

**REPORT TO: TAYSIDE VALUATION JOINT BOARD – 15 JUNE 2015**

**REPORT ON: INTERNAL AUDIT**

**REPORT BY: ASSESSOR**

**REPORT NO: TVJB 12-2015**

## **1 PURPOSE OF REPORT**

1.1 To present to the Joint Board the following Internal Audit Reports, which are attached as appendices to this report:-

Internal Audit Report 2015/05 – Procurement and Creditors/Purchasing

Internal Audit Report 2015/06 – IT Network Arrangements

Internal Audit Report 2015/07 – Annual Report

## **2 RECOMMENDATIONS**

2.1 The Joint Board is asked to note the contents of the Reports.

## **3 FINANCIAL IMPLICATIONS**

3.1 The cost of Internal Audit Services is provided for in the Assessor's Revenue Budget.

## **4 POLICY IMPLICATIONS**

4.1 This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

## **5 BACKGROUND**

5.1 Henderson Loggie, Chartered Accountants, have been appointed to provide an Internal Audit Service for the period from 1 April 2013 to 31 March 2016. Audit work has proceeded in accordance with the Audit Needs Assessment and the Strategic Plan approved by the Board on 25 August 2014.

5.2 Internal Audit Report 2015/05 on Purchasing and Procurement is attached as Appendix 1 to this report. It has been prepared by Internal Audit following discussion with the Assessor and the Treasurer. The overall conclusion of the report is that; although the Board does not have a formal procurement strategy, the Procurement and Purchasing procedures support best value purchasing, overall procurement procedures in place are appropriate for all levels of expenditure, the risk of unauthorised and excessive expenditure is minimised, the processes in place ensure that all liabilities are accurately recorded, and that all payments are properly authorised, processed and recorded. However, Internal Audit have highlighted a small number of minor issues and have made Recommendations which have been agreed as detailed in the Action Plan. The Assessor and Management Team will ensure that these actions are implemented and progress on these issues will be assessed by Internal Audit in the course of forthcoming follow up reviews.

- 5.4 Internal Audit Report 2015/06 on IT Network Arrangements is attached as Appendix 2 to this report. It has been prepared by Internal Audit following discussion with the Assessor and the IT Team. The overall conclusion of the report is that the internal controls in place ensure the security of the network operated by the Board. However, Internal Audit have made a number of Recommendations, mainly in relation to the updating of the Board's IT policies and procedures, which have been agreed as detailed in the Action Plan. The Assessor and Management Team will ensure that these actions are implemented and progress on these issues will be assessed by Internal Audit in the course of forthcoming follow up reviews.
- 5.5 Internal Audit Report 2015/07 is the Annual Report to the Joint Board and the Assessor and summarises the Internal Audit work performed during 2014/15. The Report is attached as Appendix 3 to this Report and details that "There were no significant issues identifying major internal control weakness arising from our internal audit work". The Report also expresses the Auditor's opinion as "In our opinion the Board operates adequate and effective internal control systems as defined in the ANA (Audit Needs Assessment). Proper arrangements are in place to promote and secure Value for Money.

## **6 CONSULTATIONS**

- 6.1 The Clerk and Treasurer to the Joint Board have been consulted on this report.

## **7 BACKGROUND PAPERS**

- 7.1 None.

**ALASTAIR KIRKWOOD**  
Assessor

**June 2015**



**Tayside Valuation Joint Board**

**Procurement and Creditors / Purchasing  
2014/15**



**Internal Audit Report No: 2015/05**

**Draft Issued: 25 May 2015**

**Final Issued: 25 May 2015**



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# 1. Management Summary

## Introduction

As part of our Internal Audit Programme at Tayside Valuation Joint Board ('the Board') for 2014/15 we carried out a review of the key internal controls in place over the procurement and creditors / purchasing system. The Audit Needs Assessment, issued in August 2013, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board and Assessor that the control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The Board's Financial Regulations cover capital and revenue expenditure and include sections on Orders for Goods and Services; and Payment of Accounts. Supporting the Financial Regulations are detailed purchasing and procurement procedures, which guide staff through the procurement and payment procedures to be applied.

## Scope of the Audit

This audit focussed on the systems of internal control in place for the ordering of goods and services and the payment of invoices. We also considered whether the procurement strategy followed and procedures in place support best value purchasing in relation to non-pay spend.

The systems and controls reviewed are part of the mitigating actions for the following risk noted in the Board's Risk Register:

2.3      Unauthorised expenditure

## Objectives of the Audit

The specific objectives of the audit were to ensure that:

- procurement procedures support best value purchasing in relation to non-pay spend;
- procurement procedures are appropriate for all levels of expenditure and are complied with throughout the organisation;
- the risk of unauthorised and excessive expenditure is minimised;
- all liabilities are fully and accurately recorded; and
- all payments are properly authorised, processed and recorded.

## Audit Approach

From discussions with relevant staff, we established the procurement strategies, procedures and monitoring arrangements that are currently in place. These were evaluated to establish if they follow recognised good practice. We established whether the expected key controls are in place and operating effectively by reference to CIPFA (the Chartered Institute of Public Finance and Accountancy) standard control risk assessment templates for a creditors system.

Specifically, we established whether the procurement procedures ensure that areas of high spend are monitored appropriately, identifying opportunities for pooling of expenditure in order to achieve best value, and ensuring that joint purchasing arrangements are utilised where appropriate.

A sample of items of expenditure was selected from the financial ledger and tested to ensure compliance with the Board's Financial Regulations and Procedures.

## Action Plan

This report sets out a detailed list of improvement actions, which we consider necessary to ensure efficient delivery of each objective and these are discussed within the text for clarity. An action plan for implementation of these recommendations can be found at Section 2 of this report.

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. These gradings are as follows:

- A Issues which require the consideration of the Board.
- B Significant matters which Assessor and Senior Management can resolve
- C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

## Overall Conclusion

On the basis of the work done, we obtained reasonable assurance that:

- although the Board does not have a formal procurement strategy, the Procurement and Purchasing procedures support best value purchasing in relation to non-pay spend.
- overall procurement procedures in place are appropriate for all levels of expenditure and are generally complied with throughout the organisation; however we identified weaknesses relating to evidencing of goods received;
- the risk of unauthorised and excessive expenditure is minimised;
- the processes in place ensure that all liabilities are fully and accurately recorded; and
- all payments are being properly authorised, processed and recorded.

We identified good practice in the recording of committed expenditure to aid budgetary control and monitoring.

We identified some minor issues where we have not raised a recommendation but draw management's attention to these for consideration:

- 1.2 Where consideration of policies and procedures has taken place and no change is required, this should be discussed and minuted at the senior management team meeting and the date of the policies should be updated to demonstrate that they are up to date;
- 4.2 Staff should be reminded to complete the invoice grid stamp as evidence of the checks they undertake when processing and authorising invoices in the system.

## Summary of Main Findings and Recommendations

No significant issues were identified from our testing. We have made three “C” grade recommendations.

The Board’s Purchasing and Procurement procedures include purchasing authorisation limits for various levels of staff, with the highest authorisation limit being £10,000. Capital items and Revenue items over £10,000 require a tendering process, with items above £25,000 being approved by the Board. The procedures note circumstances where a tendering exercise is not required but do not explicitly discuss authorisation arrangements where a tendering exercise has not been undertaken. From our discussions with staff, and our testing, we noted that in practice where a formal tender exercise has not been undertaken senior staff will sign off orders above their authorised limit of £10,000. This appears reasonable and we have recommended that the Purchasing and Procurement Procedures are updated to include the process for signing off purchase orders over £10,000 where a tender has not been undertaken.

Our review identified that the Board’s current list of specimen signatures is out of date. We identified three authorised signatories for whom no specimen signature was held on the official list. The Administration Manager has identified that the list of specimen signatures requires to be updated, however this has not been done due to competing priorities. Given the size of the organisation the risk involved is low however we have recommended that the list is updated as it is a requirement of the procedures.

We identified four goods received notes that had not been signed to indicate who had receipted the goods and that goods had been checked to the purchase order to ensure that the goods were in accordance with the order. We have recommended that staff should complete and evidence this check.

## Acknowledgements

We would like to thank the Board staff and management for the co-operation and assistance we received during the course of our review.

## 2. Action Plan

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
	<b>Procedures Appropriate For all Levels of Expenditure</b>					
2.1	<b>R1</b> Update the Purchasing and Procurement Procedures to include the process for signing off purchase orders over £10,000 when a tender exercise has not been required to be followed.	C	Purchasing and Procurement Procedures will be updated.	Yes	Assessor / Administration Manager (Finance / Personnel)	31/12/15
2.2	<b>R2</b> Ensure that the list of specimen signatures for approving purchase orders and invoices is updated.	C	Specimen signatures will be updated.	Yes	Administration Manager (Finance / Personnel)	30/9/15
	<b>Liabilities Are Fully and Accurately Recorded</b>					
4.1	<b>R3</b> Ensure that goods received / delivery notes are signed by staff when receipting goods to indicate that the goods have been checked to the purchase order.	C	Staff will be reminded of signing procedures for the receipt of goods.	Yes	Administration Manager (Finance / Personnel)	30/9/15

## 3. Main Report

### 1. Achieving Best Value

- 1.1 The Board does not have a formal Procurement Strategy in place; however tender and office procedures have been developed in order to ensure best value is achieved when purchasing goods / services. Our review noted that these areas are covered by
- Financial Regulations (dated October 2010)
  - Purchasing/Procurement Procedures (dated March 2012), and
  - Tender Procedures (dated November 2005)
- 1.2 Internal audit report 2012/02, Procurement and Creditors / Purchasing included a recommendation that the board review and update their procedures at least every two years. From discussion it appears that consideration of policies and procedures has been made but due to there being very little change in organisational structure or operational procedures since procedures were last updated management have not felt it necessary to update the procedures. We have not raised a recommendation for this but we advise that where consideration has been made and no change is required, this is discussed and minuted at the senior management team meeting and the date of the policies should be updated to demonstrate that they are up to date.
- 1.3 The procedures state that orders between £1,000 and £10,000 require three quotations to be obtained from different suppliers. The decision as to which supplier to use is based on achieving the best value. It was noted from discussions with staff that as the goods/services are often the same from each supplier, best value is usually deemed to be the cheapest option.
- 1.4 Dundee City Council approved suppliers are used where appropriate. The Board is a member of the Tayside Procurement Consortium and this is used when appropriate.
- 1.5 Overall we concluded that although the Board does not have a formal procurement strategy, given the type and volume of spending involved the Procurement and Purchasing procedures and the Tender Procedures support best value purchasing in relation to non-pay spend and the evidence from our testing supports this view.

### 2. Procedures Are Appropriate for All Levels of Expenditure

- 2.1 *Observation*
- The Board's Purchasing and Procurement procedures include authorisation limits for various levels of staff, with the highest authorisation limit being £10,000. Items over £25,000 should be approved by the Board. The procedures do not explicitly discuss authorisation between £10,000 and £25,000 in circumstances where a tender exercise has not been undertaken. From our discussions with staff, and our testing, we noted that in practice where a formal tender exercise has not been undertaken senior staff will sign off orders above their authorised limits, e.g. £10,000 although there is no reference to this in the Purchasing and Procurement procedures.

## 2. Procedures Are Appropriate for All Levels of Expenditure (continued)

### *Risk*

Procedures are not being followed and the risk of unauthorised expenditure is marginally increased.

### *Recommendation*

**R1** Update the Purchasing and Procurement Procedures to include the process for signing off purchase orders over £10,000 when a tender exercise has not been required to be followed.

### *Benefit*

The current practice will be authorised for use and the risk of unauthorised expenditure is reduced.

### 2.2 *Observation*

Our review identified that the Board's current list of specimen signatures is out of date. We identified two authorised signatories for whom no specimen signature was held on the official list. The Administration Manager has identified that the list of specimen signatures requires to be updated, however this has not been done due to competing priorities. As the number of specimen signatures missing is low, the two members of staff are known to the Administration Manager and that signatures for the two staff members would be easily available from other sources if required, management do not feel that updating this list is a priority at this time.

### *Risk*

Procedures are not being followed and there is a low risk that unauthorised expenditure could be incurred.

