

Internal Audit Update Report

Scrutiny & Audit Committee – 24 June 2014



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Introduction

This report presents the progress of internal audit activity within the Council up to 23 May 2014.

This report provides:

- an update on progress with the 2013/14 Internal Audit Plan;
- an update on progress with the 2014/15 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 investigation work conducted by Internal Audit since February 2014.

Audit Plan Progress Report

2013/14 Internal Audit Plan

Nineteen audits have been completed. The dates when reported to Committee are in brackets.

- 2012/13 Corporate Governance (June 2013)
- Year-end stock counts (August 2013)
- Self Directed Support (January 2014)
- LEADER (January 2014)
- European Fisheries Fund (January 2014)
- Collaborative and Joint Arrangements – Angus Care and Repair (January 2014)
- Budget Monitoring (March 2014)
- Income Management (March 2014)
- School Catering (March 2014)
- Carbon Reduction (March 2014)
- Corporate Governance – Interim (March 2014)
- High Value Placements (April 2014)
- Welfare Reform (April 2014)
- Landfill Tax (April 2014)
- Data Protection
- Protection of Vulnerable Groups (PVG)
- Creditors (non-PECOS ordering)
- Equalities
- Payroll Key Controls
- Email Accounts

Summaries of the more material audit findings are provided in the Summary Findings of Internal Reports section of this report, starting on page 4.

Five audits are in course:

- General Fund Capital Programme
- Statutory Duties
- HUBCO
- Workforce Planning
- Payment Card Industry Data Security Standard (PCI DSS)

One audit is currently undergoing internal review:

- IT Incident Management

One audit is currently at draft report stage:

- Public Transport

Briefs have been agreed for one further audit, Contract Register Compliance.

2014/15 Internal Audit Plan

Two audits have been completed.

- 2013/14 Corporate Governance. This is the subject of a separate report to this committee.
- Year-end stock counts

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.

Data Protection

Level 1	2	Level 2	5	Level 3	0
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The Data Protection Act 1998 requires organisations which handle personal data to collect, process and hold personal and confidential information securely and responsibly. This includes destroying the information safely when it is no longer required. Under the Act the Information Commissioner's Office (ICO) has the power to issue fines of up to £500,000 for serious breaches of personal data.

There have been a number of cases where fines have been levied against local authorities for breaches of the Data Protection Act 1998. Glasgow City Council was fined £150,000 after an unencrypted laptop containing personal information was stolen. Midlothian Council was fined £140,000 after sensitive social work information was sent to the wrong recipients on five occasions.

In the Angus Council corporate risk register, the risk of 'data loss involving personal and confidential data' was re-scored from 8 to 12, moving the risk above the risk tolerance line. (Report 191/13 refers) The reason for the change was that there had been recent incidents of data protection breaches which were deemed serious enough to be reported to the ICO. No action was taken against the Council, but the lead officer for data protection believes that unless appropriate action is taken within the Council, further breaches may result in a large fine. The corporate risk register includes a risk action plan to reduce the likelihood of the risk materialising and minimise the potential impact.

The overall objective of our audit was to identify and evaluate the controls in place to reduce the risk of a breach of the Data Protection Act and subsequent negative publicity and/or financial penalty imposed by the ICO. We also followed up the progress that has been made in addressing the recommendations from Internal Audit report 12-34, Information Governance.

The audit identified areas of good practice including:

- In addition to the corporate guidance, more detailed guidance for Social Work staff is available on the intranet.

Two level 1 findings were identified during our audit work. These were as follows:

- We were unable to gain assurance that all laptops in use throughout the Council are encrypted. We recommended that directorate/divisional laptop inventories should be reconciled with the central IT lists as a matter of urgency with a check being undertaken to ensure that all laptops connected to the corporate network are encrypted.
- Membership of the Information Governance Steering Group, which is responsible for oversight of Information Governance (including data protection and records management), should be confirmed as a matter of urgency. Once done, the draft Information Governance Strategy and Management Framework should also be finalised and the outstanding recommendations from Internal Audit report 12-34, Information Governance, addressed.

Five less material weaknesses were identified from our audit testing. These primarily related to reminders being issued on information security policy as well as ensuring that training is completed and policy compliance requirements embedded as standard practice across the Council.

