

# Angus Council Internal Audit



## Update Report

Scrutiny & Audit Committee

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## Introduction

This report presents the progress of internal audit activity within the Council up to 15 December 2014 and provides:

- an update on progress with the 2013/14 Internal Audit Plan;
- an update on progress with the 2014/15 Internal Audit Plan;
- a request for approval of a change to 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 activity in undertaking investigations.

# Audit Plan Progress Report

## 2013/14 Internal Audit Plan

All audits have now 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 (June 2014)
- Protection of Vulnerable Groups (PVG) (June 2014)
- Creditors (non-PECOS ordering) (June 2014)
- Equalities (June 2014)
- Payroll Key Controls (June 2014)
- Email Accounts (June 2014)
- Housing Planned Maintenance (August 2014)
- Public Transport (August 2014)
- Statutory Duties (August 2014)
- General Fund Capital Programme (September 2014)
- Workforce Planning consultancy review (September 2014)
- IT Incident Management (November 2014)
- Procurement – Contract Register Compliance (November 2014)
- Payment Card Industry Data Security Standard (PCI DSS) (January 2015)

Summaries of the more material audit findings are provided in the Summary Findings of Internal Reports section of this report, starting on page 7.

## 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 15 December 2014.

Audits	Planning	In course	In review	Draft report	Final report	S&A committee date
<b>Corporate Governance</b>						
Corporate Governance annual review and report – 2013-14						24 Jun 2014
Corporate Governance 2014-15 – Interim Review						
Risk Management						
Information Governance						
Transforming Angus (Governance & Scrutiny)						
Transforming Angus (Benefit Identification, tracking & realisation)						
Health & Social Care Integration						
Health & Safety Governance						30 Sept 2014
Performance Management						
<b>Financial Governance</b>						
Downsizing Incentive Scheme	Recommended for removal from plan – see note below					
Affordable Housing / Survive & Thrive						27 Jan 2015
Children & Young People (Scotland) Bill						
Procurement						
Salaries						
Creditors (Duplicate Payments)						26 Aug 2014
Income Collection - Letting of premises						27 Jan 2015

Audits	Planning	In course	In review	Draft report	Final report	S&A committee date
<b>IT Governance</b>						
Angus.gov.uk - online services						
PSN compliance						
<b>Internal Controls</b>						
Economic Development						
Charitable Funds						30 Sept 2014
Subscriptions						27 Jan 2015
Rural bus services						
<b>Asset Management</b>						
Stocks (year-end)						24 Jun 2014
<b>Legislative and Other Compliance</b>						
Landfill Tax						
LEADER						25 Nov 2014
European Fisheries Fund						
Carbon Reduction						

## Update to 2014/15 Internal Audit Plan

The Downsizing Incentive Scheme ceased on 31 March 2014 and there is no plan to re-establish this. As a result, there is no value in undertaking any audit work in this area in the current financial year.

We are requesting approval from the Scrutiny & Audit Committee to reallocate the audit days for this review to Internal Audit staff involvement in the Transforming Angus workstream programme boards. A formal Terms of Reference has been agreed with the Transforming Angus Board which sets out the scope of Internal Audit's involvement in programme boards. This ensures that Internal Audit staff will not have their independence compromised.

## 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.

Since early May 2014, the total time input has been around 50 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.

### Payment Card Industry – Data Security Standards (PCI-DSS)

Level 1	2	Level 2	2	Level 3	1
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PCI DSS is a comprehensive set of requirements to enhance data security for payment card transactions and aims to define a consistent suite of data security measures that organisations should implement. The standard applies to all organisations that hold, process or pass cardholder information.

The standard requires compliance in a number of areas including security management, policies and procedures, network architecture (firewalls, routers, switches etc.) software design and other protective measures.

Where payment services are outsourced to a third party, assurances can be obtained from the third party. This often reduces the compliance requirements of organisations who accept payment cards.

Failure to comply with the PCI DSS can result in substantial fines e.g. from the Information Commissioner's Office (ICO) and, ultimately an inability to process card payments.

The objective of the audit was to assess the extent to which the Council meets the compliance requirements of the PCI DSS.

In 2010, Capita conducted a review of PCI DSS compliance within the Council. This was a precursor to the use of Capita's managed service provision by the Council which would reduce the risk exposure of the Council when processing cardholder payments. That review identified a number of process and IT control areas where improvement was required. It is evident from our audit work that the action plan was not formally tracked and it is unclear to what extent actions have been addressed. In addition, it was anticipated that the Council would perform a self-assessment against PCI DSS following completion of the Capita review but this has not been done.

The changes in processes and elapsed time since the Capita review mean that it would be prudent for the Council to conduct a formal assessment against PCI DSS, this potentially being conducted by an external assessor in light of the lack of internal expertise.

Demonstrating compliance with the standards is also important in the context of the planned increased use of digital channels for service delivery.

In addition, a formal process and framework should be established to ensure that there is annual review of compliance with PCI DSS within the Council. This should include input from Corporate Improvement & Finance, IT as well as relevant business areas with responsibility for card processing, staff / systems and administration of merchant services contracts.

## Affordable Housing – Survive and Thrive

Level 1	-	Level 2	1	Level 3	1
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Angus Council introduced the Survive and Thrive Initiative in 2010 which sought to increase the stock of available affordable housing within Angus. This initiative was also seen as an opportunity to reduce the difficulties facing local developers at the time when there were a number of economic pressures arising locally and nationally.

