

Angus Council Internal Audit



Internal Audit Annual Report 2016-2017

June 2017

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Executive Summary - Overall Opinion and Assurances

Background

1. The Public Sector Internal Audit Standards (PSIAS) state that:

“The Chief Audit Executive (Audit Manager) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.” and

“The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”
2. To meet the above requirements, this Annual Report summarises the conclusions and key findings from the internal audit work undertaken during the year ended 31 March 2017, including my overall opinion on internal control system.
3. I am also required to provide an independent opinion on compliance with and adequacy and effectiveness of, the Local Code of Corporate Governance.
4. My governance, risk management, and internal control audit and assurances for 2016-17 are informed by a number of sources detailed in paragraph 11 below.
5. My opinions relate solely to the Council and do not include those bodies included in the group accounts.

Overall internal audit opinion

Objectives

6. The PSIAS require me to provide the Scrutiny & Audit Committee with assurance on the whole system of internal control. In giving my opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the whole system of internal control. My report also provides:
- assurances to Members of the Council and the Chief Executive in relation to my assessment of, and opinion on, the Corporate Governance arrangements during the year under review including compliance with the Local Code of Corporate Governance.
 - assurances to the Head of Corporate Improvement and Finance in relation to internal financial controls to support and inform his duties as s95 Officer.

- performance information in relation to internal audit and
- the results of the internal audit quality assurance programme.

Opinion

7. In my professional judgement as Internal Audit Manager sufficient and appropriate audit procedures have been conducted and evidence gathered to support the basis and the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations as they existed at the time against the audit criteria. The evidence gathered meets professional audit standards and is sufficient to provide senior management with the proof of the conclusions derived from the internal audit.
8. In my opinion the Council has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, effective and efficient achievement of objectives and the management of key risks, and proper arrangements are in place to promote value for money.
9. I have assessed the adequacy and effectiveness of the Council's system of internal control as follows:
 - Governance - although some control weaknesses were noted generally controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
 - Risk Management - although some control weaknesses were noted generally controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met
 - Control environment – although some control weaknesses were noted generally controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met
 - Local Code of Corporate Governance - the Local Code is adequate and effective, and although some areas for improvement have been identified, the Code is complied with in all material respects.
10. The internal audit work of the year has identified a number of areas of good practice and good internal control. Significant improvement has been made in addressing implementation of internal audit recommendations and this should be continued in 2017-18. A number of level 1 recommendations have again been made with the more material findings highlighted in section 2.4.

Basis of opinion

11. In assessing the level of assurance to be given, I have taken into account:

- All reviews undertaken as part of the 2016-17 internal audit plan;
- Any scope limitations imposed by management. There were no limitations of scope to the audit work conducted in 2016-17;
- Matters arising from previous reviews and the extent of follow-up action taken;
- Expectations of senior management, the Council and other stakeholders;
- The extent to which internal controls address the Council's risk management /control framework;
- The effect of any significant changes in the Council's objectives or systems;
- The internal audit coverage achieved to date;
- Formal assurances received from the Head of Corporate Improvement & Finance (Section 95 Officer) and the Head of Legal & Democratic Services (Monitoring Officer);
- Certification against minimum governance and internal financial control standards received from the Strategic Directors and from the Chief Executive's Unit;
- My observations of the work of the Corporate Governance Officers Group (CGOG) in relation to their self-assessment of local code compliance;
- The assessment of risk completed during the preparation of the audit plan;
- Reports issued by the Council's External Auditors and other review agencies; and
- My knowledge of the Council's governance, risk management, financial and performance monitoring arrangements.

1. Internal Audit Role and Structure

1.1 Role of Internal Audit

12. The PSIAS 2016 defines Internal Audit as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

1.2 Structure and Reporting

13. Internal Audit is part of the Governance section of the Chief Executive’s Unit. As Audit Manager, I, and my predecessor during 2016-17 (Allan Munn), had open access to all members and officers of the Council and operated in accordance with the Internal Audit Charter.
14. Allan Munn and I reported the results of all internal audit work to the Scrutiny & Audit Committee in our own names. The Committee remit is to consider the outcomes of audit and investigation work; monitor the discharge by management of the recommendations made; ratify internal audit plans; and review the performance of internal audit.
15. Internal Audit undertakes an annual programme of work based on a formal risk assessment process which is revised on an on-going basis to reflect emerging risks and changes within the Council.
16. All internal audit reports are subject to consultation with management for consideration of factual accuracy and recommendations made. It is management’s responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken to implement the agreed action plans. I am required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Significant matters (including non-compliance with audit recommendations) arising from internal audit work are reported to the Head of Corporate Improvement and Finance, Chief Executive and the Council’s Scrutiny & Audit Committee.