### *Recommendation*

**R2** Ensure that the list of specimen signatures for approving purchase orders and invoices is updated.

### *Benefit*

Procedures are up to date and the risk of unauthorised expenditure is minimised.

## 3. Risk of Unauthorised and Excessive Expenditure

- 3.1 A sample of 15 purchase invoices was selected and agreed to their respective purchase orders. The sample included six below £1,000 for which the Board's procedures do not require quotes, eight above £1,000 but below £10,000, for which three quotes are required and one above £10,000, for which a tendering process is required. In all cases the procedures allow, where special circumstances apply, for the Clerk to the Board to decide to dispense with the need for quotations or tenders.
- 3.2 For those between £1,000 and £10,000 our testing identified three instances where three quotes were not obtained, with a single supplier selected in each case. In each instance the explanations provided by management to justify the exception to the Board's procedures appeared reasonable. These included purchases where there were a limited number of suppliers due to the specialist nature of goods being purchased or where use had been made of Dundee City Council approved suppliers.

### 3. Risk of Unauthorised and Excessive Expenditure (Continued)

- 3.3 We reviewed the thresholds within the Tendering Procedures to ensure that these were still reasonable and valid and concluded that they were. The thresholds are as follows; where orders for goods and services exceed £10,000 tenders shall be invited unless the Clerk to the Board decides it would not be justified; tenders up to £25,000 do not require Board approval and tenders in excess of £25,000 do.
- 3.4 A report detailing all payments exceeding £10,000 was obtained from the financial system. The vast majority of items that were not utilities or rent and rates related to items for the upgrade of the electoral registration systems as discussed in paragraph 3.5.
- 3.5 As part of the upgrade to the Board's IT network to comply with the Public Services Network (PSN) security requirements a number of items of IT hardware were procured and installed during the year. The total cost of this equipment was in the region of £90,000. At this level the Board's procurement procedures require a competitive tender exercise unless the Clerk to the Board decides special circumstances apply. Funding for this project was obtained from the Cabinet Office and their procurement rules were used, with three quotes obtained from suppliers and the Cabinet Office approving the successful supplier. The circumstances around the developments were reported to and agreed by the Board before and during the project. We concluded that the action taken was appropriate in the circumstances and complied with the Board's procedures.
- 3.6 Prior to placing an order, staff must consult the Administration Manager to ensure that there is enough money remaining with the appropriate budget area. The majority of orders are placed with suppliers by the Administration Manager who checks that sufficient budget is available prior to placing the order. It is our understanding that Assistant Assessors will place their own orders in some circumstances. Our test sample of 15 purchases included two orders raised by Assistant Assessors where we found evidence that the Administration Manager had been consulted prior to purchase in one instance with no similar consultation undertaken in the other instance. The risk of excessive expenditure is minimised however as Assistant Assessors receive monthly budget reports which can be checked prior to placing orders.
- 3.7 Divisional Offices copy their purchase orders and forward them to the Administration Manager. All orders are recorded in an excel spreadsheet. To demonstrate that they are committed and not actual expenditure they are entered in blue text. This ensures that for budgeting purposes, both committed and actual expenditure is known. It also ensures that liabilities relating to goods ordered not yet invoiced are recorded.
- 3.8 Written requests to set up new suppliers are infrequent however they are made by the same member of staff who places the majority of orders and processes invoices. Further segregation of duties is not easy to achieve given the Board's size, however the risk this poses to unauthorised payments is mitigated by other checks and controls that prevent payments being authorised by the same post holder, and the fact that DCC staff create the new supplier on the system. The system is in the process of being changed to require a second signature to authorise the new supplier request and this will further strengthen control in this area.

## 4. Liabilities Are Fully and Accurately Recorded

### 4.1 *Observation*

Our sample of 15 purchase orders included eight items which related to services and as such no good received or delivery notes were available. The remaining seven items were agreed to goods received and delivery notes however we identified that for four of these the goods received notes had not been signed to indicate who had receipted the goods and that goods had been checked to the purchase order to ensure that the goods were in accordance with the order.

#### *Risk*

Goods received may not be in accordance with the approved purchase order.

#### *Recommendation*

**R3** Ensure that goods received / delivery notes are signed by staff when receipting goods to indicate that the goods have been checked to the purchase order.

#### *Benefit*

Evidence is retained of checks that goods received are in accordance with the approved purchase order.

- 4.2 The sample of purchase orders were then agreed to invoice. Invoices are checked and input onto the finance system by one member of staff and reviewed and authorised on the finance system by another member of staff. As the finance system requires two users to input an invoice there is good separation of duties and low risk that a fraudulent invoice can be processed by one individual. Invoices are grid stamped and these are completed by the staff members involved to evidence their checking prior to completing the processing and authorisation within the system. From our sample of 15 all invoices had been grid stamped. There were two instances in the sample where the invoice grid stamp did not have a second signature. This has been accepted as an oversight in recording evidence of the authorisation and no recommendation has been raised.
- 4.3 A Service Level Agreement is in place between the Board and Dundee City Council (DCC) who maintain the Board's Purchase and General Ledger functions including the processing of purchase ledger payments. The Administrative staff at the Board post invoices into a creditors' interface of the DCC's financial system on a daily basis. The Council perform daily and weekly payment runs depending on the payment terms which exist for each supplier as coded in the financial system. Some suppliers are set as 'pay immediately' and some are set as 14 or 30 days payment terms.
- 4.4 Our review noted that the Board does not perform a reconciliation between the cashbook and the general ledger information provided by DCC, as due to timing differences it is considered by management that it would be too time consuming and would not add value. However DCC provide the Board with revenue monitoring spreadsheets and detailed management reports on a monthly basis. Through this process all expenditure codes are reviewed by both DCC and the Board to confirm that invoices have been coded accurately for budgeting purposes.

## **5 All Payments are Properly Authorised, Processed and Recorded**

- 5.1 Initial authorisation is covered by the process described at 4.2. Once invoices have been posted and authorised in the financial system DCC will process the payment runs on a weekly basis. Each week a report is provided by DCC detailing the invoices that have been paid. These are checked by the Board's staff against invoices held by the Board and the BACs number and date is detailed on the front of the invoice. The total from the report is then agreed to the Board's bank statement.
- 5.2 For our test sample of 15 invoices we re-performed these checks, agreeing each item to the invoice payment report received from DCC and the totals on each report to bank statements to verify that each invoice had been accurately paid. No exceptions were noted.

**Tayside Valuation Joint Board**

**IT Network Arrangements  
2014/15**

**Internal Audit Report No: 2015/06**

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## I. Management Summary

### Introduction

As part of the Internal Audit programme at Tayside Valuation Joint Board ('the Board') for 2014/15 we carried out a review of the Board's information technology (IT) network arrangements and its compliance with user licence requirements. The Audit Needs Assessment, completed in August 2013, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Joint Board and management that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

Responsibility for ensuring an efficient and effective Information and Communications Technology (ICT) service delivery to all staff within the Board lies with the Board's IT Team. This includes first level support over some of the main application systems used in the provision and maintenance of user access to the network. The IT Team is also responsible for purchasing and maintaining the servers upon which the applications are housed, the personal computers (PCs) and laptops used by staff and the network which connects them.

The Public Services Network (PSN) is the government's high-performance network, which is a shared but secure telecommunications environment for the UK public sector, the aim of which is to help public sector organisations work together, reduce duplication and share resources. To achieve the objectives of Individual registration introduced by the Electronic Registration and Administration Act 2013, the Board is now obliged to connect to the PSN.

### Scope of the Audit

The scope of the audit was to carry out a high-level review of certain key aspects of the IT systems in place within the organisation to identify any control weaknesses.

We also undertook a high level review of the governance arrangements which were in place to oversee the project to upgrade the organisation's systems in line with the Public Services Network (PSN) requirements.

The systems and controls reviewed are part of the mitigating actions for several risks noted in the Board's Risk Register, including:

- 3.2 Malicious damage to systems
- 3.3 Attempted breach of security
- 3.5 Failure of internal applications
- 3.6 Major internal system failure
- 3.8 Inappropriate use of Internet/Email by staff

#### Electoral registration risks

- 6.2 Unauthorised access to electoral register/application forms and data
- 6.3 Taking of electronic notes or other means of unauthorised copying of electoral register.

## Objectives of the Audit

The objectives were to obtain reasonable assurance that:

- internal controls in place ensure the security of the IT network operated by the organisation; and
- appropriate governance arrangements are in place to oversee and control the PSN implementation work.

## Audit Approach

Our approach was based upon the Internal Control Questionnaires (ICQs) provided by the Chartered Institute of Public Finance and Accountancy (CIPFA); guidance provided by the Control Objectives for Information and related Technology (COBIT) standard issued by the IT Governance Institute (ITGI); discussion with staff; review of relevant documentation; and observation, covering the following areas:

- Physical and environmental controls;
- Network infrastructure;
- Acceptable Use Policy;
- Logical access; and
- Compliance with user licence requirements.

Governance of the PSN project was reviewed through discussion with officers and consideration of relevant documentation.

## Action Plan

This report sets out a detailed list of improvement actions, which we consider necessary to ensure efficient delivery of each objective and these are discussed within the text for clarity. An action plan for implementation of these recommendations can be found at Section 2 of this report.

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. These gradings are as follows:

- A Issues which require the consideration of the Joint Board.
- B Significant matters which can be resolved by the Assessor or the IT Development Manager
- C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

## Overall Conclusion

In relation to our specific objectives, assurance has been obtained that internal controls in place ensure the security of the IT network operated by the Board, however we have identified several areas, mainly in relation to updating the Board's IT policies and procedures and governance arrangements for the PSN implementation, where further improvements can be made to ensure that controls are in line with industry recommended best practice.

## Summary of Main Findings and Recommendations

A significant amount of the IT staff time and resources in recent years has been dedicated to the Board's duties regarding the Scottish Referendum (September 2014), the implementation of individual electoral registration (September 2014) and the UK general election (May 2015). Despite this the IT team has managed to oversee the reconfiguration of the Board's IT network to meet the Cabinet Office deadline for complying with PSN security requirements.

Following the initial visits to the Board's offices by the Cabinet Office staff in 2013 recommendations were raised in either email correspondence between the Cabinet Office and the IT Development Manager or in a short report. Our review found that no formal action plan listing the recommendations was produced to ensure that they were taken forward and monitored effectively, however we also noted that all recommendations have since been implemented and verified through independent IT Health Checks undertaken in 2014 and 2015. We have recommended that for future IT projects it is ensured that suitable governance arrangements are put in place which clearly define aims, objectives, roles, responsibilities and timescales in relation to project management, monitoring and accountability.

As part of the PSN upgrade additional equipment such as proxy servers and firewalls were installed at each office to provide additional security over access to electoral registration data. This equipment was installed by and is managed by a third party under contract, with the Board retaining ownership of the equipment. It is our understanding that the Board has not obtained from the third party details of the equipment configurations, including firewall permissions. We recommend that details of the configuration settings of all network equipment managed by the third party maintenance company are obtained and documented.

We identified during our review that although the updated network password policy has been applied to network systems the written policy has yet to be revised to reflect these changes. We also obtained a copy of the IT Document Review Matrix which details all IT related policies and procedures and noted that a number of these, including the Password Management Policy, have not been reviewed since they were issued in August 2013. The competing priorities of the referendum and electoral registration have meant that the IT team have not been able to focus on updating policies and procedures; however they are aware that this needs to be addressed in the near future. We have recommended that IT related policies and procedures which are now beyond their scheduled review date should be reviewed and updated as time and resources allow ensuring that they reflect the current environment and activities.

## Acknowledgements

We would like to take this opportunity to thank the staff at the Board who assisted us during our review.

