

Angus Council Internal Audit



Update Report

Scrutiny & Audit Committee

30 September 2014

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Introduction

This report presents the progress of internal audit activity within the Council up to 29 August 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;
- 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);
- an update on investigation work conducted by Internal Audit since April 2014; and
- details of the annual review of the Internal Audit Charter.

Audit Plan Progress Report

2013/14 Internal Audit Plan

Twenty four 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 (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

Summaries of the more material audit findings are provided in the Summary Findings of Internal Reports section of this report, starting on page 6.

Two audits are in course:

- HUBCO
- Payment Card Industry Data Security Standard (PCI DSS)

One audit is currently undergoing internal review:

- Contract Register Compliance

One audit is currently at draft report stage:

- IT Incident Management

The workforce planning review was progressed as a consultancy review. A summary of the output of that report is included at Appendix 1.

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 24 July 2014.

Audits	Brief agreed	In course	In review	Draft report	Final report	S&A committee date
Corporate Governance						
Corporate Governance annual review and report – 2013-14						24 June 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						
Financial Governance						
Downsizing Incentive Scheme						
Affordable Housing / Survive & Thrive						
Children & Young People (Scotland) Bill						
Procurement						
Salaries						
Creditors (Duplicate Payments)						26 August 2014
Creditors						
Income Collection - Letting of premises						

Audits	Brief agreed	In course	In review	Draft report	Final report	S&A committee date
IT Governance						
Angus.gov.uk - online services						
PSN compliance						
Internal Controls						
Economic Development						
Charitable Funds						30 Sept 2014
Subscriptions						
Rural bus services						
Asset Management						
Stocks (year-end)						24 June 2014
Legislative and Other Compliance						
Landfill Tax						
LEADER						
European Fisheries Fund						
Carbon Reduction						

Members will recall from the August Scrutiny & Audit Committee 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 30 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.

General Fund Capital Programme

Level 1	0	Level 2	1	Level 3	0
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The General Fund Capital Programme involves incurring expenditure on assets in service areas which will provide benefits to the community for many years into the future. The capital programme covers all Council services, with the main spend areas being People (Adult Services, Schools and Learning) and Communities (Technical and Property Services, Regulatory, Protective and Prevention Services).

Areas of good practice were noted including:

- Decisions on areas for inclusion in the General Fund Capital Programme are being made at a senior level in the Council, with involvement of both Members and senior managers through the Policy and Budget Strategy Group, Member Officer Groups and the Capital Projects Monitoring Group.
- Projects within the General Fund Capital Programme are considered with reference to the Council's priorities.
- Regular reports on the General Fund Capital Programme are provided to the Policy and Resources Committee and the Capital Projects Monitoring Group which keeps Members updated on progress with the programme.

One minor area for improvement has been identified. Full compliance with Financial Regulation 7.3 in relation to Chief Officers submitting departmental Capital Monitoring Reports to their respective service committees was not fully demonstrated. Management has recognised that there is a need to review the reporting arrangements for service committees in the context of rationalising the volume of Committee reports.

Charitable Funds

Level 1	0	Level 2	0	Level 3	0
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The Council administers 196 Charitable Trusts and Endowments, including 54 Educational Endowments. Of these 196 trusts, 98 are registered charities and require to be administered in line with the requirements of the Office of the Scottish Charities Regulator (OSCR).

The overall objective of the assignment was to review the authorisation processes for spend from Charitable Funds. The audit review confirmed that there are robust procedures to ensure payments made through Charitable Funds are in line with the principles of the Trust / Fund, are appropriately authorised and are processed promptly.

The Council has approved the consolidation of all but two of the 142 non-education Trusts into a new single Charitable Trust. Strangs Mortification Charity and the A. Greig Memorial Fund will remain as separate Trusts. (Reports 285/13, 392/13 and 90/14 refer.) As reported to Council on 11 September 2014, the progress of amalgamating the trusts into the new Angus Council Charitable Trust has now been completed. (Report 379/14 refers.)