Equalities

Level 1	6	Level 2	8	Level 3	0
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The public sector equality duty is in two parts:

- The public sector equality duty created by the 2010 Equality Act and often referred to as the 'general duty', which came into force in April 2011. This replaced the separate race, disability and gender equality duties.
- Specific equality duties introduced by Scottish Ministers in the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012, which came into force on 27th May 2012.

Local authorities are required to comply with both the general and the specific duties.

Those subject to the general equality duty must have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation
- Advance equality of opportunity between different groups
- Foster good relations between different groups.

The duty to have due regard to the need to eliminate discrimination in the area of employment also covers marriage and civil partnership.

Staff can access EIA (Equality Impact Assessment) guidance and templates on the Angus Council Intranet. By following the EIA process staff will automatically be assessing whether a policy, procedure or function has any impact on minority groups and ensuring that equal opportunities implications are duly considered.

From 1 February 2011, staff were to use the revised templates which are in line with the legislative requirement to address all protected characteristics.

An EIA must be carried out in respect of all committee reports, unless the subject matter of the report is regarded as exempt. Positive impacts as well as negative impacts should be considered and recorded on an EIA.

There are two sets of guidance notes to assist staff in this process. Both are available on the intranet.

- EIA guidance notes detail when and how to complete the screening document and the full EIA. They also provide a flowchart checklist.
- During the period covered by our audit testing, the Committee Report Template Instructions included sample wording to be used in the Equalities Implications paragraph. There is also a link to the list of reports which are regarded as exempt.

An EIA must also be completed for all proposed annual budgeting decisions. Section 5 of the 2014/15 Revenue Budget Guidance refers.

Recently the Court of Appeal upheld a legal challenge by five disabled people against the Government's decision to close the Independent Living Fund (ILF) in March 2015. The court held that the Minister for Disabled People had breached equality duties when making the decision in December 2012 to close the ILF. The Judges concluded that there was no evidence that the Minister had specifically considered equality issues when deciding to close the ILF and that the Minister was not fully informed about the impact the decision would have on disabled people.

This decision highlights the importance of the duties under the Act which apply equally to local authorities. The court made clear that these requirements are not optional in times of austerity.

The objective of the audit assignment was to review the controls around the Equality Impact Assessments (EIA) to ensure that:-

- An EIA is carried out for all new and revised council policies
- EIAs are carried out on a rigorous and consistent basis
- EIAs are available for publication.

We also considered the extent to which the Mainstreaming and Outcomes report meets the requirements of the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012.

Good practice identified from our audit related to the Roads division maintaining a spreadsheet which recorded all the EIA assessments which they have completed. In light of this, we recommended that the equalities guidance should be reviewed and should include the

requirement to maintain a record of policies and procedures that have been subject to a full impact assessment.

Six level 1 findings were identified from our audit work. The overarching issue noted from our review was that current practice does not conform fully with best practice guidance issued by the Equality and Human Rights Commission (EHRC) or with current Angus Council guidance. We have recommended that the Council Management Team takes the lead in promoting the importance of equalities issues.

The more material of our findings are:

- EHRC guidance states *“You must publish the results of any assessment that relates to a policy or practice that you decide to apply”*. Five committee reports from our sample of 30 stated that a full EIA had been carried out. Only one EIA had been published at the start of our audit fieldwork and one has subsequently been published.
- EHRC guidance states *“You will also need to assess the impact of the way a policy is implemented by your organisation, even when it has originally been developed outside of your organisation – for example if a national strategy has been introduced”*. Four of the committee reports in our sample related to the implementation of national policies. No local impact assessment had been carried out in respect of these policies.
- Completed EIAs should be available to elected members as part of the committee report consultation process. Improvement Service advice on the Public Sector Equality Duty (briefing note 20) stresses the important role of elected members in ensuring that equality considerations are included in the decision making and governance of the council. Case law demonstrates the importance of ensuring that equalities issues are adequately considered.
- The majority of services did not follow the guidance on EIAs for the 2014/15 revenue budget savings proposals. Assessments were not submitted timeously to the Equalities Officers and some screening pro formas did not provide sufficient information to determine whether a full impact assessment was required. The assessments should be reviewed to ensure that they reflect the agreed savings published in report 84/14. They should then be published on the Council website.
- Since issue of the first draft of this report, the Committee Report Template Instructions have been revised. The revised guidance, effective from 1 April 2014, includes Equalities under the ‘Other Implications’ paragraph, which is only required if there are any issues. The sample paragraphs for the Equalities implications have been removed from the guidance. We have recommended that the Committee Report Template Instructions be reviewed to ensure that they give sufficient importance to the consideration of equalities issues.

