

Angus Council Internal Audit



Update Report

Scrutiny & Audit Committee

23 June 2015

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Introduction

This report presents the progress of internal audit activity within the Council up to 22 May 2015 and provides:

- an update on progress with the 2014/15 Internal Audit Plan;
- an update on progress with the 2015/16 Internal Audit Plan;
- summary findings and recommendations of those reports issued since the last Scrutiny and Audit Committee meeting (full copies of the Internal Audit reports are available to members on request); and
- an update on work in following up on recommendations from previous reports.

Audit Plan Progress Report

2014/15 Internal Audit Plan – Progress update

The table below provides Members with an update on progress with delivery of the 2014/15 Internal Audit Plan as at 22 May 2015. It also provides Members with details of when reports have either been presented to Committee or the planned timetable for doing so.

Audits	Planning	In course (fieldwork + review)	Draft report	S&A committee date / (<i>target in italics</i>)
Corporate Governance				
Corporate Governance annual review and report – 2013-14				24 Jun 2014
Corporate Governance 2014-15 – Interim Review				<i>Management Letter to CGOG</i>
Risk Management				23 Jun 2015
Information Governance				21 Apr 2015
Transforming Angus (Governance & Scrutiny)				21 Apr 2015
Transforming Angus (Benefit identification, tracking & realisation)	Carried forward to 2015/16 Plan			
Health & Social Care Integration				<i>Management Letter to EMT</i>
Health & Safety Governance				30 Sept 2014
Performance Management				23 Jun 2015
Financial Governance				
Downsizing Incentive Scheme	Removal from plan approved 27 January 2015			
Affordable Housing / Survive & Thrive				27 Jan 2015
Children & Young People (Scotland) Bill				10 Mar 2015
Procurement				23 Jun 2015
Salaries				21 Apr 2015
Creditors (Duplicate Payments)				26 Aug 2014

Audits	Planning	In course (fieldwork + review)	Draft report	S&A committee date / (<i>target in italics</i>)
Income Collection - Letting of premises				27 Jan 2015
IT Governance				
Angus.gov.uk - online services				23 Jun 2015
PSN compliance				25 Aug 2015
Internal Controls				
Economic Development				10 Mar 2015
Charitable Funds				30 Sept 2014
Subscriptions				27 Jan 2015
Rural bus services				23 Jun 2015
Asset Management				
Stocks (year-end)				24 Jun 2014
Legislative and Other Compliance				
Landfill Tax				23 Jun 2015
LEADER				25 Nov 2014
European Fisheries Fund				21 April 2015
Carbon Reduction				10 Mar 2015

2015/16 Internal Audit Plan – Progress update

The table below provides Members with an update on progress with delivery of the 2015/16 Internal Audit Plan as at 22 May 2015. As part of the delivery of the 2015/16 Internal Audit Plan we have included timetable which sets out key dates in the audit cycle for each individual audit, including when the audit is planned to commence and the target date for reporting to the Committee.

Audits	Planned	In course (fieldwork + review)	Draft report	S&A committee date / (target in <i>italics</i>)
Corporate Governance				
Corporate Governance annual review and report – 2014-15				23 June 2015
Corporate Governance 2015-16 – Interim Review	Oct 2015			<i>Management Letter to CGOG</i>
Service Reviews	Mar 2016			<i>31 May 2016</i>
Self-Directed Support Implementation	Oct 2015			<i>26 Jan 2016</i>
Culture and Leisure Trust	Sep 2015			<i>26 Jan 2016</i>
Transforming Angus	Dec 2015			<i>19 Apr 2016</i>
Health & Social Care Integration	Oct 2015			<i>11 Mar 2016</i>
Housing Strategy – Compliance with Scottish Housing Quality Standard	Jun 2015			<i>29 Sep 2015</i>
Complaints Management	Aug 2015			<i>23 Oct 2015</i>
Information Governance – Data Security	Jan 2016			<i>31 May 2016</i>
Business Continuity Planning	Aug 2015			<i>26 Jan 2016</i>
Financial Governance				
Use of Tayside Contracts	Nov 2015			<i>11 Mar 2016</i>
Children & Young People (Scotland) Act - budgeting	Dec 2015			<i>19 Apr 2016</i>