2. Summary of Internal Audit Activity 2016-17

2.1 Scope and Responsibilities

Management

17. It is the Council's Strategic Directors' responsibility to establish a sound internal control system. The internal control system comprises the whole network of systems and processes established to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- risk management;
- the effectiveness of operations;
- the economic and efficient use of resources;
- compliance with applicable policies, procedures, laws and regulations;
- safeguards against losses, including those arising from fraud, irregularity or corruption; and
- the integrity and reliability of information and data.

Internal audit

18. Internal Audit assists management by examining, evaluating and reporting on the controls in order to provide an independent assessment of the adequacy of the internal control system. To achieve this, Internal Audit should

- analyse the internal control system and establish a review programme;
- identify and evaluate the controls which are established to achieve objectives in the most economic and efficient manner;
- report findings and conclusions and, where appropriate, make recommendations for improvement;
- provide an opinion on the reliability of the controls in the system under review; and
- provide an assurance based on the evaluation of the internal control system within the organisation as a whole.

19. The main areas of audit conducted in the year, with a summary of the more material findings, supplemented by our review work on discharge of level 1 recommendations, are outlined in section 2.4.

2.2 Planning Process

20. In order to be able to provide an annual assurance statement supporting the Governance Statement, I include all of the Council's activities and systems within the scope of the internal audit reviews.

21. The annual internal audit plan is designed to provide the Scrutiny & Audit Committee and management with assurance that the Council's internal control system is effective in managing the key risks and value for money is being achieved. The plan is therefore informed by the Council's risk management system and linked to the Corporate Risk Register.
22. The Annual Internal Audit Plan was agreed in consultation with senior management and formally approved by the Scrutiny & Audit Committee. The plan can be subject to revision during the year to reflect changes in the Council's risk profile. No changes were required to the 2016-17 plan as a result of changes in the risk profile.
23. Changes to scope were made to accommodate timing of Interreg grant claims, and the development of continuous auditing using IDEA software was delayed due to resource issues. These changes are reported in the June 2017 update to the Scrutiny & Audit Committee (report 217/17 refers). Neither change impacts on my ability to provide my opinions for 2016-17.
24. We have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. However, internal audit can never guarantee to detect all fraud or other irregularities and cannot be held responsible for internal control failures.

2.3 Cover achieved

25. At 26 May 2017 the 2016-17 plan has been delivered in full, with the exceptions that
 - the IJB report has still to be reported to the IJB and to the Scrutiny & Audit committee thereafter, and

2.4 Main Audit Findings

26. A number of areas of good practice were noted from the audit work of the year including:
 - NNDR collection rates for the past three years have been above the Scottish average;
 - The most recent cost of collecting NNDR per chargeable property is below the Scottish average;
 - A five year Financial Plan 2016/21 was approved on 18 February 2016, which also assessed the financial position over 25 years until 2041/42;
 - Priority based budgeting was introduced for the 2016-17 budget. In March 2017 the Projected Outturn for 2016-17, net of carry forwards, is a £2.4m underspend, which amounts to 1% of the Final Budget. This is an improvement on the position in each of the previous five years, and helps address issues raised in this area in the October 2016 Best Value report from the Accounts Commission.

27. A variety of audit reports in both financial and non-financial areas have been issued during 2016-17.

Financial Reviews	No. of issues per grading		
	1	2	3
Stock			
Governance of school funds	11	3	0
NNDR		2	
Payment processing service redesign	1	0	0
LEADER		2	
Corporate Budgeting and Final Accounts		1	

28. The most significant improvement requirements identified from the financial audit work relate to:

- **Governance of School Funds:** School funds guidance should be updated and made available to schools. School funds should only be used appropriately, with financial statements prepared for trips. A model school fund constitution should be put in place. Schools should take responsibility for events. Schools should ensure that school funds are independently examined and that monthly reconciliations are completed in timely fashion. Given the range of issues identified in this review within secondary schools the 2017-18 internal audit plan includes a similar review of primary school funds.
- **Payments Processing – Service Redesign:** The invoice from Capita should be confirmed as correct before being processed for payment.

