

**ANGUS COUNCIL**

**SCRUTINY AND AUDIT COMMITTEE – 22 AUGUST 2017**

**INTERNAL AUDIT ACTIVITY UPDATE**

**REPORT BY SHAN COOMBS, ACTING SERVICE MANAGER – GOVERNANCE AND CONSULTANCY**

**ABSTRACT**

This report provides the Internal Audit Activity update on the main findings of internal audit reports issued since the date of the last Scrutiny and Audit Committee.

**1. RECOMMENDATIONS**

It is recommended that the Scrutiny and Audit Committee:

- (i) Note the changes made to the Council's Internal Audit reports;
- (ii) Note the update on the completion of the 2016/17 Internal Audit Plan;
- (iii) Note the update on the completion of 2017/18 Internal Audit Plan; and
- (iv) Note management's progress in implementing internal audit recommendations.

**2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN/SINGLE OUTCOME AGREEMENT/ COUNCIL PLAN**

The Angus Council Plan contains a number of priorities that our 2017/18 Internal Audit Plan seeks to provide assurance on. Our corporate governance reviews will provide assurance to underpin the work related to corporate priorities.

**3. BACKGROUND**

***Introduction***

The annual internal audit plans were ratified by the Scrutiny and Audit Committee and a progress report is submitted to each meeting of the Committee. This report outlines progress in delivering the plans and provides a summary of the audit reports issued during the reporting period.

Internal Audit issues a formal report for each audit undertaken as part of the annual audit plan. Each audit report contains an action plan which incorporates all the recommendations made. This action plan, prepared under SMART (Specific, Measurable, Achievable, Realistic, Timed) criteria, is agreed with management who nominate persons responsible for taking forward the actions and who set their own completion date for each action. This agreed action plan forms an integral part of the final audit report and audit recommendations are ranked to indicate materiality.

Members of this Committee are asked to note that, following a review of reporting in other internal audit services, and reconsideration of how we report, some changes have been made to the layout of the Council's internal audit reports to provide greater clarity in the presentation of findings to both management and the Committee. The review of reporting methods was undertaken as part of the Internal Audit team's Improvement Action Plan to ensure on-going compliance with the Public Sector Internal Audit Standards (PSIAS).

These changes are intended to: -

- improve clarity in Internal Audit reporting and follow-up processes
- clarify the meaning of priority grading of recommendations
- distinguish between recommendations to address "design" weaknesses where there are control gaps in systems, and "operational" weaknesses caused by people not operating the system as it is designed, summarised in a bar chart

- show an assessment of assurance for each control objective, summarised in a pie chart
- provide an overall assurance assessment for the system as a whole
- better aid delivery of actions and capture information for input to covalent in a more efficient and effective way

These changes are reflected in the new executive summary for each audit report issued during the reporting period, and this is included in the Update Report attached (**Appendix 1** refers).

As part of the ongoing audit process, Internal Audit reviews the implementation of recommendations and reports the results to each meeting of the Scrutiny and Audit Committee. The latest results are included in the Update Report at **Appendix 1**.

#### **4. CURRENT POSITION**

Work continues within the Internal Audit team to progress the revised 2017/18 Internal Audit Plan agreed by the Scrutiny and Audit Committee in June 2017. (Report 216/17 refers)

#### **5. PROPOSALS**

The attached report provides Scrutiny and Audit Committee members with an update on progress with the completion of the 2016/17 and 2017/18 Internal Audit Plans. The Committee is asked to note this report.

The Committee is also asked to note the progress made in implementing internal audit recommendations.

#### **6. FINANCIAL IMPLICATIONS**

There are no financial implications arising directly from this report.

**NOTE:** No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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#### **List of Appendices:**

Appendix 1 - Internal Audit Activity Update Report

# Angus Council Internal Audit



## Update Report

Scrutiny & Audit Committee

22 August 2017

Cathie Wyllie  
Audit Manager  
Chief Executive's Unit

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## Introduction

This report presents the progress of internal audit activity within the council up to the end of July 2017 and provides an update on:

- Changes to the report template
- The final report from the 2016/17 Internal Audit Plan;
- Progress with the 2017/18 Internal Audit Plan;
- Progress with implementing internal audit recommendations.

## Changes to Report

The way in which we report audit findings has been reviewed for 2017/18 as part of the Internal Audit Service's continuous improvement activity. The report layout and content has been updated to remove duplication and present information in a more compact and user-friendly way; for example charts are used to present the overall findings. Action plans have been revised to make them more compatible with the use of the Covalent software for follow-up.