## 2. Action Plan

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
1.8	<p><b>PSN Implementation</b></p> <p><b>R1</b> Ensure that for future IT projects suitable governance arrangements are put in place which clearly define aims, objectives, roles, responsibilities and timescales in relation to project management, monitoring and accountability.</p>	B	Future IT projects which are of significant size will have suitable governance arrangements.	Yes	Assessor / IT Manager	As required.
3.4	<p><b>Network Infrastructure</b></p> <p><b>R2</b> Obtain and document details of the configuration settings of all network equipment managed by the third part maintenance company.</p>	B	This documentation will be requested.	Yes	IT Manager	30/9/15
4.3	<p><b>Logical Access</b></p> <p><b>R3</b> IT related policies and procedures which are now beyond their scheduled review date should be reviewed and updated as time and resources allow ensuring that they reflect the current environment and activities.</p>	C	IT Related policies will be reviewed on a rolling basis.	Yes	Assistant Assessor (Dundee) / IT Manager	As required.

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
6.2	<p><b>Compliance With User Licence Requirements</b></p> <p><b>R4</b> A software licence database should be developed to record all licence and contract details and provides adequate information to ensure that licences are renewed prior to expiry dates. This should include:</p> <ul style="list-style-type: none"> <li>• member of the Board's staff responsible for managing the licence contract;</li> <li>• details of the nature of the licence and supplier details;</li> <li>• the network devices covered by the licence;</li> <li>• the number of authorised users; and</li> <li>• licence commencement and renewal dates.</li> </ul>	C	A licensed database will be developed.	Yes	IT Administrator	30/12/15
6.3	<p><b>R5</b> Develop a programme of periodic and random spot checks of users' PCs to provide assurance that no unauthorised software or applications are installed. This could be done remotely by IT staff without the need to access individual PCs or laptops connected to the Board's network.</p>	C	A programme of periodic, random, spot checks will be developed	Yes	IT Manager	30/12/15

## 3. Main Report

### 1. PSN Implementation

- 1.1 To achieve the objectives of Individual Electronic Registration Act 2013, the Board is now obliged to connect to the UK Government's Public Services Network (PSN). The implementation of the PSN project conducted over the last 12 to 18 months has resulted in a significant reconfiguration of the Board's IT network.
- 1.2 Members of the Cabinet Office Government Digital Service Team visited the Board's offices in 2013 to conduct a review of the physical and logical security of the Board's IT environment to ensure that it was compliant with government security requirements. A number of recommendations were raised, which are noted throughout this report, which have resulted in the network and some of the IT equipment being upgraded to satisfy Cabinet Office's security requirements. The main areas of change include:
  - a move from a single internet connection at each office to two dedicated internet connections, one Direct Internet Access and one PSN connection;
  - the upgrade of the Board's computer operating software from Windows XP to Windows 7; and
  - the procurement of additional IT hardware which processes electoral registration data to provide further security to PSN connections.
- 1.3 In 2013 the Board used an external IT consultant, as used by other Valuation Boards, to review the adequacy of the IT infrastructure and the adequacy of IT security arrangements in terms of outside connectivity and access to data on the Board's systems. A report was produced which detailed what changes were required to the Board's network and equipment in order to be compliant with PSN security requirements. This document was used as the basis for procuring the required equipment and expertise to reconfigure the network. Three quotes were obtained which resulted in Hutchison's Networks (Hutchison's) being selected as the supplier who in 2014 supplied and installed the required equipment, and now provide ongoing maintenance and monitoring of the new equipment.
- 1.4 The cost of upgrading for the PSN has been provided through funding allocated from the UK Government's Individual Electoral Registration Fund with the cost of the new PSN lines and equipment covered by the Cabinet Office.
- 1.5 Only the Board's electoral staff have access to the Board's bespoke EROS electoral registration system which in turn connects to the PSN. Such staff have separate username and passwords to access the PSN.
- 1.6 The implementation of the PSN upgrade was conducted almost entirely by Hutchison's adhering to the timetable set by the Cabinet Office. We were advised that there was ongoing communication between the Board's IT team and Hutchison's throughout the implementation and updates on the project were provided to the IT working group and to the Management Group.

## 1. PSN Implementation (Continued)

1.7 We reviewed copies of the IT working Group minutes from 2013 and 2014 and noted that the discussion of PSN project appears to be minimal. Discussion with the IT Development Manager noted that regular discussion was held with Hutchison's and the Cabinet Office throughout the PSN project although this was largely informal. However a number of emails were available for review which documented the key stages in the project, from initialisation to procurement, installation and implementation. We were advised that the Assessor and the Management Group were kept informed throughout the process by IT. From our review of the IT Working Group minutes we noted that due to the competing priorities in 2014 and 2015, including the Scottish Referendum and the General Election, the IT Working Group has not met since July 2014.

### 1.8 *Observation*

Following the initial visits to the Board's offices by the Cabinet Office staff in 2013 the recommendations noted at paragraph 1.2 above were raised in either email correspondence between the Cabinet Office and the IT Development Manager or in a short report. However our review found that a formal action plan listing the recommendations was not produced to ensure that they were taken forward and monitored effectively. We also noted that all recommendations have since been implemented and verified through independent IT Health Checks undertaken in 2014 and 2015

#### *Risk*

There is a lack of management oversight and control over major projects which may result in project objectives not being achieved, costs overrunning and a lack of accountability.

#### *Recommendation*

**R1** Ensure that for future IT projects suitable governance arrangements are put in place which clearly define aims, objectives, roles, responsibilities and timescales in relation to project management, monitoring and accountability.

#### *Benefit*

Improved management oversight and control over major projects.

1.9 As part of the continuing PSN compliance requirements the Board is required to have an annual IT Health Check and submit the subsequent report, along with a mitigation report outlining the actions put in place to address any issues as well as a detailed network diagram. We reviewed the most recent IT Health Check report and did not identify any significant issues.

## 2. Physical and Environmental Controls

2.1 As part of the work undertaken by the Board to comply with PSN security requirements staff from the UK Government Cabinet Office attended each of the Board's offices in 2013 to conduct a review of the physical security controls. As a result of recommendations raised following this visit access controls to the server rooms at each of the Board's offices were upgraded from simple key lock to key pad entry systems. Access to the combination for each lock is restricted to IT staff and senior management. In addition CCTV has been installed within the server rooms to facilitate evidence gathering in the event of a security breach to the server rooms. As the server rooms at both the Perth and Forfar offices are based on the ground floor bomb blast screens have been applied to the windows to further improve the security of the rooms.

## 2. Physical and Environmental Controls (Continued)

- 2.2 The server rooms in each of the offices contain a sensor linked to the office's fire detection system. Rooms housing ICT equipment should contain some form of fire-fighting equipment. At the very least this should include fire extinguishers. We noted that for all server rooms fire extinguishers are available either inside the room or in close proximity of the room.
- 2.3 The temperature in the server rooms is moderated by wall mounted air conditioning units which are maintained by a specialist contractor.

## 3 Network Infrastructure

- 3.1 Our review found that appropriate network infrastructure is in place which is supported by a comprehensive suite of IT related policies and procedures. During our review of the Board's IT network arrangements in 2012 we noted that there was a lack of documented IT policies and procedures and we recommended that the IT team draw up and disseminate an IT office manual which includes clear and concise policies and procedures on key areas covered by IT. Following that review and in order to comply with the Cabinet Office's PSN requirements we noted that the IT team has undertaken a significant amount of work in order to ensure that these policies and procedures are in place.
- 3.2 Through discussion with IT staff we found the network to be in good health, well designed and well managed by an experienced IT Team who have worked with and developed the Board's systems over many years. From our review we were able to determine that servers appear to be well configured and kept up-to-date and that a well-designed and consistent approach has been applied to data access and security, IT assets, virus protection, firewalls and general network maintenance.
- 3.3 Our review noted that a comprehensive schematic representing the Board's IT network structure is in place which includes: the location of routers and switches; details of workstations and their locations; the firewall servers; the communication links between servers and other hardware; and the communication links between each office and the PSN. The network schematic is suitably detailed that in the event of a major disaster affecting the Board's IT services this key document would assist the IT Team to rebuild the network structure and therefore fully restore IT capabilities. As part of the Board's continued requirements to demonstrate that it is PSN compliant the Board must submit a copy of the network diagram annually to the Cabinet Office or after any changes have been made to the network. This will ensure that the network diagram is kept under review and regularly updated.
- 3.4 *Observation*  
As part of the PSN upgrade additional equipment such as proxy servers and firewalls were installed at each office to provide additional security over access to electoral registration data. This equipment was installed by and is managed by a third party under contract, with the Board retaining ownership of the equipment. However, it is our understanding that the Board has not obtained from the third party details of the equipment configurations, including firewall permissions.

### *Risk*

If the Board is required to rebuild the network in the event that the maintenance company was unavailable there is a risk that the Board's IT staff would not be able to recover the network to its present state.

### 3. Network Infrastructure (Continued)

#### 3.4 (Continued)

##### *Recommendation*

**R2** Obtain and document the configuration settings of all network equipment managed by the third part maintenance company.

##### *Benefit*

Documented configuration settings for IT network equipment would facilitate the rapid rebuild of the network following a disaster event.

- 3.5 A significant amount of the IT staff time and resources in recent years has been dedicated to the Board's duties regarding the Scottish Referendum (September 2014), the implementation of individual electoral registration (September 2014) and the UK general election (May 2015). Despite this the IT team has managed to oversee the reconfiguration of the Board's IT network to meet the Cabinet Office deadline for complying with PSN security requirements.
- 3.6 During our discussions with IT staff we noted that several of the Board's servers used to store electoral registration data are approaching their end of useful life and need replaced. This has been identified by management and resources have been included within the IT budget for 2015/16 for replacement equipment to be procured.

### 4. Logical Access

4.1 The IT Team has established set procedures and standards for configuring the system audit log facilities and Event Logging procedures have been formally documented. These cover:

- failed log-on attempts;
- failed file access attempts;
- account additions, changes and deletions;
- changes to system security configurations; and
- access to critical data files.

4.2 As part of the work done to meet the PSN security requirements the password policy governing staff access to the electoral registration system, which is connected to the PSN, has been revised to ensure that it is more robust. This includes passwords to be longer in length, use more characters and combination of characters and rotate passwords more frequently. Following this change management took the decision to adopt the same password policy for all users accessing the local network.

#### 4.3 *Observation*

We identified during our review that although the updated network password policy has been applied to network systems the written policy has yet to be revised to reflect these changes. We also obtained a copy of the IT Document Review Matrix which details all IT related policies and procedures and noted that a number of these, including the Password Management Policy, have not been reviewed since they were issued in August 2013. The competing priorities of the referendum and electoral registration have meant that the IT team have not been able to focus on updating policies and procedures; however they are aware that this needs to be addressed in the near future.

## 4. Logical Access (Continued)

### 4.3 (Continued)

*Risk*

IT related policies and procedures may be out of date and do not reflect the changes in IT environment and activities since the reconfiguration of the network to meet PSN security requirements.

*Recommendation*

**R3** IT related policies and procedures which are now beyond their scheduled review date should be reviewed and updated as time and resources allow ensuring that they reflect the current environment and activities.

*Benefit*

IT related policies and procedures reflect the current IT environment and activities.

## 5. Acceptable Use Policy

5.1 Mobile computing, whilst beneficial to the Board, brings with it a unique set of security risks which need to be addressed. The Board's Acceptable Use Policy and Security of Information Technology Systems guidance to staff covers a wide variety of areas including the Board's investment in mobile computing such as tablet devices issued to Board staff. Areas covered include:

- security of the devices;
- updating of any protection software in place;
- connection to third party networks; and
- data encryption.

## 6. Compliance with User Licence Requirements

6.1 Each of the Board's PCs and laptops is installed with Microsoft operating system and software packages with the Board utilising volume licensing agreements which ensure that the organisation is permitted to use Microsoft products. The IT Team also operate and manage a number of bespoke systems which have been developed in-house.

### 6.2 *Observation*

The IT Team maintains a hardcopy record of licences for all software installed on the Board's computer equipment which is updated manually by a member of the IT team. Reminders of licence renewal dates are held on the same staff member's email calendar which due to the age and version of Outlook in use cannot be shared with other members of the IT team. There is therefore a reliance on a single member of the IT team for ensuring that the Board complies with user licence requirements and that licences are renewed before expiry dates.

*Risk*

Failure to renew software licences may result in a breach of licence agreements leading to fines being imposed.