Audits	Planned	In course (fieldwork + review)	Draft report	S&A committee date / (target in italics)
Council Tax Reduction	May 2015			<i>25 Aug 2015</i>
Procurement	Jun 2015			<i>29 Sep 2015</i>
Salaries	Feb 2016			<i>31 May 2016</i>
Debtors and Debt recovery	Feb 2016			<i>31 May 2016</i>
Travel and Subsistence	Jul 2015			<i>23 Oct 2015</i>
Creditors Payments	May 2015			<i>25 Aug 2015</i>
IT Governance				
IT Security	Dec 2015			<i>Mar 2016</i>
IT application strategy	Aug 2015			<i>Nov 2015</i>
Internal Controls				
Community Asset Transfer process	Jul 2015			<i>29 Sep 2015</i>
Universal Credit preparedness	Dec 2015			<i>11 Mar 2016</i>
Agile working – mobile phones	Jun 2015			<i>23 Oct 2015</i>
Fuel Management	Sep 2015			<i>26 Jan 2016</i>
People Directorate – Payments to third parties	May 2015			<i>25 Aug 2015</i>
Legislative and other compliance				
Landfill Tax	Mar 2016			<i>31 May 2016</i>
LEADER	Nov 2015			<i>11 Mar 2016</i>
European Maritime Fisheries Fund	Feb 2016			<i>31 May 2016</i>
Carbon Reduction	Oct 2015			<i>26 Jan 2016</i>

* These audits are to be completed by Scott-Moncrieff, as part of the contract.

Transforming Angus Programme Boards

As Members will be aware, approval was given at the Committee meeting on 27 January 2015 to reallocate time from the Downsizing Incentive Scheme review to Internal Audit staff involvement in the Transforming Angus workstream programme boards.

Staff continue to attend meetings of the Culture & Leisure Trust, Agile Working and Angus Digital boards and are being provided with copies of all relevant papers relating to these.

Lean Reviews

Members will recall from previous Scrutiny & Audit Committees that, in addition to the above planned audit activity, members of the Internal Audit team have been directly involved in supporting a number of Lean exercises being led by the Service Manager – Governance. To date, their input has been in respect of the following:

- Lean Pilot (Creditors, Bookings and Planning)
- Shared Apprentice Scheme Rapid Improvement Event
- People Directorate SLAs
- Older people's housing

Since early May 2014, the total time input has been around 75 days.

Summary Findings of Internal Audit Reports

This section provides a summary of the more material findings of audit reports issued since the last meeting. It also provides information on the number of recommendations made within each report. Recommendations are ranked in relation to importance, with level 1 being the most material. Discharge of recommendations is followed up by Internal Audit and reported to this committee.

Members are asked to consider the following summaries and provide any commentary thereon.

Performance Management

Level 1	1	Level 2	8	Level 3	-
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The Council Plan was agreed in March 2014 for the period 2014 to 2017. This plan sets out the vision of the Council and links to the Community Plan and the Single Outcome Agreement which outline the priorities and the local outcomes the Council is looking to achieve. There are 7 key priorities to be focussed on over the period of the plan. These are:

- Area based services
- Economic Development
- Early Years and Attainment
- Implement Self-Directed support
- Improve recycling
- Integration of Health and Social Care
- Transformational Change.

The Council Plan links to the Directorate Improvement Plans and is the basis for Operational Plans.

Monitoring of performance against the priorities and objectives within these plans allows the Council to measure its achievement in meeting its desired outcomes. Annual and mid-term performance reports are produced by Directorates and are reviewed and approved by the relevant committee.

The audit focussed on the monitoring and reporting of plans and actions including Key Performance Indicators (KPIs).

The Council has implemented regular reporting of Performance Management through the Directorate Improvement Plans to Committee with a mid-term update and an annual update provided to the Scrutiny and Audit Committee and the relevant service committee.

Directorate Improvement Plan Actions link to individual Directorate priorities which in turn link to the Council's partnership priorities and local outcomes.

In addition, the Council's public performance reporting arrangements have been recognised in the Account Commission report published in July 2014 with full compliance reported in 20 of the 21 areas examined.

The results from our audit testing demonstrate that the objectives of the audit have been partially met. We recognise that Performance Management arrangements within Directorates are changing with plans for broader adoption of Covalent for recording, monitoring and reporting on improvement actions.

The most material recommendations resulting from our review were as follows:

- Directorates need to ensure that all their Directorate Improvement Plans are developed and forwarded to the Corporate Improvement Team as soon as possible after the start of the financial year.
- The Corporate Improvement Team should ensure that all actions from the individual Directorate Improvement Plans are uploaded to Covalent within 10 working days of receipt. This will allow officers within Directorates to update and monitor progress as appropriate.