Health and Safety Governance

Level 1	0	Level 2	0	Level 3	0
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The Health and Safety at Work Act 1974 (H&S at Work Act) is the primary legislation covering work-related health and safety. The Act sets out the general duties which employers have towards employees and members of the public, and which employees have to themselves and each other.

The Management of Health and Safety at Work Regulations 1999 (the Management Regulations) generally make more explicit what employers are required to do to manage health and safety under the H&S at Work Act. The Management Regulations require employers to carry out risk assessments, make arrangements to implement necessary measures, appoint competent people and arrange for appropriate information and training.

The overall objective of the assignment was to review the processes for ensuring effective governance over Health and Safety management within the Council. The Council has a dedicated safety team which currently consists of one manager, 2.4 FTE safety advisors and a fire safety risk assessor.

Significant work has been completed by Health & Safety staff to develop and circulate procedures required for the effective governance of H&S. A new H&S policy statement and the framework for comprehensive staff guidance have been established.

Development of the H&S framework is an ongoing process and further work will be carried out in 2014/15. Implementation of the new framework is included in the Operational Plan for HR, OD & IT, which will be monitored through Covalent.

During our audit, we identified some areas where further work is required to ensure effective governance over H&S management within the Council:

- H&S plans at directorate, service and operational level are currently being developed in consultation with the H&S Team
- The H&S Team plan to carry out H&S spot checks to confirm that the H&S management framework is being implemented by departments. These checks are due to commence in April 2015.
- H&S training courses are currently under review

The H&S Team are already aware of all of these issues and are working to a detailed action plan covering the four year period up to 2016/17. We have not made any recommendations in this report, but we will request an update on the implementation of the H&S action plan as part of our 2014/15 corporate governance review.

A peer benchmarking review is to be completed by staff from the West Lothian H&S team at Angus Council in the near future and Angus Council staff will provide a similar service to another authority.

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, 2013/14 and to 31 August 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 Aug 14	4	33	-	-	-	-	3	1

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, one investigation from 2014/15 has been concluded and the issue is of a material nature. This is subject to a separate confidential report to this Committee.

Internal Audit Charter

The Internal Audit Charter was approved by the Scrutiny and Audit Committee on 24 September 2013 (Report 535/13 refers). Section 1 states that the Charter will be reviewed annually and presented to the Scrutiny and Audit Committee for final approval.

We have reviewed the Charter and only one minor change is required. Section 7 of the Charter approved in September 2013 defined Senior Management as the Extended Executive Management Team. This has been revised to the Executive Management Team. A copy of the Charter is included at Appendix 2.

Members are asked to approve the Charter for the period October 2014 to September 2015.

Appendix 1 – Workforce Planning review

Introduction

A consultancy exercise in relation to the Angus Council's workforce planning arrangements has been carried out as part of the 2013/14 internal audit plan.

The review assessed the extent to which the Council's existing workforce planning arrangements support the implementation of Angus Council's Council Plan 2014-17 and achievement of the Angus Community Plan and Single Outcome Agreement. The review also considered options for how Angus Council should develop its workforce strategy to reflect and support the future workforce requirements of the Council.

Background and summary conclusions

Workforce planning allows an organisation to maximise the use of its resources and build capacity in a structured and planned way. People are the key to future success and improvements in service. By preparing an effective workforce plan, an organisation will be equipped to manage its people for its immediate service needs and effectively meet future changing priorities.

Effective workforce planning ensures that an organisation has a workforce of the right size, with the right skills and diversity organised in the right way within the budget that it can afford. For example, good quality workforce profile data provides services with the information they need to plan effectively. The workforce plan should support the achievement of the organisation's strategic and operational objectives.