## 6. Compliance with User Licence Requirements (Continued)

### 6.2 (Continued)

#### *Recommendation*

**R4** A software licence database should be developed to record all licence and contract details and provide adequate information to ensure that licences are renewed prior to expiry dates. This should include:

- member of the Board's staff responsible for managing the licence contract;
- details of the nature of the licence and supplier details;
- the network devices covered by the licence;
- the number of authorised users; and
- licence commencement and renewal dates.

### 6.3 Observation

There is no network software installed which identifies any unauthorised software, programmes or applications on the Board's network equipment such as PCs. Although programmes would be identified by IT staff by way of a review of the programmes running on servers, applications run locally on PCs would not. Periodic checks on individual computers and servers to identify any unauthorised software are not performed as it is felt that sufficient password and user access rights controls are in place to ensure that software can only be installed on Board equipment by staff with Administrator access rights. Only IT staff have these rights. However as each member of staff uses a stand-alone PC it is still possible for users to run unauthorised applications on PCs.

#### *Risks*

Unauthorised software or applications may contain viruses or malware which can cause significant damage to equipment and data.

The Board may be in breach of user licence requirements which may potentially result in significant financial penalties.

#### *Recommendation*

**R5** Develop a programme of periodic and random spot checks of users' PCs to provide assurance that no unauthorised software or applications are installed. This could be done remotely by IT staff without the need to access individual PCs or laptops connected to the Board's network.

#### *Benefit*

The integrity of the Board's network and PCs will be further protected and the risk of fines reduced.

6.4 We were advised during our review that there have been no recorded incidents of staff installing unauthorised software on Board IT equipment or any breaches in software user licences in recent years.

**Tayside Valuation Joint Board**

**Annual Report to the Joint Board and the Assessor  
on the Provision of Internal Audit Services for  
2014/15**

**Internal Audit Report No: 2015/07**

**Draft Issued: 23 May 2015**

**Final Issued: 25 May 2015**

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## 1. Annual Report and Opinion

- 1.1 We were formally re-appointed in April 2013 as internal auditors of Tayside Valuation Joint Board ('the Board') for the period 1 April 2013 to 31 March 2016. This report summarises the internal audit work performed during 2014/15.
- 1.2 An Audit Needs Assessment (ANA), based on the areas of risk that the Board is exposed to, was prepared as part of our internal audit programme for 2014/15 (internal audit report 2014/01, issued August 2013). The ANA was prepared following discussion with the Assessor, several senior Board personnel, the external auditors, Audit Scotland, and with reference to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The ANA was prepared on the basis of the normal three-year internal audit cycle, covering the period 2013/14 to 2015/16. Work in the previous three-year cycle has been used to update the key control environment. Following on from the ANA, a Strategic Plan was formulated covering the three-year cycle.
- 1.3 The work undertaken in 2014/15 is set out in the Annual Plan for 2014/15. The reports submitted are listed in Section 2 of this report and a summary of results and conclusions from each assignment is given at Section 3.
- 1.4 An analysis of time spent against budget is at Section 4. The Non Domestic Rates and IT Network Arrangements work both took two days less than planned and the procurement and Creditors/Purchasing took one day less than budget. These savings were not needed for any other work, and therefore the total time allocated to the 2014/15 audit has been 25 days.

### Public Sector Internal Audit Standards (PSIAS) Reporting Requirements

- 1.5 The Board has responsibility for maintaining an effective internal audit activity. You have engaged us to provide an independent risk-based assurance and consultancy internal audit service. To help you assess that you are maintaining an effective internal audit activity we:
- Confirm our independence;
  - Provide information about the year's activity and the work planned for next year in this report; and
  - Provide quality assurance through self-assessment and independent external review of our methodology and operating practices.
- 1.6 Self-assessment is undertaken through:
- Our continuous improvement approach to our service. We will discuss any new developments with management throughout the year;
  - Ensuring compliance with best professional practice, in particular the PSIAS;
  - Annual confirmation from all staff that they comply with required ethical standards and remain independent of clients;
  - Internal review of each assignment to confirm application of our methodology which is summarised in our internal audit manual; and

### Public Sector Internal Audit Standards (PSIAS) Reporting Requirements (Continued)

- Annual completion of a checklist to confirm PSIAS compliance. This is undertaken in April each year. Our internal audit manual was updated to include references to the PSIAS after the 2014 review.
- 1.7 The results of our self-assessment are that we are able to confirm that our service is independent of the Association and complies with the PSIAS.
- 1.8 External assessment is built into our firm-wide quality assurance procedures. Henderson Loggie is a member of MHA, a national association of accountancy firms. Continued membership of MHA is dependent on maintaining a good level of quality and adhering to accounting and auditing standards in the provision of our services. Annual quality reviews are conducted to confirm our continuing achievement of this quality. The latest MHA review in April 2014 included our internal audit service. Overall the review found the firm's policies and procedures relating to internal audit to be compliant with the PSIAS in all material respects.

### Significant Issues

- 1.9 There were no significant issues identifying major internal control weaknesses arising from our internal audit work. In general, procedures were operating adequately in the areas selected. A small number of actions have been agreed to further strengthen controls.

### Opinion

- 1.10 In our opinion the Board operates adequate and effective internal control systems as defined in the ANA. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during the current year, and during the period of our appointment from 2010 to date.

## 2. Reports Submitted

Report Number	Title	Action Points	Grade A	Grade B	Grade C
2015/01	Annual Plan	N/A	-	-	-
2015/02	Non Domestic Rates	1	-	-	1
2015/03	Risk Management and Business Continuity	3	-	3	-
2015/04	Follow Up Reports	N/A	-	-	-
2015/05	Procurement and Creditors/Purchasing	3	-	-	3
2015/06	IT Network Arrangements	5		2	3
2015/07	Annual Report	N/A			

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. The gradings are as follows.

- A Issues which require the consideration of the Board.
- B Significant matters which the Management Team can resolve.
- C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

## 3. Summary of Results and Conclusions

### 2015/01 – Annual Plan

#### Final Issued July 2014

The purpose of this document was to present, for consideration by the Joint Board, the annual operating plan for the year ended 31 March 2015. The plan was based on the proposed allocation of audit days for 2014/15 set out in the ANA and Strategic Plan 2013 to 2016.

The detailed scope, objectives and audit approach for each audit assignment to be undertaken, arrived at following discussion with the Assessor, were set out in the report.

### 2015/02 – Non Domestic Rates

#### Final Issued October 2014

This audit reviewed the adequacy and effectiveness of the controls and procedures in place to ensure that the records relating to current property values are up to date and accurate, valuations and appeals are dealt with appropriately and timeously, and appropriate controls are in place over entries and amendments made to the Valuation Roll.

In relation to our specific objectives, assurance was obtained that the internal controls in place are operating effectively which ensure that: the records relating to current property values are up to date and accurate; valuations and appeals are dealt with appropriately and timeously, and appropriate controls are in place over entries and amendments made to the Valuation Roll.

Good assurance was obtained that the Valuation Roll is an accurate, comprehensive and up-to-date record of all non-domestic properties in Tayside. Additions, deletions and alterations to the Valuation Roll are appropriately controlled and verified.

Appeal cases are logged on receipt and, from our sample testing, they have all been dealt with timeously.

Generally there is an adequate level of segregation of duties between identification of changes in value to the Valuation Roll and the input of amendments on the Valuation Roll

### 2015/03 – Risk Management and Business Continuity

#### Final Issued January 2015

##### *Risk Management*

The scope of this audit considered whether there are corporate procedures in place to adequately assess risk and minimise the possibility of unexpected and unplanned situations developing.

### 2015/03 – Risk Management and Business Continuity (Continued)

A number of good practice actions were identified in the risk management processes. We found there are corporate procedures in place to identify and assess risk, and controls have been identified to minimise the possibility of unexpected and unplanned situations developing. We found that risk management processes are embedded which provide a greater level of assurance that risk management is effective, although this could be enhanced through providing further risk management training to staff involved in risk management processes. We were advised that the Assessor has been in discussions with Dundee City Council to deliver relevant training.

#### *Business Continuity*

We also considered whether there are adequate plans in place to minimise disruption to operations following loss of life, buildings or equipment, including key IT systems.

There are adequate plans in place to minimise disruption to operations following loss of life, buildings or assets, including buildings and key IT systems, however these need to be updated to include the impact of newly installed communications links and then tested to ensure they work well.

### 2015/04 – Follow-Up Report

#### Final issued January 2015

We carried out a follow up review of recommendations made in the following internal audit reports issued during 2013/14:

- Internal Audit Report 2014/03 – Performance Reporting;
- Internal Audit Report 2014/04 – General Ledger;
- Internal Audit Report 2014/05 – Asset Management;
- Internal Audit Report 2014/06 – Follow-Up Reviews;
- Internal Audit Report 2014/07 – Payroll and HR / Recruitment / Staff Performance & Development; and
- Internal Audit Report 2014/08 – Corporate Governance and Control Environment.

Report 2014/01, 2014/02 and 2014/09 did not contain an action plan and therefore no follow-up was required as part of this review.

Report 2014/06 included three outstanding actions from 2012/13 reports and one outstanding action from 2010/11 reports that were required to be followed-up again this year. In one instance there had been no project to trigger the action. Three outstanding actions from 2011/12 relating to Risk Management and Business Continuity have been followed up separately and reported in Report 2015/03.

The Board has made good progress in implementing the 21 recommendations contained within the internal audit reports listed above with 14 recommendations being assessed as fully implemented.

Of the remaining seven recommendations:

- One has been noted as ‘no project to trigger action’, relating to Project Management;
- Two actions where little or no progress has been made relate to updating policies and procedures in line with the requirements of the Bribery Act and Equality Act which will be completed once further advice has been provided by Dundee City Council; and

### 2015/04 – Follow-Up Report (Continued)

- Three of the four partially implemented actions relate to the Council Tax report and it is envisaged that these will be fully implemented later in the year following input from the IT section once resources allow. All partially implemented recommendations will be followed-up again next year.

### 2015/05 – Procurement

#### Final Issued May 2015

On the basis of the work done, we obtained reasonable assurance that:

- although the Board does not have a formal procurement strategy, the Procurement and Purchasing procedures support best value purchasing in relation to non-pay spend.
- overall procurement procedures in place are appropriate for all levels of expenditure and are generally complied with throughout the organisation; however we identified weaknesses relating to evidencing of goods received;
- the risk of unauthorised and excessive expenditure is minimised;
- the processes in place ensure that all liabilities are fully and accurately recorded; and
- all payments are being properly authorised, processed and recorded.

We identified good practice in the recording of committed expenditure to aid budgetary control and monitoring.

### 2015/06 – IT Network Arrangements

#### Final Issued May 2015

The scope of the audit was to carry out a high-level review of certain key aspects of the IT systems in place within the organisation to identify any control weaknesses.

We also undertook a high level review of the governance arrangements which were in place to oversee the project to upgrade the organisation's systems in line with the Public Services Network (PSN) requirements.

Assurance has been obtained that internal controls in place ensure the security of the IT network operated by the Board, however we identified several areas, mainly in relation to updating the Board's IT policies and procedures and governance arrangements for the PSN implementation, where further improvements can be made.

## 4. Time Spent - Budget v Actual

	Report number	Planned days	Actual days fee'd	Days to fees at May 2015	Days to spend / WIP	Variance
<b>Non Domestic Rates</b>	2015/02	8	6	-	-	2
<b>Financial Issues</b> <i>Procurement and creditors / purchasing</i>	2015/05	5	-	4	-	1
<b>Organisational Issues</b> Risk management / Business continuity	2015/03	5	5	-	-	-
<b>Information and IT</b> <i>IT network arrangements / Data security</i>	2015/07	6	-	4		2
<b>Other Audit Activities</b> Management and Planning ) External audit ) Attendance at Board meetings ) Follow-up reviews ) ANA	2015/04	4	2	2	-	-
		2	2	-	-	-
<b>Total</b>		30	15	10	-	5

## 5. Operational Plan for 2015/16

- 5.1 Following our appointment as internal auditors for the period from 1 April 2013 to 31 March 2016 we prepared an Audit Needs Assessment and Strategic Plan for 2013 to 2016 (internal audit report 2014/01, issued August 2013).
- 5.2 An extract from the Strategic Plan, in relation to 2015/16 is below, which will be discussed with management, and updated if appropriate before being finalised for next year.