The initiative identified a number of benefits which would accrue locally as well as providing additional new affordable housing for rent or purchase within Angus. From revenue funding savings, the Council was able to identify £3.2 million of prudential borrowing to be directed to funding the initiative. The initiative agreed to a funding subsidy of up to £40,000 per housing unit for 80 units across Angus.

Although the initiative is progressing, only 11 units had been completed at the time of our audit. The land and properties which were approved for the initiative were confirmed as being owned by the developers, therefore Angus Council considered that developments would proceed timeously.

External funding arrangements, external legal issues, and developments being incorporated into larger regeneration sites have contributed to the delays experienced which have been outwith the control of the Council. At the time of the audit there was potential for development of 52 housing units being completed across three developments.

The overall objective of the audit was to review and assess the extent to which the Council has put in place arrangements for compliance with the identified criteria and terms of the Survive and Thrive initiative.

Our review of the Survive and Thrive Affordable Housing Initiative indicates that, in the main, the objectives of the audit have been met. There are controls in place to ensure that developers are aware of the requirements of the initiative and that only applicants who meet the criteria may progress to becoming a tenant or purchaser of the Affordable Homes.

Two areas were identified which require to be addressed to enhance the internal control environment. The most material finding from our audit is that a lessons learned review of the original Survive and Thrive Initiative to inform the approach to phase two of the initiative was not documented prior to completion of Committee Report 521/13. This report was presented to the Neighbourhood Services Committee on 26 September 2013 outlining proposals for phase two of the initiative.

## Income – Letting of Premises

Level 1	-	Level 2	4	Level 3	2
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The Council has a variety of premises available for hire:

- Educational premises are administered by the School Lets section of the People Directorate
- Library and museum lets are administered by the Communities Directorate
- Bookings for Leisure Facilities, Station Park Forfar, Town Halls and the Webster Theatre, Arbroath are administered by the Leisure Services division of the Communities Directorate.

The audit concentrated on Education and Leisure Facility lets which included Station Park, Forfar and Halls.

The systems for recording facility lets are:

- SEEMIS for Education
- Advantage for Leisure facilities and Station Park
- Artifax Events for Halls lets.

Invoices for Education lets are raised via an interface between SEEMIS and Integra. Customers can pay Leisure and Halls charges by cash/cheques prior to or on the day of the hire, or by invoice. Invoices are manually raised through Integra, using reports generated from Advantage and Artifax.

Collection and banking of income is completed using the new Income Management System (IMS) which went live in February 2013. A previous audit of Income Management issued on 6 February 2014 provides the background of the new system, report 13-17 refers. Therefore only the raising of invoices was reviewed and we did not look at the income collection process.

The objective of our audit was to confirm that there were effective procedures for raising income due from the letting of premises once a booking has been confirmed for Educational premises, Leisure facilities and Halls.

Areas of good practice identified during our audit included:

- Management within Services to Communities have been proactive in investigating whether the Advantage system could be used for Hall lets as well as Leisure Facility lets. At the time of our audit, Reid Hall bookings had been set up on Advantage and tests were to be performed to ensure accuracy before extending the use of Advantage to the other Hall bookings.
- There are charging policies for hiring of premises.

- Charges are reviewed annually and changes are updated on the relevant systems.

The objectives of the audit have, in the main, been met. A small number of areas have been identified where improvements could be made to strengthen the existing control environment. We have recommended that, to improve transparency, the procedure for approving the annual increase in charges for Education lets should be aligned with Leisure lets. Management should also consider whether the charges for similar services should be aligned.

## Subscriptions Value for Money review

<b>Level 1</b>	-	<b>Level 2</b>	<b>3</b>	<b>Level 3</b>	-
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Angus Council makes a number of payments on an annual basis to various organisations for access to services and information and include corporate as well as individual subscriptions / memberships to professional bodies. These payments are made from various directorate budgets.

Historically, management of these subscriptions, including initial sign up and renewal has been assessed on an individual directorate/division/service basis with limited consideration of corporate or cross departmental requirements.

The overall objective of the audit was to:

- identify the extent of subscriptions and memberships within the Council and to determine whether the Council is obtaining Value for Money from these.
- assess whether there were opportunities for corporate, rather than individual, subscriptions / memberships across the Council.
- to identify whether there is a consistent and policy-based approach across the Council for payment of individual memberships.

Areas of good practice were noted including:

- Reviews have been completed in a number of divisions/directorates with a view to reducing the number of subscriptions / memberships in place as part of budget savings exercises.
- No areas of duplication were identified where payment was being made for the same corporate subscriptions / memberships.

A small number of areas have been identified where improvements could be made to strengthen the existing control environment and improve the arrangements for initiating, reviewing and renewing subscriptions and membership across the Council. The most material of these is:

- To enable a consistent approach to be adopted across the Council in relation to the payment of professional fees and subscriptions for staff, the policy/guidance on the

payment of professional fees and subscriptions should be reviewed, updated and made available on the corporate intranet.

## Investigations Activity – Update

It has been 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, 2013/14 and to 15 December 2014 for the 2014/15 financial year. 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	Formal report to Committee
2012/13	10	53	3	2	2	1	2	-
2013/14	11	85	5	1	3	2	-	-
2014/15								
to Dec 14	6	57	2	-	-	-	2	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.

As indicated in the table above, two investigations from 2014/15 have been concluded that have been of a material nature. These were subject of separate confidential reports to this Committee in September and November 2014.