The Council needs to have a workforce strategy that reflects the forecast reductions in budgets and the staffing numbers constraints it must operate within, but which also supports the changes in service delivery resulting from Transforming Angus. A workforce strategy can also help predict potential skills shortages as service demands change, e.g. an aging population.

The Council is beginning to develop its workforce strategy. The consultancy review provided a high level assessment of the Council's existing workforce management arrangements and sets out recommendations for the Council to develop these going forward.

To help the Council ensure it addresses the key steps in developing its workforce planning arrangements we used the Sector Skills Council six step model in Diagram 1 below. Using this model as our base we identified a number of recommendations. Management responses to each of the recommendations are detailed in the section below

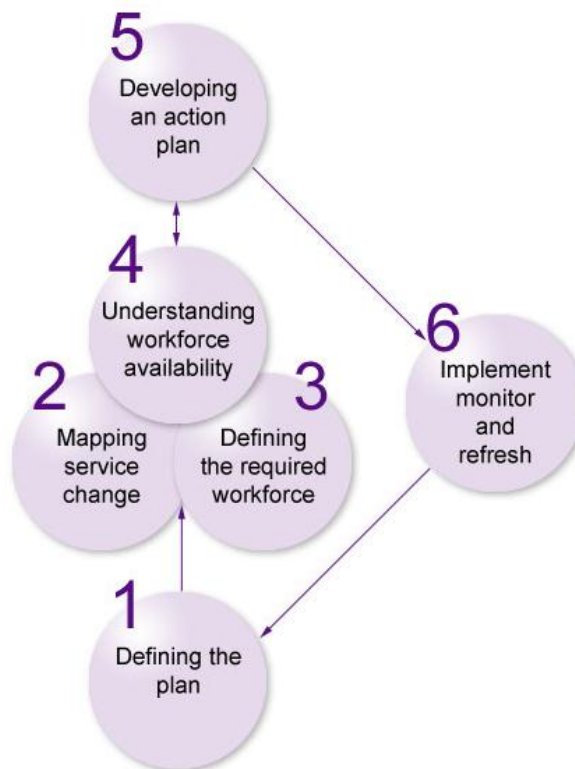


Diagram 1 – Six steps for transforming workforce planning

Angus Council has made significant progress in developing and approving its Single Outcome Agreement, the Council Plan, the Economic Strategy and the directorate’s plans. It is important that these are now effectively supported by effective workforce planning arrangements.

Effective workforce planning must be led by operational services, supported by the Council’s HR function. It is not to be led or driven by the HR service. If this happens workforce planning will not be seen as a core duty of operational managers.

Taking Forward the Recommendations

Five recommendations were identified during our review and these are detailed below. Management responses are in italics.

1. The Council should confirm the prioritisation and linkage of plans and clearly communicate this to its employees. The Council must also ensure that employees are aware of the targets and objectives relevant to their area and which they must deliver against.

The Council Plan and Directorate Improvement Plans detail the Council’s priorities and show the links between these plans and the Angus Community Planning Partnership priorities. Driver diagrams have been developed to show which actions contribute to which priorities and how we will measure progress.

Operational Plans (Service Plans/Team Plans) show the line of sight to these higher level plans and these form the basis for individual objectives.

Communications to the workforce through mini-matters and Managers' briefings ensure employees are aware of Council priorities and objectives.

2. Where a service is no longer a priority or does not add value it should be stopped. The Council must then ensure it demonstrates why this service is no longer required or no longer an effective use of resources.

The Transforming Angus change programme and the development of Priority Based Budgeting are the main vehicles through which the Council will determine and clarify its outcomes and service priorities. An evidence based business case approach is being developed to assist members in making informed decisions on service priorities and the targeting of the Council's finite resources.