### Tayside Valuation Joint Board Strategic Plan 2013/14 to 2015/16

#### Proposed Allocation of Audit Days

	Priority	Planned 15/16 Days
<b>Reputation</b>		
Performance Reporting	Medium	
Health and Safety	Medium	3
<b>Council Tax</b>	Medium	7
<b>Non Domestic Rates</b>	Medium	
<b>Electoral Register</b>		
Accuracy of register / Data security	Medium	4
<b>Staffing Issues</b>		
Payroll	Low	
HR / Staff training and development )	Medium/Low	
<b>Estates and Facilities</b>		
Asset management	Medium	
<b>Financial Issues</b>		
Budget setting / budgetary control	Medium	3
General ledger	Low	
Procurement and creditors / purchasing	Medium	
Debtors / income	Low	
Cash & bank / Treasury management	Low	
<b>Organisational Issues</b>		
Risk management / Business continuity	Medium	
Corporate governance and control environment	Medium	
Corporate planning	Medium	4
<b>Information and IT</b>		
IT network arrangements / Data security	Medium	
Data protection / FOI	Low	3

Tayside Valuation Joint Board  
Annual Report 2014/15

Tayside Valuation Joint Board Strategic Plan 2013/14 to 2015/16

Proposed Allocation of Audit Days (Continued)

	Priority	Planned 15/16 Days
<b>Other Audit Activities</b>		
Management and Planning )		4
External audit )		
Attendance at Board meetings )		
Follow-up reviews		2
ANA		
<b>Total</b>		<u>30</u> =====



**Tayside Valuation Joint Board**

**Procurement and Creditors / Purchasing  
2014/15**



**Internal Audit Report No: 2015/05**

**Draft Issued: 25 May 2015**

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# 1. Management Summary

## Introduction

As part of our Internal Audit Programme at Tayside Valuation Joint Board ('the Board') for 2014/15 we carried out a review of the key internal controls in place over the procurement and creditors / purchasing system. The Audit Needs Assessment, issued in August 2013, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board and Assessor that the control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The Board's Financial Regulations cover capital and revenue expenditure and include sections on Orders for Goods and Services; and Payment of Accounts. Supporting the Financial Regulations are detailed purchasing and procurement procedures, which guide staff through the procurement and payment procedures to be applied.

## Scope of the Audit

This audit focussed on the systems of internal control in place for the ordering of goods and services and the payment of invoices. We also considered whether the procurement strategy followed and procedures in place support best value purchasing in relation to non-pay spend.

The systems and controls reviewed are part of the mitigating actions for the following risk noted in the Board's Risk Register:

2.3      Unauthorised expenditure

## Objectives of the Audit

The specific objectives of the audit were to ensure that:

- procurement procedures support best value purchasing in relation to non-pay spend;
- procurement procedures are appropriate for all levels of expenditure and are complied with throughout the organisation;
- the risk of unauthorised and excessive expenditure is minimised;
- all liabilities are fully and accurately recorded; and
- all payments are properly authorised, processed and recorded.

## Audit Approach

From discussions with relevant staff, we established the procurement strategies, procedures and monitoring arrangements that are currently in place. These were evaluated to establish if they follow recognised good practice. We established whether the expected key controls are in place and operating effectively by reference to CIPFA (the Chartered Institute of Public Finance and Accountancy) standard control risk assessment templates for a creditors system.

Specifically, we established whether the procurement procedures ensure that areas of high spend are monitored appropriately, identifying opportunities for pooling of expenditure in order to achieve best value, and ensuring that joint purchasing arrangements are utilised where appropriate.

A sample of items of expenditure was selected from the financial ledger and tested to ensure compliance with the Board's Financial Regulations and Procedures.

## Action Plan

This report sets out a detailed list of improvement actions, which we consider necessary to ensure efficient delivery of each objective and these are discussed within the text for clarity. An action plan for implementation of these recommendations can be found at Section 2 of this report.

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. These gradings are as follows:

- A Issues which require the consideration of the Board.
- B Significant matters which Assessor and Senior Management can resolve
- C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

## Overall Conclusion

On the basis of the work done, we obtained reasonable assurance that:

- although the Board does not have a formal procurement strategy, the Procurement and Purchasing procedures support best value purchasing in relation to non-pay spend.
- overall procurement procedures in place are appropriate for all levels of expenditure and are generally complied with throughout the organisation; however we identified weaknesses relating to evidencing of goods received;
- the risk of unauthorised and excessive expenditure is minimised;
- the processes in place ensure that all liabilities are fully and accurately recorded; and
- all payments are being properly authorised, processed and recorded.

We identified good practice in the recording of committed expenditure to aid budgetary control and monitoring.

We identified some minor issues where we have not raised a recommendation but draw management's attention to these for consideration:

- 1.2 Where consideration of policies and procedures has taken place and no change is required, this should be discussed and minuted at the senior management team meeting and the date of the policies should be updated to demonstrate that they are up to date;
- 4.2 Staff should be reminded to complete the invoice grid stamp as evidence of the checks they undertake when processing and authorising invoices in the system.

## Summary of Main Findings and Recommendations

No significant issues were identified from our testing. We have made three “C” grade recommendations.

The Board’s Purchasing and Procurement procedures include purchasing authorisation limits for various levels of staff, with the highest authorisation limit being £10,000. Capital items and Revenue items over £10,000 require a tendering process, with items above £25,000 being approved by the Board. The procedures note circumstances where a tendering exercise is not required but do not explicitly discuss authorisation arrangements where a tendering exercise has not been undertaken. From our discussions with staff, and our testing, we noted that in practice where a formal tender exercise has not been undertaken senior staff will sign off orders above their authorised limit of £10,000. This appears reasonable and we have recommended that the Purchasing and Procurement Procedures are updated to include the process for signing off purchase orders over £10,000 where a tender has not been undertaken.

Our review identified that the Board’s current list of specimen signatures is out of date. We identified three authorised signatories for whom no specimen signature was held on the official list. The Administration Manager has identified that the list of specimen signatures requires to be updated, however this has not been done due to competing priorities. Given the size of the organisation the risk involved is low however we have recommended that the list is updated as it is a requirement of the procedures.

We identified four goods received notes that had not been signed to indicate who had receipted the goods and that goods had been checked to the purchase order to ensure that the goods were in accordance with the order. We have recommended that staff should complete and evidence this check.

## Acknowledgements

We would like to thank the Board staff and management for the co-operation and assistance we received during the course of our review.

## 2. Action Plan

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
	<b>Procedures Appropriate For all Levels of Expenditure</b>					
2.1	<b>R1</b> Update the Purchasing and Procurement Procedures to include the process for signing off purchase orders over £10,000 when a tender exercise has not been required to be followed.	C	Purchasing and Procurement Procedures will be updated.	Yes	Assessor / Administration Manager (Finance / Personnel)	31/12/15
2.2	<b>R2</b> Ensure that the list of specimen signatures for approving purchase orders and invoices is updated.	C	Specimen signatures will be updated.	Yes	Administration Manager (Finance / Personnel)	30/9/15
	<b>Liabilities Are Fully and Accurately Recorded</b>					
4.1	<b>R3</b> Ensure that goods received / delivery notes are signed by staff when receipting goods to indicate that the goods have been checked to the purchase order.	C	Staff will be reminded of signing procedures for the receipt of goods.	Yes	Administration Manager (Finance / Personnel)	30/9/15

## 3. Main Report

### 1. Achieving Best Value

- 1.1 The Board does not have a formal Procurement Strategy in place; however tender and office procedures have been developed in order to ensure best value is achieved when purchasing goods / services. Our review noted that these areas are covered by
- Financial Regulations (dated October 2010)
  - Purchasing/Procurement Procedures (dated March 2012), and
  - Tender Procedures (dated November 2005)
- 1.2 Internal audit report 2012/02, Procurement and Creditors / Purchasing included a recommendation that the board review and update their procedures at least every two years. From discussion it appears that consideration of policies and procedures has been made but due to there being very little change in organisational structure or operational procedures since procedures were last updated management have not felt it necessary to update the procedures. We have not raised a recommendation for this but we advise that where consideration has been made and no change is required, this is discussed and minuted at the senior management team meeting and the date of the policies should be updated to demonstrate that they are up to date.
- 1.3 The procedures state that orders between £1,000 and £10,000 require three quotations to be obtained from different suppliers. The decision as to which supplier to use is based on achieving the best value. It was noted from discussions with staff that as the goods/services are often the same from each supplier, best value is usually deemed to be the cheapest option.
- 1.4 Dundee City Council approved suppliers are used where appropriate. The Board is a member of the Tayside Procurement Consortium and this is used when appropriate.
- 1.5 Overall we concluded that although the Board does not have a formal procurement strategy, given the type and volume of spending involved the Procurement and Purchasing procedures and the Tender Procedures support best value purchasing in relation to non-pay spend and the evidence from our testing supports this view.

### 2. Procedures Are Appropriate for All Levels of Expenditure

- 2.1 *Observation*  
The Board's Purchasing and Procurement procedures include authorisation limits for various levels of staff, with the highest authorisation limit being £10,000. Items over £25,000 should be approved by the Board. The procedures do not explicitly discuss authorisation between £10,000 and £25,000 in circumstances where a tender exercise has not been undertaken. From our discussions with staff, and our testing, we noted that in practice where a formal tender exercise has not been undertaken senior staff will sign off orders above their authorised limits, e.g. £10,000 although there is no reference to this in the Purchasing and Procurement procedures.

## 2. Procedures Are Appropriate for All Levels of Expenditure (continued)

### *Risk*

Procedures are not being followed and the risk of unauthorised expenditure is marginally increased.

### *Recommendation*

**R1** Update the Purchasing and Procurement Procedures to include the process for signing off purchase orders over £10,000 when a tender exercise has not been required to be followed.

### *Benefit*

The current practice will be authorised for use and the risk of unauthorised expenditure is reduced.

### 2.2 *Observation*

Our review identified that the Board's current list of specimen signatures is out of date. We identified two authorised signatories for whom no specimen signature was held on the official list. The Administration Manager has identified that the list of specimen signatures requires to be updated, however this has not been done due to competing priorities. As the number of specimen signatures missing is low, the two members of staff are known to the Administration Manager and that signatures for the two staff members would be easily available from other sources if required, management do not feel that updating this list is a priority at this time.

### *Risk*

Procedures are not being followed and there is a low risk that unauthorised expenditure could be incurred.

### *Recommendation*

**R2** Ensure that the list of specimen signatures for approving purchase orders and invoices is updated.

### *Benefit*

Procedures are up to date and the risk of unauthorised expenditure is minimised.

## 3. Risk of Unauthorised and Excessive Expenditure

- 3.1 A sample of 15 purchase invoices was selected and agreed to their respective purchase orders. The sample included six below £1,000 for which the Board's procedures do not require quotes, eight above £1,000 but below £10,000, for which three quotes are required and one above £10,000, for which a tendering process is required. In all cases the procedures allow, where special circumstances apply, for the Clerk to the Board to decide to dispense with the need for quotations or tenders.
- 3.2 For those between £1,000 and £10,000 our testing identified three instances where three quotes were not obtained, with a single supplier selected in each case. In each instance the explanations provided by management to justify the exception to the Board's procedures appeared reasonable. These included purchases where there were a limited number of suppliers due to the specialist nature of goods being purchased or where use had been made of Dundee City Council approved suppliers.