29. In relation to non-financial work, areas covered included:

Non - Financial Reviews	No. of issues per grading		
	1	2	3
IT Asset Management	2	6	
Strategic and Operational Planning	0	5	0
IT User Access Management –Carefirst Application	3	2	
IT Change Management	2	0	0
Fleet management	3		
Staff Appraisal & Development	5	0	0
Risk Management		2	
Information Governance –	0	2	0
Absence Management			2
Transforming Angus – Agile project	0	6	0
Organisational Culture	N/A	N/A	N/A
IT Systems Development	0	2	0
Carbon Reduction			

30. The most significant improvement requirements identified from the non-financial audit work relate to:

- Organisational Culture:** This review identified a culture where staff are committed to providing good services and work well at local team level, however they feel that there is a disconnect between them and senior management and this, together with uncertainty due to change, is impacting negatively on morale. We have not included an action plan in this report as the issues highlighted need to be taken forward in the context of the change agenda within

the Council. We would however expect senior management to identify actions in response to the findings of this review

- **Staff Appraisal & Development:** Management should ensure that all employees actively participate in the appraisal process, and that an appropriate level of training is provided to support this. Monitoring should be undertaken to detect non-compliance, and to ensure that staff development actions are completed. The Head of HR, IT & Organisational Development should review the scheme to ensure that it is appropriate across all organisational groups.
- **IT Asset Management:** Senior management should ensure a rolling replacement programme for IT equipment, and create a central inventory which will be reviewed. An IT asset management policy should be established by IT and published on the intranet.
- **IT Change Management:** A corporate change process should be developed in accordance with process maps and the IT service desk change management module. Directors must ensure that all changes to Council IT systems are carried out in accordance with the new change management process.
- **IT User Access Management – Carefirst Application:** Carefirst should only allow system access if passwords meet the password complexity criteria. System access should be updated in line with CESG guidance. New user access forms should not be processed unless appropriately authorised.
- **Fleet Management:** There should be a documented fleet management strategy. Performance indicators should be identified, implemented and regularly reviewed with management. Those set out in the agreement with Tayside Contracts should be formally documented.

31. Action plans have been agreed to address all of the identified issues.

32. The results of the above audits have all been considered by the Scrutiny & Audit Committee.

33. Internal Audit also contributed to the 2016-17 internal audit work for the Angus Integration Board (IJB) as part of the agreement of shared services. A review of financial management was carried out in the Resources Directorate (Finance section) of Angus Council and the Angus Health and Social Care Partnership. The IJB audit service is led by the Chief Internal Auditor of NHS Tayside. At 18 May 2017 the audit work is complete and a draft report is with management to agree an action plan. Once this is finalised the results of this audit will be reported to the IJB and a summary considered by the Council's Scrutiny & Audit Committee thereafter.

2.5 Discharge of Audit Recommendations

34. As part of the annual corporate governance audit, the discharge of recommendations is reviewed.

35. All Services now monitor their audit recommendations through Covalent. During the year we reviewed the progress of implementation of audit recommendations in some detail, reporting to the Council Management Team and the Scrutiny & Audit Committee.

36. All Directorates have taken significant steps to address the outstanding recommendations, and in particular the level 1 recommendations. There are no overdue Level 1 recommendations in progress as at 26 May 2017.
37. We will continue to review implementation of recommendations as part of our 2017-18 follow up work.

2.6 Independence

38. PSIAS require me to communicate on a timely basis all facts and matters that may have a bearing on internal audit's independence.
39. I confirm that the staff members involved in each 2016-17 internal audit review were independent of the area under review and their objectivity was not compromised in any way.