The less material recommendations resulting from our review were as follows:

- All Directorates should use Covalent for recording and monitoring performance.
- Directorate officers should review their Covalent operational plan actions to ensure that all the relevant information and updates are recorded and kept up to date.
- Directorates with officers still requiring training on the use of Covalent contact the Corporate Improvement Team to schedule training.
- When the Corporate Improvement Team issue reports from Covalent for updating for mid-term/annual performance report, they ensure that all Directorate improvement actions are included, including any carried forward/outstanding from previous years' updates.
- The Corporate Improvement Team in collaboration with Directorates develop a matrix of responsibilities which outlines respective responsibilities with regard to creating new actions, revising due dates and generating reports from Covalent

Online Services

Level 1	1	Level 2	3	Level 3	-
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Angus Council, through its Council Plan and specifically its transformation programme has identified a specific priority to “extend our use of digital technologies to improve customer service and reduce costs; a key objective for 2014/15 is the development of 24/7 online customer services on a redesigned Council website.”

In addition, the development of online services supports the Local Government ICT Strategy and the Council’s current Customer Services Strategy and its links to the Scottish Government National Outcome 15.

The Council has recently redesigned and introduced a new website and has a plan to develop this further. As part of this work, the Council aims to introduce further online services for its customers.

The overall objective of the audit was to review and assess the process for identifying potential areas for online services, definition of requirements as well as the planning of their implementation.

The results from our audit testing demonstrate that the objectives of the audit have been partially met. The most material recommendation resulting for our review was to ensure that all potential projects which could make use of online service provision should be identified and an implementation plan developed which is aligned with business change activities.

The less material recommendations related to:

- A formal process for quantifying benefits realised should be introduced where business transactions are moved online.
- The Project Initiation Document (PID) should be updated to reflect the current structure, scope, governance and objectives of the project and presented to the Angus Digital Board for approval.

Rural Bus Service

Level 1	-	Level 2	-	Level 3	-
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Section 63 of the 1985 Transport Act places a duty on Councils to formulate policies for public transport services they propose to secure to meet the travel needs within their Council area. As part of this duty, Angus Council has developed the Public Transport Policy Statement.

Section 64 of the Act requires the Council to consult with neighbouring Councils whose area may be affected by these policies and with persons operating public passenger transport services within their area or with organisations appearing to the Council to be representative of such persons.

The Council exercises its powers under Sections 63-64 of the Transport Act 1985 to secure the provision of public passenger transport services as they consider appropriate. This is done in order to meet any public transport requirement within the Council area which would not, in their view, otherwise be met. The Council's approach is outlined in the Public Transport Policy Statement which was adopted by the Council at the meeting of the Infrastructure Services Committee in April 2010.

The overall objective of the audit was to review the arrangements in place for gathering of information which inform decisions on prospective contracts for public transport in Angus.

The audit identified that appropriate controls have been implemented to mitigate the business risks identified above and no recommendations were made.

The transport team are diligent in ensuring surveys and consultations are performed annually for the contracts due for review/renewal and also actively promote rural bus services within Angus.

On-bus surveys and consultation activity is carried out with a number of stakeholders and the public in order to identify any changes required to current service provisions.

Landfill Tax

Level 1	-	Level 2	5	Level 3	1
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Landfill Tax regulations came into effect on 1 October 1996. The tax is levied at two rates, one for Active Waste (Biodegradable, e.g. wood, plastics, food, topsoil etc.) and one for Inactive Waste (Non-biodegradable e.g. stone, sub-soil etc.).

There is no Landfill Tax on Green Waste (shrubby, flowers, plants, hedge clippings, etc.) going on-site for composting provided this material is processed to comply with the British Standards Institution Publicly Available Specification (PAS 100) quality standard for compost.

The current cost of disposal for active waste for 2014/15 was £33.75 (tipping charge) and £80 Landfill Tax per tonne plus VAT at 20%. Inactive waste was charged at £6.92 (tipping charge) and £2.50 Landfill Tax per tonne plus 20% VAT. Green waste was charged at £33.75 (tipping charge only) plus 20% VAT.

The Landfill Communities Fund (LCF) is a tax credit scheme which enables operators of Landfill sites to contribute money to organisations enrolled with the Environmental Trust Scheme Regulatory Body (ENTRUST) as Environmental Bodies. The criteria for these

environmental bodies is that the projects they work on create significant environmental benefits and improve the lives of communities living near Landfill sites. Angus Environmental Trust is enrolled as an Environmental Body with ENTRUST. The LCF is a scheme under HMRC rules. Landfill operators in Scotland can claim this credit up until 1 April 2015.

Local Authorities can contribute up to 5.1% (for financial year April 2014 to March 2015) of their Landfill Tax liability to environmental bodies and reclaim 90% of the total contribution as a tax credit.