### 3. Risk of Unauthorised and Excessive Expenditure (Continued)

- 3.3 We reviewed the thresholds within the Tendering Procedures to ensure that these were still reasonable and valid and concluded that they were. The thresholds are as follows; where orders for goods and services exceed £10,000 tenders shall be invited unless the Clerk to the Board decides it would not be justified; tenders up to £25,000 do not require Board approval and tenders in excess of £25,000 do.
- 3.4 A report detailing all payments exceeding £10,000 was obtained from the financial system. The vast majority of items that were not utilities or rent and rates related to items for the upgrade of the electoral registration systems as discussed in paragraph 3.5.
- 3.5 As part of the upgrade to the Board's IT network to comply with the Public Services Network (PSN) security requirements a number of items of IT hardware were procured and installed during the year. The total cost of this equipment was in the region of £90,000. At this level the Board's procurement procedures require a competitive tender exercise unless the Clerk to the Board decides special circumstances apply. Funding for this project was obtained from the Cabinet Office and their procurement rules were used, with three quotes obtained from suppliers and the Cabinet Office approving the successful supplier. The circumstances around the developments were reported to and agreed by the Board before and during the project. We concluded that the action taken was appropriate in the circumstances and complied with the Board's procedures.
- 3.6 Prior to placing an order, staff must consult the Administration Manager to ensure that there is enough money remaining with the appropriate budget area. The majority of orders are placed with suppliers by the Administration Manager who checks that sufficient budget is available prior to placing the order. It is our understanding that Assistant Assessors will place their own orders in some circumstances. Our test sample of 15 purchases included two orders raised by Assistant Assessors where we found evidence that the Administration Manager had been consulted prior to purchase in one instance with no similar consultation undertaken in the other instance. The risk of excessive expenditure is minimised however as Assistant Assessors receive monthly budget reports which can be checked prior to placing orders.
- 3.7 Divisional Offices copy their purchase orders and forward them to the Administration Manager. All orders are recorded in an excel spreadsheet. To demonstrate that they are committed and not actual expenditure they are entered in blue text. This ensures that for budgeting purposes, both committed and actual expenditure is known. It also ensures that liabilities relating to goods ordered not yet invoiced are recorded.
- 3.8 Written requests to set up new suppliers are infrequent however they are made by the same member of staff who places the majority of orders and processes invoices. Further segregation of duties is not easy to achieve given the Board's size, however the risk this poses to unauthorised payments is mitigated by other checks and controls that prevent payments being authorised by the same post holder, and the fact that DCC staff create the new supplier on the system. The system is in the process of being changed to require a second signature to authorise the new supplier request and this will further strengthen control in this area.

## 4. Liabilities Are Fully and Accurately Recorded

### 4.1 *Observation*

Our sample of 15 purchase orders included eight items which related to services and as such no good received or delivery notes were available. The remaining seven items were agreed to goods received and delivery notes however we identified that for four of these the goods received notes had not been signed to indicate who had receipted the goods and that goods had been checked to the purchase order to ensure that the goods were in accordance with the order.

### *Risk*

Goods received may not be in accordance with the approved purchase order.

### *Recommendation*

**R3** Ensure that goods received / delivery notes are signed by staff when receipting goods to indicate that the goods have been checked to the purchase order.

### *Benefit*

Evidence is retained of checks that goods received are in accordance with the approved purchase order.

- 4.2 The sample of purchase orders were then agreed to invoice. Invoices are checked and input onto the finance system by one member of staff and reviewed and authorised on the finance system by another member of staff. As the finance system requires two users to input an invoice there is good separation of duties and low risk that a fraudulent invoice can be processed by one individual. Invoices are grid stamped and these are completed by the staff members involved to evidence their checking prior to completing the processing and authorisation within the system. From our sample of 15 all invoices had been grid stamped. There were two instances in the sample where the invoice grid stamp did not have a second signature. This has been accepted as an oversight in recording evidence of the authorisation and no recommendation has been raised.
- 4.3 A Service Level Agreement is in place between the Board and Dundee City Council (DCC) who maintain the Board's Purchase and General Ledger functions including the processing of purchase ledger payments. The Administrative staff at the Board post invoices into a creditors' interface of the DCC's financial system on a daily basis. The Council perform daily and weekly payment runs depending on the payment terms which exist for each supplier as coded in the financial system. Some suppliers are set as 'pay immediately' and some are set as 14 or 30 days payment terms.
- 4.4 Our review noted that the Board does not perform a reconciliation between the cashbook and the general ledger information provided by DCC, as due to timing differences it is considered by management that it would be too time consuming and would not add value. However DCC provide the Board with revenue monitoring spreadsheets and detailed management reports on a monthly basis. Through this process all expenditure codes are reviewed by both DCC and the Board to confirm that invoices have been coded accurately for budgeting purposes.

## **5 All Payments are Properly Authorised, Processed and Recorded**

- 5.1 Initial authorisation is covered by the process described at 4.2. Once invoices have been posted and authorised in the financial system DCC will process the payment runs on a weekly basis. Each week a report is provided by DCC detailing the invoices that have been paid. These are checked by the Board's staff against invoices held by the Board and the BACs number and date is detailed on the front of the invoice. The total from the report is then agreed to the Board's bank statement.
- 5.2 For our test sample of 15 invoices we re-performed these checks, agreeing each item to the invoice payment report received from DCC and the totals on each report to bank statements to verify that each invoice had been accurately paid. No exceptions were noted.

**Tayside Valuation Joint Board**

**IT Network Arrangements  
2014/15**

**Internal Audit Report No: 2015/06**

**Draft Issued: 22 May 2015**

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## I. Management Summary

### Introduction

As part of the Internal Audit programme at Tayside Valuation Joint Board ('the Board') for 2014/15 we carried out a review of the Board's information technology (IT) network arrangements and its compliance with user licence requirements. The Audit Needs Assessment, completed in August 2013, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Joint Board and management that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

Responsibility for ensuring an efficient and effective Information and Communications Technology (ICT) service delivery to all staff within the Board lies with the Board's IT Team. This includes first level support over some of the main application systems used in the provision and maintenance of user access to the network. The IT Team is also responsible for purchasing and maintaining the servers upon which the applications are housed, the personal computers (PCs) and laptops used by staff and the network which connects them.

The Public Services Network (PSN) is the government's high-performance network, which is a shared but secure telecommunications environment for the UK public sector, the aim of which is to help public sector organisations work together, reduce duplication and share resources. To achieve the objectives of Individual registration introduced by the Electronic Registration and Administration Act 2013, the Board is now obliged to connect to the PSN.

### Scope of the Audit

The scope of the audit was to carry out a high-level review of certain key aspects of the IT systems in place within the organisation to identify any control weaknesses.

We also undertook a high level review of the governance arrangements which were in place to oversee the project to upgrade the organisation's systems in line with the Public Services Network (PSN) requirements.

The systems and controls reviewed are part of the mitigating actions for several risks noted in the Board's Risk Register, including:

- 3.2 Malicious damage to systems
- 3.3 Attempted breach of security
- 3.5 Failure of internal applications
- 3.6 Major internal system failure
- 3.8 Inappropriate use of Internet/Email by staff

#### Electoral registration risks

- 6.2 Unauthorised access to electoral register/application forms and data
- 6.3 Taking of electronic notes or other means of unauthorised copying of electoral register.

## Objectives of the Audit

The objectives were to obtain reasonable assurance that:

- internal controls in place ensure the security of the IT network operated by the organisation; and
- appropriate governance arrangements are in place to oversee and control the PSN implementation work.

## Audit Approach

Our approach was based upon the Internal Control Questionnaires (ICQs) provided by the Chartered Institute of Public Finance and Accountancy (CIPFA); guidance provided by the Control Objectives for Information and related Technology (COBIT) standard issued by the IT Governance Institute (ITGI); discussion with staff; review of relevant documentation; and observation, covering the following areas:

- Physical and environmental controls;
- Network infrastructure;
- Acceptable Use Policy;
- Logical access; and
- Compliance with user licence requirements.

Governance of the PSN project was reviewed through discussion with officers and consideration of relevant documentation.

## Action Plan

This report sets out a detailed list of improvement actions, which we consider necessary to ensure efficient delivery of each objective and these are discussed within the text for clarity. An action plan for implementation of these recommendations can be found at Section 2 of this report.

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. These gradings are as follows:

- A Issues which require the consideration of the Joint Board.
- B Significant matters which can be resolved by the Assessor or the IT Development Manager
- C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

## Overall Conclusion

In relation to our specific objectives, assurance has been obtained that internal controls in place ensure the security of the IT network operated by the Board, however we have identified several areas, mainly in relation to updating the Board's IT policies and procedures and governance arrangements for the PSN implementation, where further improvements can be made to ensure that controls are in line with industry recommended best practice.

## Summary of Main Findings and Recommendations

A significant amount of the IT staff time and resources in recent years has been dedicated to the Board's duties regarding the Scottish Referendum (September 2014), the implementation of individual electoral registration (September 2014) and the UK general election (May 2015). Despite this the IT team has managed to oversee the reconfiguration of the Board's IT network to meet the Cabinet Office deadline for complying with PSN security requirements.

Following the initial visits to the Board's offices by the Cabinet Office staff in 2013 recommendations were raised in either email correspondence between the Cabinet Office and the IT Development Manager or in a short report. Our review found that no formal action plan listing the recommendations was produced to ensure that they were taken forward and monitored effectively, however we also noted that all recommendations have since been implemented and verified through independent IT Health Checks undertaken in 2014 and 2015. We have recommended that for future IT projects it is ensured that suitable governance arrangements are put in place which clearly define aims, objectives, roles, responsibilities and timescales in relation to project management, monitoring and accountability.

As part of the PSN upgrade additional equipment such as proxy servers and firewalls were installed at each office to provide additional security over access to electoral registration data. This equipment was installed by and is managed by a third party under contract, with the Board retaining ownership of the equipment. It is our understanding that the Board has not obtained from the third party details of the equipment configurations, including firewall permissions. We recommend that details of the configuration settings of all network equipment managed by the third party maintenance company are obtained and documented.

We identified during our review that although the updated network password policy has been applied to network systems the written policy has yet to be revised to reflect these changes. We also obtained a copy of the IT Document Review Matrix which details all IT related policies and procedures and noted that a number of these, including the Password Management Policy, have not been reviewed since they were issued in August 2013. The competing priorities of the referendum and electoral registration have meant that the IT team have not been able to focus on updating policies and procedures; however they are aware that this needs to be addressed in the near future. We have recommended that IT related policies and procedures which are now beyond their scheduled review date should be reviewed and updated as time and resources allow ensuring that they reflect the current environment and activities.

## Acknowledgements

We would like to take this opportunity to thank the staff at the Board who assisted us during our review.

## 2. Action Plan

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
1.8	<p><b>PSN Implementation</b></p> <p><b>R1</b> Ensure that for future IT projects suitable governance arrangements are put in place which clearly define aims, objectives, roles, responsibilities and timescales in relation to project management, monitoring and accountability.</p>	B	Future IT projects which are of significant size will have suitable governance arrangements.	Yes	Assessor / IT Manager	As required.
3.4	<p><b>Network Infrastructure</b></p> <p><b>R2</b> Obtain and document details of the configuration settings of all network equipment managed by the third part maintenance company.</p>	B	This documentation will be requested.	Yes	IT Manager	30/9/15
4.3	<p><b>Logical Access</b></p> <p><b>R3</b> IT related policies and procedures which are now beyond their scheduled review date should be reviewed and updated as time and resources allow ensuring that they reflect the current environment and activities.</p>	C	IT Related policies will be reviewed on a rolling basis.	Yes	Assistant Assessor (Dundee) / IT Manager	As required.