We have

- introduced an overall level of assurance for each internal audit report (Table 1 page 14).
- introduced overall control assessment grades for each audit objective (Table 2 page 14)
- updated the definition of the recommendation priority levels (Table 3 page 14), and now identify whether recommendations will improve the design of the control environment or address the way the controls are being operated by staff.

For ease of reference, the three tables showing the definitions of assurance levels, control assessments and recommendation priorities will be provided at the end of each Update Report to this Committee (see page 14).

Reporting to this committee will continue to be through a summary of the findings, but using the revised style of executive summary. The first report using this new format, on School Funds in Primary schools is summarised below. Any comments from members to further improve the information and layout are welcome.

# Audit Plan Progress Report


## 2016/17 Internal Audit Plan

The only 2016/17 report still to be reported to this committee is the Health & Social Care Integration report on Financial Management which could not be reported until after it had been reported to the IJB Board. This is included in this report and 2016/17 reporting is now complete.

Audits	Planned	In course (fieldwork + review)	Draft report	S&A committee date / ( <i>target in italics</i> )
<b>Corporate Governance</b>				
Health & Social Care Integration	Sep 2016		May 2016	Reported to IJB June 2017 S&A 22 August 2017

## 2017/18 Internal Audit Plan – Progress update

The table below summarises progress as at end of July 2017. Definitions for control assurance assessments are shown on page 14.

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>Corporate Governance</b>					
Corporate Governance annual review – 2016-17	June 2017	Complete			22 June 2017 in report 215/17
General Data Protection Regulations (GDPR) Readiness –Phase 1	June 2017	Complete			22 June 2017
General Data Protection Regulations (GDPR) Readiness –Phase 2	Nov. 2017				23 January 2018
Public Accountability	Dec. 2017				6 March 2018
Performance Information	Dec. 2017				6 March 2018
<b>Financial Governance</b>					
Schools' Funds – Governance (primary schools)	Aug. 2017	Complete	Limited		22 August 2017
Recharging of Central Administration Costs	Oct. 2017				23 January 2018
Payroll	Continuous Auditing	In progress			21 November 2017
Accounts Payable	Continuous Auditing	In progress			21 November 2017
<b>IT Governance</b>					
IT User Access Administration	Sept./Oct. 2017				23 January 2018

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>Internal Controls</b>					
Contractual Arrangements	July/ August 2017	In course			<i>21 November 2017</i>
Property Repairs Work Allocation					<b>TBC</b>
Service Level Agreements	Jan. 2018				<i>24 April 2018</i>
<b>Asset Management</b>					
Stocks (2016-17 year-end)	June 2017	<b>Complete</b>			<i>22 June 2017</i>
Community Asset Transfer	Dec. 2017/ Jan. 2018				<i>23 January 2018</i>
Fixed Asset Register	Oct. 2017				<i>23 January 2018</i>
<b>Legislative and other compliance</b>					
LEADER - European Maritime Fisheries Fund (Rural Funding)	Sept./Oct. 2017				<i>21 November 2017</i>
Carbon Reduction	Feb. 2018				<i>24 April 2018</i>
Interreg (European Funding)	Aug. 2017	Planned			<i>21 November 2017</i>

## Transforming Angus Programme Boards

Staff continue to attend meetings of the Agile Working Board.



## Summary findings of internal audit reviews

This section provides a summary of the material findings of internal audit reviews concluded since the last meeting. It also provides information on the number of recommendations made. Recommendations are ranked in order of 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: -

- 2016/17 - IJB Financial Management
- 2017/18 - School Funds Governance - Primary Schools

### IJB Financial Management

An audit of the financial management of adult care services provided by the Integration Joint Board was carried out by Angus Council Internal Audit on behalf of the IJB Chief Internal Auditor as part of the agreement of shared services. The audit was carried out in the Resources Directorate (Finance section) of Angus Council and the Angus Health and Social Care Partnership. Reporting was made using the reporting template of the IJB auditor, and using their assessment grids.

The audit opinion is **Category D** – Inadequate – There is increased risk that objectives may not be achieved. Improvements are required to enhance the adequacy and/or effectiveness of risk management, control and governance.