Creditors (Non Pecos) Ordering and Invoicing

Level 1	1	Level 2	9	Level 3	1
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The Council has adopted PECOS as its electronic procurement (eProcurement) system and has rolled it out to all Council departments as the main system of ordering the supplies required to deliver Council services. PECOS is used to place orders for common products from preferred suppliers using a combination of on-line electronic catalogues and free text non-catalogue entries.

The responsibility for ensuring adherence to the payment process rests on departmental management given the devolved nature of the purchase to pay processes in Angus. Guidance on the internal controls is contained within the Financial Regulations and supplementary guidance issued by Finance. There is a Procurement site on the Council's intranet which provides guidance and information regarding procurement and PECOS.

A review of all payments made by the Council has identified that there is still a large number of payments being made for goods and services which are not purchased using the PECOS or other Council systems.

The purpose of the audit was to determine whether the purchases could and should have been made through PECOS. In addition, the established controls surrounding the use of manual order books were checked to ensure they are being applied correctly when non-PECOS orders are being placed.

The results of the audit have identified areas of good practice including:

- Orders and Payments are being authorised per each Division's Scheme of Delegation.
- Segregation of duties is being applied in the payment process.

Our review identified one Level 1 finding. This related to the need for all Council staff to be reminded that where PECOS orders are not completed there should be a supporting order attached to an invoice if there is no valid contract with that supplier.

Ten less material weaknesses were identified during our audit most of which related to potential greater use of PECOS for ordering of goods and services.

Protection of Vulnerable Groups (PVG) Scheme

Level 1	2	Level 2	8	Level 3	0
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The Protection of Vulnerable Groups (PVG) scheme was introduced as a result of the Protection of Vulnerable Groups (Scotland) Act 2007 and has been operational since 28 February 2011. The scheme is administered by Disclosure Scotland and replaces the previous system of checking through disclosure certificates.

Anyone who wishes to take up 'regulated work' (work with children or vulnerable adults) is required to become a member of the PVG scheme. The scheme consists of two lists, for work with children and work with vulnerable adults. Individuals are prohibited from seeking membership in respect of both groups on a 'just in case' basis. Once an individual is a scheme member, their record will be updated continuously. Membership is for life unless members request removal from the scheme.

It is an offence for an organisation to employ anyone to work with children or vulnerable adults who is barred from 'regulated work'.

From 28 February 2011, scheme membership and the related checks have been required for new employees and for existing employees who change their job. Over the three years from 28 February 2012, the council must arrange for all existing employees carrying out 'regulated work' to join the PVG scheme.

Strategic Policy Committee agreed in March 2011 that the council would meet the costs of the checks required by the Protection of Vulnerable Groups scheme. (R224/11 refers).

Under the previous management structure, each of the Council's departments was a Disclosure Scotland Registered Body in its own right. The intention is to move to a single Registered Body, with sub-accounts for different divisions, but this will not be done until the management structure has been finalised. PVG applications and records will be dealt with by the centralised staffing section.

The objective of the audit assignment was to review the Council's compliance with the Protection of Vulnerable Groups (Scotland) Act 2007.

Our audit identified areas of good practice including:

- Education and Social Work and Health have compiled lists of job titles which require PVG membership.
- Disclosure information both electronic and paper is stored securely, in line with Disclosure Scotland's Code of Practice.

Two level 1 recommendations resulted from our audit work and these are as follows:

- The Policy on the Secure Handling, Use, Storage and Retention of Disclosure Information should be reviewed and updated to reflect all relevant current legislation.
- Quarterly reviews should be carried out to provide assurance that the Council is on track to meet the deadline for retrospective PVG checks.

Eight less material weaknesses were identified during our work. The majority of these relate to the need for improvement in some of the internal administrative aspects of the PVG scheme.

Payroll Key Controls

Level 1	0	Level 2	3	Level 3	0
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The Payroll function is one of the Council's core financial systems. Approximately 5,000 employees are paid each month, with salaries accounting for the single largest area of spend for the Council.

Payroll administration is performed in accordance with Section 20 of the Council's Financial Regulations. Additional guidance in the form of Personnel Advisory Bulletins supports the Financial Regulations.