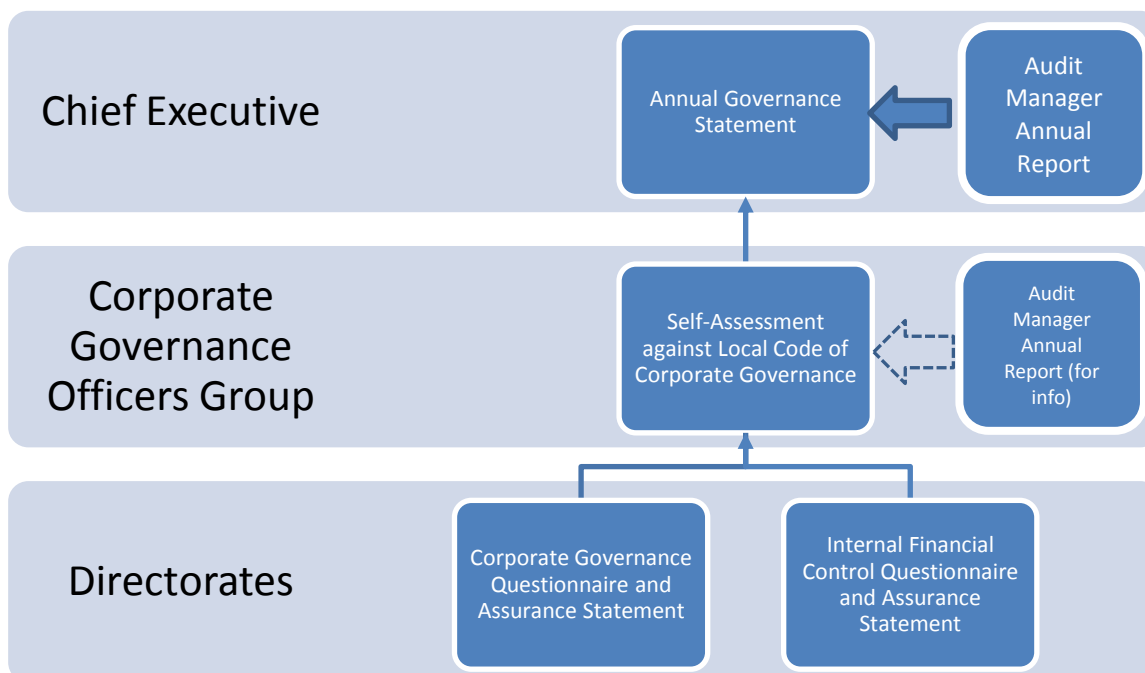
2.7 Conformance with Public Sector Internal Audit Standards

40. I confirm that the Council's internal audit service conforms to the Public Sector Internal Audit Standards, which are based on the International Standards for the Professional Practice of Internal Auditing. This is confirmed through our quality assurance and improvement programme, which includes cyclical internal and external assessments of our methodology and practice, against the standards. A summary of the results of my most recent internal assessment is provided at Appendix 1.

3. Compliance with the Local Code of Corporate Governance

3.1 Compliance Assessments

The diagram below illustrates the key processes involved in determining compliance with the Local Code.



3.2 The Local Code of Corporate Governance

41. The Council initially adopted a Local Code of Corporate Governance in 2002. This has been regularly reviewed and updated. The 2011 version applies for 2016-17. The latest revision in May 2017 is being reported to the Scrutiny & Audit Committee in June 2017. This Code defines how the Council will conduct its business and affirms Council commitment to the fundamental principles of openness and inclusivity, integrity and accountability in overall governance arrangements.
42. Each Strategic Director shall comply with the requirements of the Council's Local Code of Corporate Governance and shall be responsible for providing the Chief Executive with an Annual Assurance Statement for their areas of responsibility.
43. The 2011 Local Code requires that both the Chief Executive and Internal Audit review compliance with the Local Code on an annual basis and provide their respective reports. These are the Annual Governance Statement and this report (the Audit Manager's annual report and opinion) respectively. Both reports will be presented to the Scrutiny & Audit Committee in June of each year.
44. Compliance with the code will be assessed on behalf of the Chief Executive on an annual basis by an officer working group on Corporate Governance. This is currently the CGOG. They report to the Chief Executive and Scrutiny & Audit committee in June each year.