The following chart shows where the grade lies within the D band and the number of recommendations made at each priority level:

#### Audit Opinion

A	B	C	D	E	F
			x		

#### Recommendations

Priority	No.	Priority	No.	Priority	No.
Level 1	0	Level 2	5	Level 3	2

The IJB was established on 3 October 2015 and became fully operational on 1 April 2016. Angus Health and Social Care Partnership provides adult care services under direction of the IJB. Angus Council support services provide financial support to the Angus Health and Social Care Partnership and the IJB Chief Finance Officer.

Our audit work was designed to evaluate whether appropriate controls were in place and operating effectively to mitigate risks to the achievement of the following control objectives:

- There is an appropriate financial management and reporting framework which reflects and supports the structure and operations of the organisation.
- Finance staff are sufficiently briefed regarding their roles and services such that they can adequately support the organisation.
- Financial reports are circulated to the Board in a timely manner and are of sufficient detail to support decision making and effective scrutiny.

- The financial ledger interfaces with other key management information systems to provide timely and accurate financial data.
- The accounting data can be analysed and reported in a way that supports management decisions and actions.
- Budgets are constructed and maintained in an efficient and logical manner and support delivery of the current business model
- Accurate and achievable budget forecasts are prepared and approved before the start of the period to which they relate and financial performance is monitored against targets, with variations promptly identified and investigated.

Action is already underway to address some of the identified issues giving rise to the “inadequate” assessment of the systems. Recommendations made relate to ensuring these changes are implemented fully, and further recommendations to improve on the 2016/17 position.

During 2016/17 budgets have not been accurate as they have not been fully aligned with the structure of the IJB and there have been errors in the budget. The Financial Monitoring reports issued to the board contain information for the total of each overarching service area only. Projections have shown large variances with some showing hundreds of thousands of pounds of over or underspends. These should now be identified and rectified for the 2017/18 budget. The Financial reporting framework has been strengthened during 2016/17 and is now appropriate; however it does not yet reflect fully the structure of the organisation. It is anticipated this will be addressed for the 2017/18 budgets.

The following risks from the IJB risk register as at December 2016 could prevent the achievement of the above objectives and were identified as within scope for this audit.

#### Effective Financial Management

- Current Risk Exposure: Red
- Probability: Very High
- Risk Exposure: Critical

Follow up reports on the findings from this audit will be provided to the IJB and in view of the inadequate assessment an update on these will also be provided to the Council's Scrutiny & Audit Committee in November 2017.

## School Funds – Governance (Primary Schools)

All Angus Schools operate individual School Funds for the purpose of controlling monies raised in relation to local school related activities. The normal sources of income are donations, fund raising activities, contributions from pupils towards school trips, voluntary activities, etc.

These Funds are administered and spent for the benefit of the school and do not come within the budget of, or under the direct administration of, the People Directorate. School staff, under the leadership of the Head Teacher, act as custodians of the Funds. As they are employees of the Council, it necessarily follows that the People Directorate is responsible ultimately for the safekeeping of monies in the charge of its employees and may be called upon to make good, on behalf of its employees, any losses which may occur. The disbursement of the Fund is at the discretion of the Head Teacher and his/her staff through a School Fund committee except that monies received for specific purposes will be expended only for the purpose specified.

The purpose of the audit was to provide assurance that appropriate controls are in place to ensure effective management of School Funds within the Angus primary school estate, with consideration given to the findings of the audit report of School Funds within the Angus secondary school estate in May 2016.