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
6.2	<p><b>Compliance With User Licence Requirements</b></p> <p><b>R4</b> A software licence database should be developed to record all licence and contract details and provides adequate information to ensure that licences are renewed prior to expiry dates. This should include:</p> <ul style="list-style-type: none"> <li>• member of the Board's staff responsible for managing the licence contract;</li> <li>• details of the nature of the licence and supplier details;</li> <li>• the network devices covered by the licence;</li> <li>• the number of authorised users; and</li> <li>• licence commencement and renewal dates.</li> </ul>	C	A licensed database will be developed.	Yes	IT Administrator	30/12/15
6.3	<p><b>R5</b> Develop a programme of periodic and random spot checks of users' PCs to provide assurance that no unauthorised software or applications are installed. This could be done remotely by IT staff without the need to access individual PCs or laptops connected to the Board's network.</p>	C	A programme of periodic, random, spot checks will be developed	Yes	IT Manager	30/12/15

## 3. Main Report

### 1. PSN Implementation

- 1.1 To achieve the objectives of Individual Electronic Registration Act 2013, the Board is now obliged to connect to the UK Government's Public Services Network (PSN). The implementation of the PSN project conducted over the last 12 to 18 months has resulted in a significant reconfiguration of the Board's IT network.
- 1.2 Members of the Cabinet Office Government Digital Service Team visited the Board's offices in 2013 to conduct a review of the physical and logical security of the Board's IT environment to ensure that it was compliant with government security requirements. A number of recommendations were raised, which are noted throughout this report, which have resulted in the network and some of the IT equipment being upgraded to satisfy Cabinet Office's security requirements. The main areas of change include:
  - a move from a single internet connection at each office to two dedicated internet connections, one Direct Internet Access and one PSN connection;
  - the upgrade of the Board's computer operating software from Windows XP to Windows 7; and
  - the procurement of additional IT hardware which processes electoral registration data to provide further security to PSN connections.
- 1.3 In 2013 the Board used an external IT consultant, as used by other Valuation Boards, to review the adequacy of the IT infrastructure and the adequacy of IT security arrangements in terms of outside connectivity and access to data on the Board's systems. A report was produced which detailed what changes were required to the Board's network and equipment in order to be compliant with PSN security requirements. This document was used as the basis for procuring the required equipment and expertise to reconfigure the network. Three quotes were obtained which resulted in Hutchison's Networks (Hutchison's) being selected as the supplier who in 2014 supplied and installed the required equipment, and now provide ongoing maintenance and monitoring of the new equipment.
- 1.4 The cost of upgrading for the PSN has been provided through funding allocated from the UK Government's Individual Electoral Registration Fund with the cost of the new PSN lines and equipment covered by the Cabinet Office.
- 1.5 Only the Board's electoral staff have access to the Board's bespoke EROS electoral registration system which in turn connects to the PSN. Such staff have separate username and passwords to access the PSN.
- 1.6 The implementation of the PSN upgrade was conducted almost entirely by Hutchison's adhering to the timetable set by the Cabinet Office. We were advised that there was ongoing communication between the Board's IT team and Hutchison's throughout the implementation and updates on the project were provided to the IT working group and to the Management Group.

## 1. PSN Implementation (Continued)

1.7 We reviewed copies of the IT working Group minutes from 2013 and 2014 and noted that the discussion of PSN project appears to be minimal. Discussion with the IT Development Manager noted that regular discussion was held with Hutchison's and the Cabinet Office throughout the PSN project although this was largely informal. However a number of emails were available for review which documented the key stages in the project, from initialisation to procurement, installation and implementation. We were advised that the Assessor and the Management Group were kept informed throughout the process by IT. From our review of the IT Working Group minutes we noted that due to the competing priorities in 2014 and 2015, including the Scottish Referendum and the General Election, the IT Working Group has not met since July 2014.

### 1.8 *Observation*

Following the initial visits to the Board's offices by the Cabinet Office staff in 2013 the recommendations noted at paragraph 1.2 above were raised in either email correspondence between the Cabinet Office and the IT Development Manager or in a short report. However our review found that a formal action plan listing the recommendations was not produced to ensure that they were taken forward and monitored effectively. We also noted that all recommendations have since been implemented and verified through independent IT Health Checks undertaken in 2014 and 2015

#### *Risk*

There is a lack of management oversight and control over major projects which may result in project objectives not being achieved, costs overrunning and a lack of accountability.

#### *Recommendation*

**R1** Ensure that for future IT projects suitable governance arrangements are put in place which clearly define aims, objectives, roles, responsibilities and timescales in relation to project management, monitoring and accountability.

#### *Benefit*

Improved management oversight and control over major projects.

1.9 As part of the continuing PSN compliance requirements the Board is required to have an annual IT Health Check and submit the subsequent report, along with a mitigation report outlining the actions put in place to address any issues as well as a detailed network diagram. We reviewed the most recent IT Health Check report and did not identify any significant issues.

## 2. Physical and Environmental Controls

2.1 As part of the work undertaken by the Board to comply with PSN security requirements staff from the UK Government Cabinet Office attended each of the Board's offices in 2013 to conduct a review of the physical security controls. As a result of recommendations raised following this visit access controls to the server rooms at each of the Board's offices were upgraded from simple key lock to key pad entry systems. Access to the combination for each lock is restricted to IT staff and senior management. In addition CCTV has been installed within the server rooms to facilitate evidence gathering in the event of a security breach to the server rooms. As the server rooms at both the Perth and Forfar offices are based on the ground floor bomb blast screens have been applied to the windows to further improve the security of the rooms.

## 2. Physical and Environmental Controls (Continued)

- 2.2 The server rooms in each of the offices contain a sensor linked to the office's fire detection system. Rooms housing ICT equipment should contain some form of fire-fighting equipment. At the very least this should include fire extinguishers. We noted that for all server rooms fire extinguishers are available either inside the room or in close proximity of the room.
- 2.3 The temperature in the server rooms is moderated by wall mounted air conditioning units which are maintained by a specialist contractor.

## 3 Network Infrastructure

- 3.1 Our review found that appropriate network infrastructure is in place which is supported by a comprehensive suite of IT related policies and procedures. During our review of the Board's IT network arrangements in 2012 we noted that there was a lack of documented IT policies and procedures and we recommended that the IT team draw up and disseminate an IT office manual which includes clear and concise policies and procedures on key areas covered by IT. Following that review and in order to comply with the Cabinet Office's PSN requirements we noted that the IT team has undertaken a significant amount of work in order to ensure that these policies and procedures are in place.
- 3.2 Through discussion with IT staff we found the network to be in good health, well designed and well managed by an experienced IT Team who have worked with and developed the Board's systems over many years. From our review we were able to determine that servers appear to be well configured and kept up-to-date and that a well-designed and consistent approach has been applied to data access and security, IT assets, virus protection, firewalls and general network maintenance.
- 3.3 Our review noted that a comprehensive schematic representing the Board's IT network structure is in place which includes: the location of routers and switches; details of workstations and their locations; the firewall servers; the communication links between servers and other hardware; and the communication links between each office and the PSN. The network schematic is suitably detailed that in the event of a major disaster affecting the Board's IT services this key document would assist the IT Team to rebuild the network structure and therefore fully restore IT capabilities. As part of the Board's continued requirements to demonstrate that it is PSN compliant the Board must submit a copy of the network diagram annually to the Cabinet Office or after any changes have been made to the network. This will ensure that the network diagram is kept under review and regularly updated.
- 3.4 *Observation*  
As part of the PSN upgrade additional equipment such as proxy servers and firewalls were installed at each office to provide additional security over access to electoral registration data. This equipment was installed by and is managed by a third party under contract, with the Board retaining ownership of the equipment. However, it is our understanding that the Board has not obtained from the third party details of the equipment configurations, including firewall permissions.

### *Risk*

If the Board is required to rebuild the network in the event that the maintenance company was unavailable there is a risk that the Board's IT staff would not be able to recover the network to its present state.

### 3. Network Infrastructure (Continued)

#### 3.4 (Continued)

##### *Recommendation*

**R2** Obtain and document the configuration settings of all network equipment managed by the third part maintenance company.

##### *Benefit*

Documented configuration settings for IT network equipment would facilitate the rapid rebuild of the network following a disaster event.

- 3.5 A significant amount of the IT staff time and resources in recent years has been dedicated to the Board's duties regarding the Scottish Referendum (September 2014), the implementation of individual electoral registration (September 2014) and the UK general election (May 2015). Despite this the IT team has managed to oversee the reconfiguration of the Board's IT network to meet the Cabinet Office deadline for complying with PSN security requirements.
- 3.6 During our discussions with IT staff we noted that several of the Board's servers used to store electoral registration data are approaching their end of useful life and need replaced. This has been identified by management and resources have been included within the IT budget for 2015/16 for replacement equipment to be procured.

### 4. Logical Access

4.1 The IT Team has established set procedures and standards for configuring the system audit log facilities and Event Logging procedures have been formally documented. These cover:

- failed log-on attempts;
- failed file access attempts;
- account additions, changes and deletions;
- changes to system security configurations; and
- access to critical data files.

4.2 As part of the work done to meet the PSN security requirements the password policy governing staff access to the electoral registration system, which is connected to the PSN, has been revised to ensure that it is more robust. This includes passwords to be longer in length, use more characters and combination of characters and rotate passwords more frequently. Following this change management took the decision to adopt the same password policy for all users accessing the local network.

#### 4.3 *Observation*

We identified during our review that although the updated network password policy has been applied to network systems the written policy has yet to be revised to reflect these changes. We also obtained a copy of the IT Document Review Matrix which details all IT related policies and procedures and noted that a number of these, including the Password Management Policy, have not been reviewed since they were issued in August 2013. The competing priorities of the referendum and electoral registration have meant that the IT team have not been able to focus on updating policies and procedures; however they are aware that this needs to be addressed in the near future.

## 4. Logical Access (Continued)

### 4.3 (Continued)

*Risk*

IT related policies and procedures may be out of date and do not reflect the changes in IT environment and activities since the reconfiguration of the network to meet PSN security requirements.

*Recommendation*

**R3** IT related policies and procedures which are now beyond their scheduled review date should be reviewed and updated as time and resources allow ensuring that they reflect the current environment and activities.

*Benefit*

IT related policies and procedures reflect the current IT environment and activities.

## 5. Acceptable Use Policy

5.1 Mobile computing, whilst beneficial to the Board, brings with it a unique set of security risks which need to be addressed. The Board's Acceptable Use Policy and Security of Information Technology Systems guidance to staff covers a wide variety of areas including the Board's investment in mobile computing such as tablet devices issued to Board staff. Areas covered include:

- security of the devices;
- updating of any protection software in place;
- connection to third party networks; and
- data encryption.

## 6. Compliance with User Licence Requirements

6.1 Each of the Board's PCs and laptops is installed with Microsoft operating system and software packages with the Board utilising volume licensing agreements which ensure that the organisation is permitted to use Microsoft products. The IT Team also operate and manage a number of bespoke systems which have been developed in-house.

### 6.2 *Observation*

The IT Team maintains a hardcopy record of licences for all software installed on the Board's computer equipment which is updated manually by a member of the IT team. Reminders of licence renewal dates are held on the same staff member's email calendar which due to the age and version of Outlook in use cannot be shared with other members of the IT team. There is therefore a reliance on a single member of the IT team for ensuring that the Board complies with user licence requirements and that licences are renewed before expiry dates.

*Risk*

Failure to renew software licences may result in a breach of licence agreements leading to fines being imposed.

## 6. Compliance with User Licence Requirements (Continued)

### 6.2 (Continued)

#### *Recommendation*

**R4** A software licence database should be developed to record all licence and contract details and provide adequate information to ensure that licences are renewed prior to expiry dates. This should include:

- member of the Board's staff responsible for managing the licence contract;
- details of the nature of the licence and supplier details;
- the network devices covered by the licence;
- the number of authorised users; and
- licence commencement and renewal dates.

### 6.3 Observation

There is no network software installed which identifies any unauthorised software, programmes or applications on the Board's network equipment such as PCs. Although programmes would be identified by IT staff by way of a review of the programmes running on servers, applications run locally on PCs would not. Periodic checks on individual computers and servers to identify any unauthorised software are not performed as it is felt that sufficient password and user access rights controls are in place to ensure that software can only be installed on Board equipment by staff with Administrator access rights. Only IT staff have these rights. However as each member of staff uses a stand-alone PC it is still possible for users to run unauthorised applications on PCs.

#### *Risks*

Unauthorised software or applications may contain viruses or malware which can cause significant damage to equipment and data.

The Board may be in breach of user licence requirements which may potentially result in significant financial penalties.

#### *Recommendation*

**R5** Develop a programme of periodic and random spot checks of users' PCs to provide assurance that no unauthorised software or applications are installed. This could be done remotely by IT staff without the need to access individual PCs or laptops connected to the Board's network.

#### *Benefit*

The integrity of the Board's network and PCs will be further protected and the risk of fines reduced.

6.4 We were advised during our review that there have been no recorded incidents of staff installing unauthorised software on Board IT equipment or any breaches in software user licences in recent years.