The Scottish Landfill Tax regulations, as per the Landfill Tax (Scotland) Act 2014, come into force on 1 April 2015, with responsibility for this area transferring from HMRC to Revenue Scotland. Landfill operators are required to de-register with HMRC and register with Revenue Scotland.

The new Scottish Landfill Communities Fund (SLCF) comes into place on 1 April 2015. The SLCF will only apply to Scottish Landfill Tax payments to Revenue Scotland. Local Authorities can contribute 5.6% of the Scottish Landfill Tax liability to an environmental body and claim a tax credit equal to 90% of their total contribution.

The overall objective of the audit is to review and assess compliance with the arrangements in place at Restenneth Landfill Site for the administration and recording of waste as well as the calculation and submission of the Landfill Tax returns to HMRC.

The results of the audit demonstrate that the objectives in mitigating the risks as outlined above have been met. Some areas of non-compliance with existing procedures have been noted and there are a small number of areas which require to be addressed to further improve the internal control environment around the invoicing and administration of Landfill Tax.

The most material recommendations resulting from our review were:

- Responsibility should be assigned for ensuring that the tax rates are updated annually on backup for invoices and that invoices are issued with the correct rate,
- Training on Landfill Tax should be provided to new and existing staff involved in the administration of Landfill Tax,
- If issues arise in relation to invoicing landfill customers, Communities HQ staff should contact Waste Management officers and/or Senior Managers timeously to update them.

Procurement - Exemptions

Level 1	2	Level 2	5	Level 3	2
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Angus Council Financial Regulations section 16 cover Angus Council's Procurement arrangements; section 16.24 deals with exemption provisions. 16.24.1 states "Exemptions from the application of the foregoing Financial Regulations in Section 16 should be exceptional and never routine. The approval of an exemption is not a substitute for poor procurement planning and may be refused if that is the cause of the application for exemption. No approval of any exemption shall be deemed to create a precedent and each exemption request will be considered on its own individual merits."

A contract may be considered for exemption under any **one** of the following criteria:

- (a) the supply can only be provided by one supplier for certain categories of services;
- (b) the supply is required as a matter of urgency to meet an essential service requirement;
- (c) the supply has been subject to adequate market testing current to within the last 3 months ;
- (d) the exemption is for a temporary supply period of not longer than one year;
- (e) tenders or quotations have been invited in accordance with this Section 16 and tenders or quotations have been received but none of them comply with the Council's mandatory requirements;
- (f) **for Transportation Services only**, the Head of Technical and Property Services, determines that the Best Value approach should be used; or
- (g) the appropriate committee is satisfied that the exemption is justified for some other exceptional reason not referred to above.

Chief Officers have the authority to authorise an exemption, for one of the above reasons, up to the value of £50,000. The Exemptions Co-ordinator (currently the Procurement Manager) authorises exemptions for between £50,000 and £100,000. Any exemptions above £100,000 firstly go to the Exemptions Co-ordinator and then to the relevant committee for approval. Exemptions are not required for values of less than £1,000.

Chief Officers and the Exemption Co-ordinator must maintain a register of all exemptions granted by them under their respective delegated powers. Chief Officers are responsible for ensuring that exemptions actioned by them under delegated powers are reported to the appropriate committee at least every six months. The Exemptions Co-ordinator compiles the Resources Directorate and Chief Executive's Unit 6 Monthly Information Report, titled 'Contracts Awarded and Exemptions Approved Under Delegated Powers'

Scrutiny of exemptions affords assurance that value for money is being achieved and helps the Council to adhere to the Bribery Act 2013 and the Public Contracts Scotland Regulations 2012 and (by the end of 2015) the Procurement Reform (Scotland) Act 2014.

The overall objective of the audit was to review the controls in relation to the processes and arrangements in place for the authorisation of contract exemptions in compliance with the Council's Financial Regulations.

The results from our audit testing demonstrate that the objectives of the audit have been partially met.

Areas of good practice were noted in that the exemptions which have been authorised by either Chief Officers or the Exemptions Co-Ordinator have been reported to committee in line with the Financial Regulations over the course of the last two years.

The most material recommendations resulting for our review were as follows:

- The Resources Directorate - IT Service clarify the arrangements in relation to seeking approval for exemptions and where an exemption is required, Exemption Request forms are completed and authorised.
- A Directorate/Divisional Exemptions Register is maintained for the Resources – IT Service.
- The People Directorate - Schools and Learning clarify who is responsible for monitoring and ensuring compliance with procurement arrangements. Monitoring of spend and updates on potential exemptions should be provided to the Corporate Procurement Team as part of the responses to the contract review reports. In addition, they should also respond to spend queries from the Corporate Procurement Team.
- The People Directorate implement a Directorate wide Exemptions Register incorporating exemptions for each of the Directorate's business units, which includes Schools and Learning.
- People Directorate - Children and Young People clarify whether a contract is required where expenditure is incurred with two suppliers (Cairn Mhor Childcare Partnership and St Cuthberts Care).