Audit Scotland ascertained with Payroll staff that, for 2013/14, there was no change to their preliminary system evaluation (PSE) completed in December 2012. Audit Scotland's Expected Controls matrix and Tests of Controls matrix were used as the basis for our audit testing. Evidence was received and samples of payroll documents were tested to confirm the high level controls in place were robust.

The objective of the audit was to assess the effectiveness of the key controls within the Council's Payroll function.

Our audit identified the following areas of good practice including:

- Personnel staff create and maintain employee posts in ResourceLink (Establishment Control) which an employee is matched to when their details are input by Payroll staff.
- Standard documentation for new starts, leavers and change of circumstances is completed, authorised and submitted to the Payroll section for input to the system.
- Independent checks are performed on all temporary and permanent changes to the system.
- Access to the system is password controlled with passwords requiring to be changed at regular intervals. Access rights are also relevant to users' needs.

Our audit did not identify any Level 1 recommendations. Three less material weaknesses were identified from our audit work, these relating to administrative issues.

It should also be noted that there remains an open action resulting from previous reviews which relates to both the Payroll Manager and Senior Payroll Officer having unlimited access to the system. Day to day operational activities are subject to segregation of duties, but the risks of being able to create and delete posts and add and pay 'ghost' employees still exist. This action will be addressed when the ResourceLink project is completed.

Email Accounts

Level 1	3	Level 2	4	Level 3	0
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Angus Council uses Microsoft Exchange as its core corporate email system. This system is currently used by approximately 2,500 corporate users, 2,300 school staff and 18,000 school pupils within Angus. The Council migrated to Microsoft Exchange 2010 during 2012/13 and has rolled this out to all corporate departments.

The Council entered into a Microsoft Enterprise agreement between 2011 and 2013 and owns the rights to use 2,466 licences for Microsoft Exchange. Email accounts have to be managed within the 2,466 licences to ensure that there is no extra charge for unnecessary email accounts. IT manages to keep within this number by reusing a licence when a member of staff leaves and a new employee starts.

The Intranet has an IT self-service function where employees can log incidents and service requests regarding email accounts. The User Maintenance section has various options. Managers can place a new user request, request to modify an existing user and delete an account. This is a relatively new on-line system, being implemented during 2013/14.

The audit objectives focussed on the arrangements for the creation and deletion of email accounts including determining whether there are opportunities to delete obsolete accounts. The audit also looked at individual, shared and specific departmental / divisional group accounts and the licence monitoring of these accounts.

Our audit identified three Level 1 recommendations. The main issue identified from our audit related to the fact that the core control (line manager notification to IT) and the compensating control (IT acting upon leaver information provided by Payroll) were not effective.

In addition, there is a need to update the email and Internet Policy so that it reflects current Council and IT practices and that a timescale is given for subsequent reviews of the policy to ensure that it remains current.

Four less material weaknesses were identified. These primarily related to the development of supporting procedures and policies for management of email accounts.

2013/14 Year-end Stock Counts

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 Forfar Yard (Parks & Cemeteries) and Montrose Sports Centre:

- 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
- Only one person performed the stock count
- The first set of forms did not include unit prices and the quantities counted by us did not agree with those recorded on the form

The Environmental accountant and ACROP staff are in the process of ensuring that the stock figures are accurately priced and these will be included in the final accounts.

Investigations Activity – Update

At the November 2013 Scrutiny & Audit Committee, it was agreed that we would continue to provide updates to Members on a quarterly basis on our involvement in undertaking investigations.

Table 1, below, provides details of the number of investigations undertaken during 2012/13 and between 1 April 2013 to 30 April 2014. It also provides details of the volume of resource spent by the Internal Audit team in undertaking investigations and the outcome of each of these.

Table 1: Summary of Internal Audit involvement in investigations

Period	Number of investigations initiated	Auditor Days supporting investigations	Outcome				
			Insufficient information/ evidence to proceed	Referred to Personnel for disciplinary purposes	Referred to Police	Internal report to management containing actions	Pending outcome
2012/13	10	53	3	2	2	1	2
2013/14							
to Nov 13	6	29	1	1	1	-	3
to Jan 14	11	70	2	1	1	2	5
to Apr 14	11	85	5	1	3	2	-

As stated in previous updates, where an investigation does warrant a formal output and the issues are of a material nature, we will report the results of these to the Committee.

