords, and doesn't look at all pubic facing and internal websites. The tool being used will allow this and widening its use was already being investigated by IT managers.	Yes
Essential	The external penetration testing doesn't currently include a detailed analysis of each Web application presented to the public. A cost benefit analysis will be carried out of how often this can be included in the schedule.	Yes
Important	The actions taken to address issues raised in the penetration testing reports are not all being logged on the Council's change control record.	Yes

2014/15 IT Recommendations Follow Up

Areas of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (⚫✳)	Important (▲)	Advisory (🏳)	Implemented	Cancelled	Non Implemented
Fuel Manager 2004/05 and 2011/12	-	-	-	3	-	1
BPMS and Hub Document Management 2010/11	-	-	-	2	1	-
Telecommunication 2012/13	-	-	-	2	-	-
GIS 2012/13	-	-	-	1	-	-
Ocella 2009/10 and 2010/11	-	-	-	3	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important	There are no options in the security files of the Fuel Manager system to allow the length, expiration date and complexity of passwords to be set and users can access the system without a password. This weakness still needs to be explored with the system supplier.	Yes

Summary of Assurance Opinions Used   Annex Three

Assurance Level	Symbol	Description
Strong	☺☺	There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
Reasonable	☺	There is basically a sound system of internal control but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
Limited	😐	There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
Minimal	☹	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

Recommendations and actions in the report are categorised using the following 3 point scale in use on the Council's action management system:

Essential	💣	A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the Audit and Governance Committee and implementation of proposed actions are monitored.
Important	▲	A significant control weaknesses where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the Audit and Governance Committee and implementation of proposed actions are monitored.
Advisory	⚑	A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. Actions taken to address these recommendations are not tracked.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

June 2015

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