The less material recommendations resulting for our review were as follows:

- Economic Development ensure that all exemptions are authorised by the Service Manager – Economic Development in compliance with the Council's Financial Regulations.
- The Economic Development service ensure that all exemptions granted under the exemption process for £5,000 and above are recorded on the Directorate/Divisional Contract Register and uploaded to the Corporate Contract Register.
- Where exemptions to contracts cumulatively exceed £50,000 over the period of the contract, the Communities Directorate ensure that they comply with the Financial

Regulations and pass any exemption request to the Exemption Co-Ordinator for consideration.

- The Chief Officer Delegated Exemption form is updated and revised and made available on the Procurement pages of the intranet as soon as possible.

Year End Stocktake 2014/15

This work does not result in a formal report to management; the findings were notified to the Head of Corporate Improvement & Finance by memo.

Internal Audit staff attended the year-end stock counts at three locations. For Cairnie Depot, Arbroath (Parks & Cemeteries) and Print and Design Unit, Orchardbank, Forfar:

- We confirmed that the stock counting procedures adopted by staff were confirmed as being in line with those approved as best practice
- We concluded that the accuracy of the year-end stock values could be certified as reasonable

A number of concerns were raised in relation to the stock count at ACROP (Angus Community Recycling Opportunities Partnership) including:

- Stock count guidance and forms had not been received by the staff performing the count
- Audit staff were informed that there was no stock at the year end, however they identified 26 green bins.
- The stock was subsequently recorded on the forms did not include unit prices.
- The cost price for the stock held at the year-end could not be obtained and the stock was valued at NIL.

A further issue was identified for Angus Joint Equipment Loan Store (AJELS) where a difference was noted between the value in the ledger and the value recorded in the stock count. An adjustment of £34,910 was made to address this.

Health & Social Care Integration

We have issued a management letter to EMT as well as the Health and Social Care Integration Shadow Board in relation to our work during 2014/15. This set out the activities Internal Audit has been involved in and how we intend to work alongside our colleagues in NHS Tayside Internal Audit to ensure an effective and efficient approach to any audit work in 2015/16.

Corporate Governance 2014-15

The results of this review are included in a separate report to Committee.

Follow-up Audits - Update

Internal audit review the implementation of recommendations from previous audits, using the agreed action plan as the base for the follow-up audit. In some cases, the follow-up work is undertaken as part of a current audit and reported together with the current audit findings. In others, a separate audit is carried out and an audit report or memorandum is issued to the client.

Risk Management

Internal audit completed a follow-up of report 11-35, Risk Management, which was issued in October 2012. The original report was issued in October 2012, but due to the management re-structure and the departure of a number of officers with responsibility for Risk Management, a set of revised implementation dates and revised responsible officers was agreed by the Service Manager – Governance following discussion at the Extended Executive Management Team in July 2013.

The Risk Management arrangements have been significantly revised during 2013/14 and 2014/15 with the implementation of a revised Risk Management Strategy in March 2014 and the development of a new Corporate Risk Register and 4 new Directorate Risk Registers (including the Chief Executive's Unit) in September 2014.

The findings from the follow-up audit are summarised below.

From report 11-35		From follow-up work performed			
Recommendation Grades	Number	Completed	Partly Completed	Outstanding	No Longer Applicable \ No Further Action
Level 1	9	8	-	-	1
Level 2	7	5	-	-	2
Level 3	1	-	-	-	1
Total	17	13	-	-	4

The results of the follow up audit indicate that significant progress has been made in revising the Risk Management arrangements in the Council since the initial audit was carried out. The Council have implemented a new Management structure in the time since the audit was

completed. There has also been the implementation of a revised risk management strategy, a revised Corporate Risk Register and new Directorate Risk Registers.

There has been significant progress in implementing the recommendations from the original audit. Thirteen of the seventeen recommendations have been completed in full, with four further recommendations now classed as no longer applicable or no further action planned. Eight of the nine level 1 recommendations have been completed in full, with the other classed as no longer applicable / no further action.

One new recommendation has been made in the course of the follow up audit. We have recommended that named risk owners in Directorates should update the actions and, where appropriate, the risk in Covalent on a regular basis to provide evidence that the risk is being monitored.