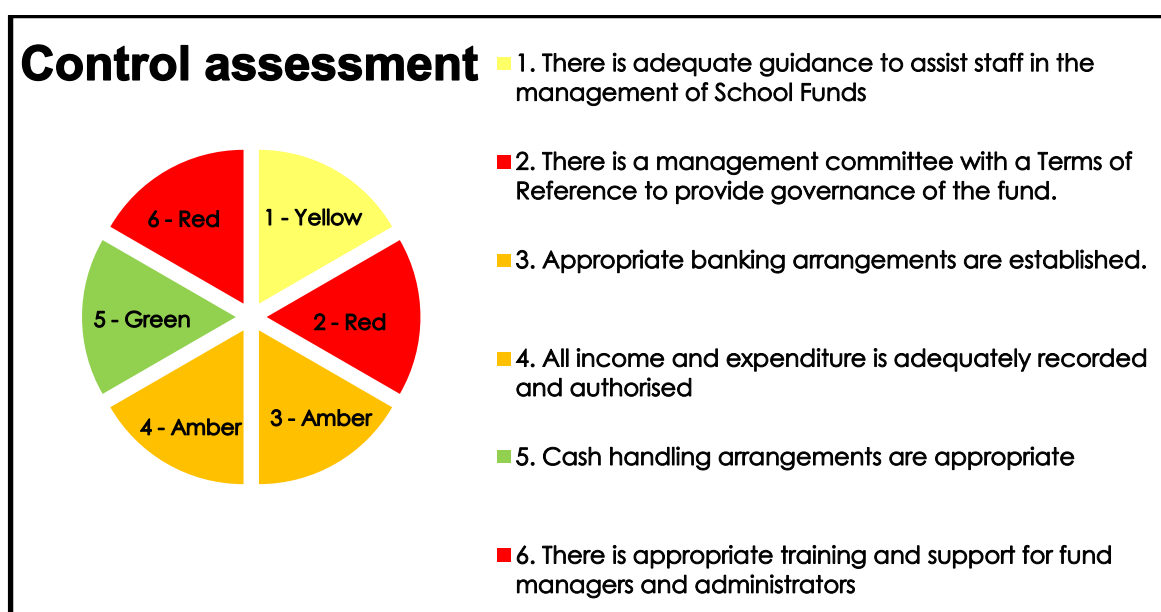
### Conclusion

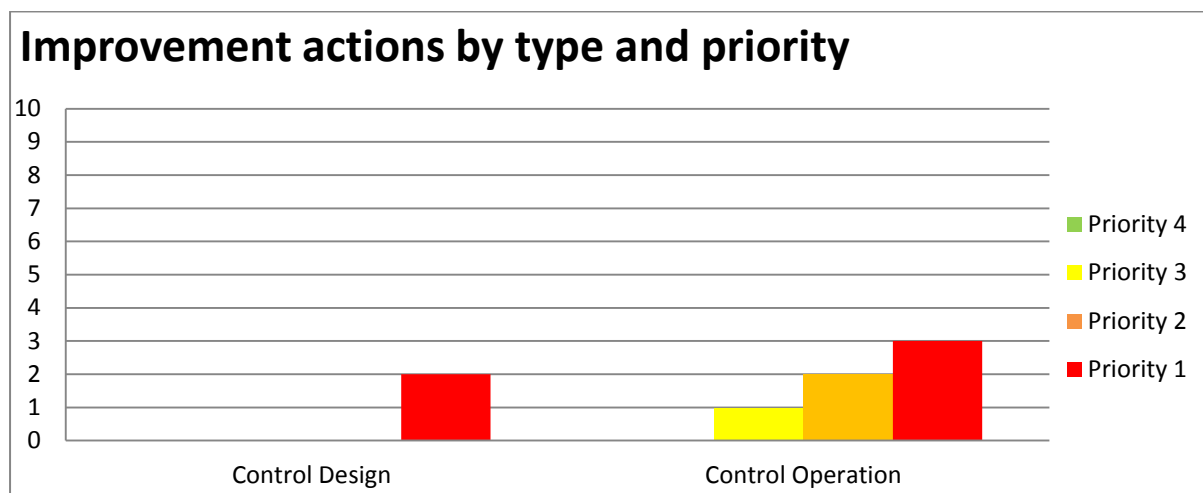
The overall level of assurance given for this report is **Limited Assurance**.

This audit was carried out in primary schools following the weak assessment of the audit of secondary schools in 2016. Given the findings of this review the recommendations in this report should apply to **ALL** schools and not just primary schools.

### Overall Assessment of Key Controls

The audit reviewed and assessed the controls in place to manage the following Key Control Objectives:





There are 8 recommendations in this report, with 6 regarding operational controls and 2 for design controls. There are three priority 1, two priority 2 and one priority 3 operational controls. Both design controls are priority 1.

### Key Findings

#### Good Practice

We have identified the following areas of good practice: -

- School Fund instructions are available on the Education intranet, along with a link to the Financial Regulations.
- A computerised council school fund package is available to maintain school fund records.
- A sample constitution is available for all schools to personalise to aid consistency over the council and ensure funds have proper legal standing.

#### Planned Improvements/ Changes:

In addition, the following change is planned to improve efficiency and should address some of the areas identified in this report for which no recommendations have been made:

- There was a trial in the Monifieth schools cluster of an Online Schools Payment (OSP) system in June 2017. We were informed that this OSP will initially be used for all council payments but will be available for school funds. It is planned to roll this out to all schools in the new school term 2017 – 2018. Parents can log into their 'My Angus' account to make a payment through the OSP. All council payments i.e. school meals and music fees will be paid this way, with the option for parents to pay school fund monies here also.