3. Angus Council must develop an action plan with defined timescales for developing its workforce strategy. The action plan must set out clear actions, stating what is to be achieved and by when. It should also identify the lead officer responsible for delivering these actions. This ensures that employees are aware of their responsibilities and also that senior management and members can hold employees accountable for delivering the agreed actions

The Head of Service (HR, IT and OD) is leading work with the Corporate Management Team on the development of the Council's workforce strategy and associated action plans. It is intended that this corporate planning work will be concluded by 31 March 2015.

It is planned that this will cover a broad workforce strategy remit including: workforce profiling and planning, recruitment & retention, reward & recognition, development & performance management, health & wellbeing, equality & diversity, leadership & management, talent & career management, employee relations & engagement.

The Head of Service (HR, IT and OD) is already engaged in collaborative work with Dundee City and Perth and Kinross Councils.

4. Operational plans should define the current and future workforce requirements to deliver the Council's planned services. Where relevant, the operational plans should also set out the training required to develop and equip staff for future service requirements.

This will be picked up through the above workforce strategy action plan. It is recognised that for effective implementation of the strategy, each service will take ownership of its parts of the action plan. Directorates will identify a responsible officer who will monitor the relevant areas of the workforce action plan in relation to the strategic objectives.

5. The Council must decide on who is responsible for overseeing the implementation of the action plan. This should be led by a Committee of the Council, with regular reports provided to elected members from management. The collation and delivery of updates should be co-ordinated by a member of the Council's senior management team.

The Head of Service (HR, IT and OD) will lead the workforce strategy on behalf of the Corporate Management Team.

It is proposed that reporting to Committee will be to the relevant Service Committee through Directorate Improvement Plans and Annual Reports in relation to service specific performance.

Corporate performance will be reported to Policy and Resources Committee given its role to keep under review the overall allocation of council resources and to have oversight of the Transforming Angus change programme.

Appendix 2 – Internal Audit Charter

1. Internal Audit Charter

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The Charter will be reviewed annually and presented to the Scrutiny and Audit Committee for final approval.

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Angus Council.

It assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

2. Role

The internal audit activity is established by the Board, which for the purposes of internal audit is the Scrutiny and Audit Committee (the committee). Internal Audit's responsibilities are defined by this committee as part of their oversight role.

The main objective of Internal Audit is to provide, in terms of the PSIAS, a high quality, independent audit service to the Council which provides annual assurances in relation to internal controls and overall governance arrangements.

In addition to this primary assurance role, Internal Audit will also:-

- Support the Head of Corporate Improvement and Finance in discharge of his "Section 95 Officer" duties.
- Support the Head of Legal and Democratic Services in discharge of her "Monitoring Officer" duties.
- Provide consultancy services to departments
- Investigate any allegations of fraud or irregularity.
- Provide a counter fraud function including benefit fraud investigation.
- Advise on internal control implications of new systems and provide a project assurance service.
- Support the Council and Senior Management during key transformational/ change projects.

3. Professionalism

Internal audit will adhere to the PSIAS, which are based on the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

Other professional guidance will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to the Council's relevant policies and procedures and Internal Audit's standard operating procedures manual.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

4. Authority and Scope

All internal audit staff shall have authority to:-

- a. enter any Council premises or land.
- b. have access to, and remove, all records, documents and correspondence which, in the view of the Audit Manager (or nominated representatives), are considered to relate to any matter which may have audit or assurance implications for the Council.
- c. be provided with full access to any computer system and personal computer or other computer storage device/ media in the ownership of the Council.
- d. require explanations considered necessary from any employee, including Chief Officers.
- e. require any employee, or agent of the Council, to produce cash, stores, assets or any other property under his control or to which he has access.

The scope of Internal Audit allows for unrestricted coverage of the Council's activities. In addition, Internal Audit through the Audit Manager, where they deem necessary, will have unrestricted access to:-

- The Chief Executive
- The Scrutiny and Audit Committee and all members
- Individual Chief Officers
- All Council employees

Right of access to other bodies funded by the Council should be set out in the conditions of funding.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities.