3.3 Corporate Governance

45. I have concluded that the Local Code is adequate and effective, and although some areas for improvement have been identified, the Code is complied with in all material respects. This conclusion has been informed and supported by the information noted in paragraphs 46 to 49.
46. The initial self-assessment of the local code by the CGOG in 2016-17 found that the Council was fully compliant with the local code. Opportunities for further improvement were identified and considered for inclusion in the 2017-18 Governance Action Plan.
47. The review of the governance and internal control assurances from the Strategic Directors identified a small number of areas, within specific individual directorates, where full compliance was not in place and where improvement areas were identified. These areas, have, in the main, been reflected in draft directorate corporate governance action plans and do not adversely affect the conclusion that the Council is substantially compliant with the local code.
48. Our audit work identified a small number of areas of non-compliance with the core internal financial controls within individual directorates. It was noted that with the new two directorate re-structure operative from 1 June 2017, there will be requirements for updated schemes of delegation and authorised signatory lists.
49. The Code is kept under review and is updated to reflect recognised best practice in corporate governance.

4. Performance and Quality Assurance

4.1 Performance & Quality Assurance

50. Quality assurance arrangements within the Internal Audit section are contained within the Audit Manual and encompass a robust day to day quality system and file review process.
51. The External Quality Assessment completed by CIPFA in 2014-15 confirmed that the internal audit function was compliant with the PSIAS. A number of recommendations were made to improve the efficiency and effectiveness of the function and these are currently being taken forward.
52. There were various changes to the Internal Audit service staffing complement during 2016-17, which resulted in a core of 1.6 FTE Angus staff, supplemented from the co-sourcing contract. This element of the co-sourcing contract came to an end in May 2017, whilst the role of Audit Manager continues to be co-sourced. Following internal recruitment there will be 2.6 FTE Angus Internal Audit staff from June 2017. At this level the section is 1.0FTE person down on the full complement of 3.6 FTE staff. The position is expected to resolve in April 2018 following the return of a team member who is on secondment. The 2017-18 plan has been revised to take account of this gap in resources and this is being reported to the June 2017 Scrutiny & Audit Committee (report 216/17 refers).
53. As part of the Internal Audit section's commitment to continuous improvement a LEAN development exercise reviewing all aspects of Internal Audit work has been undertaken. Actions identified are incorporated into the Internal Audit rolling action plan and will be taken forward during 2017-18. The plan addresses our continuous improvement commitment and the function continues to be compliant with the PSIAS.
54. Currently, performance indicators used for Internal Audit are those developed by the CIPFA Directors of Finance Section. For 2016-17, the efficiency indicator shows the section discharged 57% of planned productive hours, compared with 91% in the previous year. The audit plan was based on 3.6 FTE internal staff. Two full time posts were vacant from August 2016. Additional resource was purchased from the co-sourced contractor to complete the 2016/17 plan. Report 309/16 refers.
55. The work of the Internal Audit function is reviewed by External Audit as part of their annual audit. The purpose of this review is to ensure that the Internal Audit section performs to professional standards in the conduct of audit work in order that External Audit can place reliance on it. In their 2016-17 planning document Audit Scotland, the Council's external auditor, concluded that they can place reliance on the Internal Audit service.

Appendix 1 – Summary of Internal Quality Assurance Assessment

Public Sector Internal Audit Standards require disclosure of the outcome of our regular internal and external quality assessments.

The table below summarises the outcome of the most recent internal quality assessment, in which I have assessed the extent to which the internal audit methodology conforms to the standards.

Standard	Does not conform	Conforms	Improvements we have identified
Purpose & positioning			
• Remit		√	
• Reporting lines		√	
• Independence		√	
• Other assurance providers		√	√
• Risk based plan		√	
Structure & resources			
• Competencies		√	
• Technical training & development		√	√
• Resourcing		√	√
• Performance management		√	
• Knowledge management		√	
Audit execution			
• Management of the IA function		√	
• Engagement planning		√	
• Engagement delivery		√	

Standard	Does not conform	Conforms	Improvements we have identified
• Reporting		√	√
Impact			
• Standing and reputation of internal audit		√	
• Impact on organisational delivery		√	
• Impact on Governance, Risk and Control		√	

Overall, the service conforms to the requirements of the International Standards for the Professional Practice of Internal Auditing. A range of actions have been identified which will improve the overall effectiveness and consistency with which our methodology is applied. For example, the roll out of our updated software package MKI, and revised reporting templates incorporating an overall assessment of the adequacy of controls.

My assessment is based on the overall service that is delivered. Compliance with the methodology will be monitored through the audit review process.