**Tayside Valuation Joint Board**

**Annual Report to the Joint Board and the Assessor  
on the Provision of Internal Audit Services for  
2014/15**

**Internal Audit Report No: 2015/07**

**Draft Issued: 23 May 2015**

**Final Issued: 25 May 2015**

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## 1. Annual Report and Opinion

- 1.1 We were formally re-appointed in April 2013 as internal auditors of Tayside Valuation Joint Board ('the Board') for the period 1 April 2013 to 31 March 2016. This report summarises the internal audit work performed during 2014/15.
- 1.2 An Audit Needs Assessment (ANA), based on the areas of risk that the Board is exposed to, was prepared as part of our internal audit programme for 2014/15 (internal audit report 2014/01, issued August 2013). The ANA was prepared following discussion with the Assessor, several senior Board personnel, the external auditors, Audit Scotland, and with reference to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The ANA was prepared on the basis of the normal three-year internal audit cycle, covering the period 2013/14 to 2015/16. Work in the previous three-year cycle has been used to update the key control environment. Following on from the ANA, a Strategic Plan was formulated covering the three-year cycle.
- 1.3 The work undertaken in 2014/15 is set out in the Annual Plan for 2014/15. The reports submitted are listed in Section 2 of this report and a summary of results and conclusions from each assignment is given at Section 3.
- 1.4 An analysis of time spent against budget is at Section 4. The Non Domestic Rates and IT Network Arrangements work both took two days less than planned and the procurement and Creditors/Purchasing took one day less than budget. These savings were not needed for any other work, and therefore the total time allocated to the 2014/15 audit has been 25 days.

### Public Sector Internal Audit Standards (PSIAS) Reporting Requirements

- 1.5 The Board has responsibility for maintaining an effective internal audit activity. You have engaged us to provide an independent risk-based assurance and consultancy internal audit service. To help you assess that you are maintaining an effective internal audit activity we:
- Confirm our independence;
  - Provide information about the year's activity and the work planned for next year in this report; and
  - Provide quality assurance through self-assessment and independent external review of our methodology and operating practices.
- 1.6 Self-assessment is undertaken through:
- Our continuous improvement approach to our service. We will discuss any new developments with management throughout the year;
  - Ensuring compliance with best professional practice, in particular the PSIAS;
  - Annual confirmation from all staff that they comply with required ethical standards and remain independent of clients;
  - Internal review of each assignment to confirm application of our methodology which is summarised in our internal audit manual; and

### Public Sector Internal Audit Standards (PSIAS) Reporting Requirements (Continued)

- Annual completion of a checklist to confirm PSIAS compliance. This is undertaken in April each year. Our internal audit manual was updated to include references to the PSIAS after the 2014 review.
- 1.7 The results of our self-assessment are that we are able to confirm that our service is independent of the Association and complies with the PSIAS.
- 1.8 External assessment is built into our firm-wide quality assurance procedures. Henderson Loggie is a member of MHA, a national association of accountancy firms. Continued membership of MHA is dependent on maintaining a good level of quality and adhering to accounting and auditing standards in the provision of our services. Annual quality reviews are conducted to confirm our continuing achievement of this quality. The latest MHA review in April 2014 included our internal audit service. Overall the review found the firm's policies and procedures relating to internal audit to be compliant with the PSIAS in all material respects.

### Significant Issues

- 1.9 There were no significant issues identifying major internal control weaknesses arising from our internal audit work. In general, procedures were operating adequately in the areas selected. A small number of actions have been agreed to further strengthen controls.

### Opinion

- 1.10 In our opinion the Board operates adequate and effective internal control systems as defined in the ANA. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during the current year, and during the period of our appointment from 2010 to date.

## 2. Reports Submitted

Report Number	Title	Action Points	Grade A	Grade B	Grade C
2015/01	Annual Plan	N/A	-	-	-
2015/02	Non Domestic Rates	1	-	-	1
2015/03	Risk Management and Business Continuity	3	-	3	-
2015/04	Follow Up Reports	N/A	-	-	-
2015/05	Procurement and Creditors/Purchasing	3	-	-	3
2015/06	IT Network Arrangements	5		2	3
2015/07	Annual Report	N/A			

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. The gradings are as follows.

- A Issues which require the consideration of the Board.
- B Significant matters which the Management Team can resolve.
- C Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

## 3. Summary of Results and Conclusions

### 2015/01 – Annual Plan

#### Final Issued July 2014

The purpose of this document was to present, for consideration by the Joint Board, the annual operating plan for the year ended 31 March 2015. The plan was based on the proposed allocation of audit days for 2014/15 set out in the ANA and Strategic Plan 2013 to 2016.

The detailed scope, objectives and audit approach for each audit assignment to be undertaken, arrived at following discussion with the Assessor, were set out in the report.

### 2015/02 – Non Domestic Rates

#### Final Issued October 2014

This audit reviewed the adequacy and effectiveness of the controls and procedures in place to ensure that the records relating to current property values are up to date and accurate, valuations and appeals are dealt with appropriately and timeously, and appropriate controls are in place over entries and amendments made to the Valuation Roll.

In relation to our specific objectives, assurance was obtained that the internal controls in place are operating effectively which ensure that: the records relating to current property values are up to date and accurate; valuations and appeals are dealt with appropriately and timeously, and appropriate controls are in place over entries and amendments made to the Valuation Roll.

Good assurance was obtained that the Valuation Roll is an accurate, comprehensive and up-to-date record of all non-domestic properties in Tayside. Additions, deletions and alterations to the Valuation Roll are appropriately controlled and verified.

Appeal cases are logged on receipt and, from our sample testing, they have all been dealt with timeously.

Generally there is an adequate level of segregation of duties between identification of changes in value to the Valuation Roll and the input of amendments on the Valuation Roll

### 2015/03 – Risk Management and Business Continuity

#### Final Issued January 2015

##### *Risk Management*

The scope of this audit considered whether there are corporate procedures in place to adequately assess risk and minimise the possibility of unexpected and unplanned situations developing.

### 2015/03 – Risk Management and Business Continuity (Continued)

A number of good practice actions were identified in the risk management processes. We found there are corporate procedures in place to identify and assess risk, and controls have been identified to minimise the possibility of unexpected and unplanned situations developing. We found that risk management processes are embedded which provide a greater level of assurance that risk management is effective, although this could be enhanced through providing further risk management training to staff involved in risk management processes. We were advised that the Assessor has been in discussions with Dundee City Council to deliver relevant training.

#### *Business Continuity*

We also considered whether there are adequate plans in place to minimise disruption to operations following loss of life, buildings or equipment, including key IT systems.

There are adequate plans in place to minimise disruption to operations following loss of life, buildings or assets, including buildings and key IT systems, however these need to be updated to include the impact of newly installed communications links and then tested to ensure they work well.

### 2015/04 – Follow-Up Report

#### Final issued January 2015

We carried out a follow up review of recommendations made in the following internal audit reports issued during 2013/14:

- Internal Audit Report 2014/03 – Performance Reporting;
- Internal Audit Report 2014/04 – General Ledger;
- Internal Audit Report 2014/05 – Asset Management;
- Internal Audit Report 2014/06 – Follow-Up Reviews;
- Internal Audit Report 2014/07 – Payroll and HR / Recruitment / Staff Performance & Development; and
- Internal Audit Report 2014/08 – Corporate Governance and Control Environment.

Report 2014/01, 2014/02 and 2014/09 did not contain an action plan and therefore no follow-up was required as part of this review.

Report 2014/06 included three outstanding actions from 2012/13 reports and one outstanding action from 2010/11 reports that were required to be followed-up again this year. In one instance there had been no project to trigger the action. Three outstanding actions from 2011/12 relating to Risk Management and Business Continuity have been followed up separately and reported in Report 2015/03.

The Board has made good progress in implementing the 21 recommendations contained within the internal audit reports listed above with 14 recommendations being assessed as fully implemented.

Of the remaining seven recommendations:

- One has been noted as ‘no project to trigger action’, relating to Project Management;
- Two actions where little or no progress has been made relate to updating policies and procedures in line with the requirements of the Bribery Act and Equality Act which will be completed once further advice has been provided by Dundee City Council; and

### 2015/04 – Follow-Up Report (Continued)

- Three of the four partially implemented actions relate to the Council Tax report and it is envisaged that these will be fully implemented later in the year following input from the IT section once resources allow. All partially implemented recommendations will be followed-up again next year.

### 2015/05 – Procurement

#### Final Issued May 2015

On the basis of the work done, we obtained reasonable assurance that:

- although the Board does not have a formal procurement strategy, the Procurement and Purchasing procedures support best value purchasing in relation to non-pay spend.
- overall procurement procedures in place are appropriate for all levels of expenditure and are generally complied with throughout the organisation; however we identified weaknesses relating to evidencing of goods received;
- the risk of unauthorised and excessive expenditure is minimised;
- the processes in place ensure that all liabilities are fully and accurately recorded; and
- all payments are being properly authorised, processed and recorded.

We identified good practice in the recording of committed expenditure to aid budgetary control and monitoring.

### 2015/06 – IT Network Arrangements

#### Final Issued May 2015

The scope of the audit was to carry out a high-level review of certain key aspects of the IT systems in place within the organisation to identify any control weaknesses.

We also undertook a high level review of the governance arrangements which were in place to oversee the project to upgrade the organisation's systems in line with the Public Services Network (PSN) requirements.

Assurance has been obtained that internal controls in place ensure the security of the IT network operated by the Board, however we identified several areas, mainly in relation to updating the Board's IT policies and procedures and governance arrangements for the PSN implementation, where further improvements can be made.

## 4. Time Spent - Budget v Actual

	Report number	Planned days	Actual days fee'd	Days to fees at May 2015	Days to spend / WIP	Variance
<b>Non Domestic Rates</b>	2015/02	8	6	-	-	2
<b>Financial Issues</b> <i>Procurement and creditors / purchasing</i>	2015/05	5	-	4	-	1
<b>Organisational Issues</b> Risk management / Business continuity	2015/03	5	5	-	-	-
<b>Information and IT</b> <i>IT network arrangements / Data security</i>	2015/07	6	-	4		2
<b>Other Audit Activities</b> Management and Planning ) External audit ) Attendance at Board meetings ) Follow-up reviews ) ANA	2015/04	4	2	2	-	-
		2	2	-	-	-
<b>Total</b>		30	15	10	-	5

## 5. Operational Plan for 2015/16

- 5.1 Following our appointment as internal auditors for the period from 1 April 2013 to 31 March 2016 we prepared an Audit Needs Assessment and Strategic Plan for 2013 to 2016 (internal audit report 2014/01, issued August 2013).
- 5.2 An extract from the Strategic Plan, in relation to 2015/16 is below, which will be discussed with management, and updated if appropriate before being finalised for next year.

### Tayside Valuation Joint Board Strategic Plan 2013/14 to 2015/16

#### Proposed Allocation of Audit Days

	Priority	Planned 15/16 Days
<b>Reputation</b>		
Performance Reporting	Medium	
Health and Safety	Medium	3
<b>Council Tax</b>	Medium	7
<b>Non Domestic Rates</b>	Medium	
<b>Electoral Register</b>		
Accuracy of register / Data security	Medium	4
<b>Staffing Issues</b>		
Payroll	Low	
HR / Staff training and development )	Medium/Low	
<b>Estates and Facilities</b>		
Asset management	Medium	
<b>Financial Issues</b>		
Budget setting / budgetary control	Medium	3
General ledger	Low	
Procurement and creditors / purchasing	Medium	
<b>Debtors / income</b>	Low	
<b>Cash &amp; bank / Treasury management</b>	Low	
<b>Organisational Issues</b>		
Risk management / Business continuity	Medium	
Corporate governance and control environment	Medium	
Corporate planning	Medium	4
<b>Information and IT</b>		
IT network arrangements / Data security	Medium	
Data protection / FOI	Low	3

Tayside Valuation Joint Board  
Annual Report 2014/15

Tayside Valuation Joint Board Strategic Plan 2013/14 to 2015/16

Proposed Allocation of Audit Days (Continued)

	Priority	Planned 15/16 Days
<b>Other Audit Activities</b>		
Management and Planning )		4
External audit )		
Attendance at Board meetings )		
Follow-up reviews		2
ANA		
<b>Total</b>		<u>30</u> =====