5. Organisation

The Service Manager, Governance is the senior officer responsible to the committee for the provision of an independent internal audit service. The Service Manager, Governance will discharge this responsibility through a mixed provision, co-sourced service with a private sector partner and a directly employed team. This arrangement will address the recognised independence issues arising from the Service Manager's other responsibilities in relation to Scrutiny support, Corporate Governance and Risk Management.

The co-sourcing arrangement will provide an Audit Manager who will be the Chief Audit Executive for the purposes of the PSIAS. The Audit Manager will provide the core independent assurance service to the committee. In relation to this the Audit Manager will report functionally¹ to the committee, and administratively to the Service Manager, Governance on a contract management basis. It is recognised the administrative reporting line does not have authority over the scope or reporting of results of Internal Audit activity. Ultimate authority in this regard vests in the Audit Manager, who reports in their own name and retains final right of edit over all Internal Audit reports.

The Audit Manager will also have open access to the Chief Executive and Executive Management Team. The Audit Manager will be responsible to the committee for all elements of core assurance internal audit planning, delivery and reporting and provision of an annual report and opinion on governance, risk and internal control.

The Service Manager – Governance, the Audit Manager and Senior Auditors are required to hold a professional qualification and be suitably experienced.

¹ In this context functional reporting means the Committee will:-

- Approve the audit charter.
- Approve the Internal Audit risk based internal audit plan.
- Approve the Internal Audit Resources
- Receive reports from the Audit Manager on the result of Internal Audit activity or other matters the Audit Manager determines necessary.
- Approve decisions regarding the appointment or removal of the Audit Manager.
- Make enquiries of management and the Audit Manager to determine whether there are inappropriate scope or resource limitations

6. Independence and objectivity

Internal Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Audit Manager will confirm to the committee, at least annually, the organisational independence of the internal audit activity.

7. Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal control processes in relation to the Council's defined goals and objectives. Areas to be considered by internal audit include:

- Consistency of operations or programs with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the committee and to Senior Management

(the Council's Executive Management Team), including fraud risks, governance issues, and other matters needed or requested by the committee.

Internal Audit resource may be used to support consultancy and advisory services, but not to the detriment of provision of core assurances. These consultancy activities will be led by the Service Manager, Governance

Responsibility – Fraud and Corruption

Managing the risk of fraud and corruption is the responsibility of management. Management is also responsible for developing, implementing and maintaining systems of internal control to guard against fraud or irregularity and ensure probity in systems and operations. Internal Audit will assist management by reviewing the controls and procedures in place.

Audit procedures alone cannot guarantee that fraud and corruption will be detected, nor does Internal Audit have the responsibility for prevention and detection of fraud. However, individual Auditors will be alert in their work to risks and exposures that could allow a fraud, irregularity or corrupt practice to take place.

Financial Regulations lay out the responsibilities of Council Chief Officers, Managers and other employees in relation to any suspicion of fraud or irregularity. The role of Internal Audit is to fully investigate any suspicion of fraud, irregularity or corrupt practice and report in accordance with the Fraud Response Plan.

8. Internal audit plan

At least annually, the Audit Manager will submit an internal audit plan that includes risk assessment criteria to the committee for review and approval. The Audit Manager will communicate the impact of any resource limitations and significant interim changes to senior management and the committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the committee. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process to the committee.

9. Reporting and monitoring

A written report will be prepared and issued by the Audit Manager or Senior Auditors following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be reported to the committee.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain open until evidentially cleared.

10. Periodic assessment

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK PSIAS, ongoing performance monitoring and external assessment.

The Audit Manager is responsible for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to the Annual Plan.

In addition, the Audit Manager will communicate to senior management and the committee on Internal Audit's quality assurance and improvement program, including results of ongoing internal assessments.

External assessments will be conducted at least once every four years by a suitably qualified, independent assessor. These reviews will be commissioned by the Convener of the Committee and the Service Manager, Governance.