#### Areas Identified for Improvement:

During the audit the following areas were identified where further work is required to improve the management of School Funds:

- All schools should have a school fund constitution and appropriate school fund committee.
- School fund training should be provided to school fund administrators, with a record of attendees being retained.
- Annual school fund accounts must be prepared, independently examined and made available to parents / guardians.
- Monthly bank reconciliations should be completed.

# Implementation of internal audit recommendations

## Background

The quarterly summary report is presented below in accordance with the agreed reporting schedule.

## Summary of Progress

The recommendations classed as outstanding are those where the required action has not been completed by the original completion date. Recommendations have been excluded where an extension to the original completion date has been requested and agreed by Internal Audit.

The figures presented in the table below have been obtained after analysis of the corporate action recording and monitoring system, "Covalent".

Work continues to be carried out on the configuration and management of the Covalent system to provide improved management information and to bring greater efficiency to the follow-up process.

The information presented below reflects the updated position at 10 August 2017. The EMT is now receiving and reviewing detailed quarterly reports on the outstanding level 1 recommendations.

- Table 1 below shows progress with implementing internal audit recommendations across each Directorate.
- Table 2 details outstanding recommendations by Directorate, year and grade.

Members are asked to note the position in implementing internal audit recommendations.

**Table 1 – Outstanding recommendations per Covalent.**

(excl. recommendations related to Angus Alive and Angus Health & Social Care Partnership)

	Chief Executive	People	Place	Grand Total
<b>Total overdue</b>	<b>5*</b>	<b>6</b>	<b>0</b>	<b>11</b>

*\*All Chief Executive's outstanding items relate to the Change Programme (Agile & Channel Shift)*

**Table 2 - Outstanding recommendations by Directorate, year and grade.**

Directorate	Year	Level 1	Level 2	Level 3	Level 4	Grand Total
Chief Executive	2017/18	-	5*	-	-	5
People	2016/17	-	5	-	-	5
	2017/18	-	1	-	-	1
Place	-	-	-	-	-	-
<b>Grand Total</b>		-	<b>11</b>	-	-	<b>11</b>

# Definition of Assurance Levels, Control Assessments & Recommendation Priorities

**Table 1 – Level of Assurance definitions**

Level of Assurance	Definition
Comprehensive Assurance	There is a sound control framework in place designed to achieve the system objectives, which should be effective in mitigating risks. Some improvements in a few, relatively minor, areas may be required, and any residual risk is either being accepted or addressed by management.
Substantial Assurance	The control framework in place is largely satisfactory, however there are a few areas where improvements could be made to current arrangements to reduce levels of risk, and/or there is some evidence that non-compliance with some controls may put some of the system objectives at risk.
Limited Assurance	Some satisfactory elements are evident within the control framework. However, some significant weaknesses have been identified which are likely to undermine the achievement of objectives, and/or the level of non-compliance with controls puts the system objectives at risk.
No Assurance	The control framework is ineffectively designed and operated. The issues identified require immediate attention to address the risks to the Council which are currently unacceptable. Significant improvements are required.

**Table 2 - Control assessment definitions**

Control Assessment	Definition
Red	Fundamental absence or failure of key control
Amber	Control objective not achieved – control is inadequate or ineffective
Yellow	Control objective achieved – no major weakness but scope for improvement
Green	Control objective achieved – control is adequate, effective & efficient

**Table 3 - Recommendation Priority definitions**

Priority	Definition
1	Recommendation concerning the absence/failure of fundamental control which is critical to the success of the system. Major weakness which significantly impairs the overall control framework. Immediate management action required. Very high risk exposure.
2	Recommendation concerning absence or non-compliance with key control which creates significant risks within the organisation. Substantial weakness identified. Prompt management action required. High risk exposure.
3	Recommendation concerning absence or non-compliance with lower level control, or an isolated instance of non-compliance with a key control. The weakness identified is not necessarily great, but controls would be strengthened and the risks reduced if it were rectified. To be addressed by management within a reasonable timescale. Moderate risk exposure.
4	Recommendation concerning minor issue which is not critical, but implementation would improve the system and/or strengthen controls. To be addressed by management within a reasonable timescale. Limited risk exposure.