

**ANGUS COUNCIL**

**SCRUTINY AND AUDIT COMMITTEE – 21 NOVEMBER 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 update on progress with the 2017/18 Internal Audit Plan, and
- (ii) Note management's progress in implementing internal audit recommendations.

**2. ALIGNMENT TO THE ANGUS LOCAL OUTCOMES IMPROVEMENT PLAN (LOIP) AND COUNCIL PLAN**

The proposals set out in this report will contribute to the outcomes outlined in the proposed Local Outcomes Improvement Plan, Locality Plans and Council Plan, which focus on the economy, people and place.

**3. BACKGROUND**

***Introduction***

The annual internal audit plan was 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 plan.

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.

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 September 2017. (Reports 216/17 and 322/17 refer). There has been some slippage in delivering the plan to the original timetable however it is expected that this will be caught up by the end of the internal audit reporting year in June.

Some of the contingency set aside within the 2017/18 Internal Audit Plan has been utilised for work on ad-hoc reviews in recent weeks, at the request of Council officers. The most significant of these reviews related to problems encountered by staff making cash deposits at local Post Offices from secondary schools, following the closure of Clydesdale Bank branches. Our review concluded that the problems stemmed from the Post Office being unable to cope with the volume of cash being deposited, rather than from internal Council controls and procedures. Our findings were reported to the Head of Corporate Finance, and alternative arrangements have been put in place for depositing the cash.

## **5. PROPOSALS**

The attached report provides Scrutiny and Audit Committee members with an update on progress with the 2017/18 Internal Audit Plan. 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 (attached)

# Angus Council Internal Audit



## Update Report

Scrutiny & Audit Committee

21 November 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 October 2017 and provides an update on:



- Progress with the 2017/18 Internal Audit Plan; and
- Progress with implementing internal audit recommendations.

## Audit Plan Progress Report

### 2017/18 Internal Audit Plan – Progress update

The table below summarises progress as at end of October 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	N/A	N/A	22 June 2017 in report 215/17
General Data Protection Regulations (GDPR) Readiness –Phase 1	June 2017	Complete	N/A	N/A	22 June 2017
General Data Protection Regulations (GDPR) Readiness –Phase 2	Nov. 2017	In planning			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./Nov. 2017	This was deleted from the plan in September 2017	N/A	N/A	N/A

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Payroll	Continuous Auditing	In progress			<i>21 November 2017</i> <i>Revised 6 March 2018</i>
Accounts Payable	Continuous Auditing	In progress			<i>21 November 2017</i> <i>Revised 6 March 2018</i>
<b>IT Governance</b>					
IT User Access Administration	Nov./Dec. 2017	In planning			<i>23 January 2018</i> <i>Revised 6 March 2018</i>
<b>Internal Controls</b>					
Contractual Arrangements	Sept./Oct. 2017	Complete	Comprehensive		<i>21 November 2017</i>
Property Repairs Work Allocation	Jan. 2018				<i>24 April 2018</i>
Service Level Agreements	Jan. 2018	In planning			<i>24 April 2018</i>
<b>Asset Management</b>					
Stocks (2016-17 year-end)	June 2017	Complete	N/A	N/A	<b>22 June 2017</b>
Community Asset Transfer	Dec. 2017/ Jan. 2018	In planning			<i>6 March 2018</i>
Fixed Asset Register	Oct. 2017	In planning			<i>23 January 2018</i>
<b>Legislative and other compliance</b>					
LEADER - European Maritime Fisheries Fund (Rural Funding)	Sept./Oct. 2017	Complete	Substantial		<i>21 November 2017</i>
Carbon Reduction	Feb. 2018				<i>24 April 2018</i>
Interreg (European Funding)	January 2018	Planned			<i>23 January 2018</i> <i>Revised 6 March 2018</i>

## Angus Alive and Angus Health & Social Care IJB

Angus Council's Internal Audit staff have continued to work on the audit plans for both Angus Alive and Angus Health & Social Care IJB during the period covered by this update report. Reports for these bodies are presented to the respective Boards throughout the year. Where IJB work is on systems operated by Angus Council staff, the reports will also be presented to the Scrutiny & Audit committee.

## 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: -

- Contractual arrangements
- LEADER – European Rural Development programme
- Ad-hoc reviews

The initial plan included reporting of Payroll and Accounts payable continuous auditing to this committee. Reporting has been delayed until the January meeting due to a combination of illness within the team and the timing of holidays. At this stage, although we have had some slippage in the plan, if there is no further significant illness in the team, I expect to deliver the remaining plan by June 2018.

### Contractual arrangements

The final report was issued on 9 November 2017.

Procurement is the process of acquiring goods, services or works. Procurement activity is formalised through contractual arrangements. The process spans the whole life cycle of whatever is being purchased. This is from identification of needs and formation of a sourcing strategy to options and supplier appraisals through to the end / renewal of the contract or the useful life of an asset.

Because the Public Procurement Rules are grounded in law, there is often a close relationship between procurement and legal matters. . There is also a close relationship with finance because of strategic procurement's potential to help deliver strategic objectives through external spend control and policy. There is also some connection to Council policy and strategy which good procurement practice can help deliver (e.g. contractor's fair employment practices, community benefit, etc.).

Angus Council Plan 2014-2017 has as part of the Improved Business processes that a strategic review of procurement will be carried out. This forms part of the Change Programme (initiative EC005).

## Scope

The audit will review the following areas, considering corporate and service level arrangements:

- The corporate tendering process from start to award stage
- Contractual arrangements for delivery and management of contracts

The audit sought to provide assurance on the following objectives:

### Corporate tendering

- Procurement processes for tendering and awarding contracts, including contract extensions and the use of quick quotes, are carried out in accordance with organisational policy and procedures and in compliance with all relevant legislation, including EU rules
- Management plan and operate the procurement process effectively, achieving value for money
- Procurement methods are supported by a robust system of appraisal of the various options, ensuring appropriate balance between price and quality.

### Contractual arrangements

- Contract monitoring guidance is in place which establishes clear procedures and relevant roles and responsibilities in relation to the management of external suppliers;
- There is a clear performance reporting framework with sufficient information available to inform regular assessment of external provider performance.

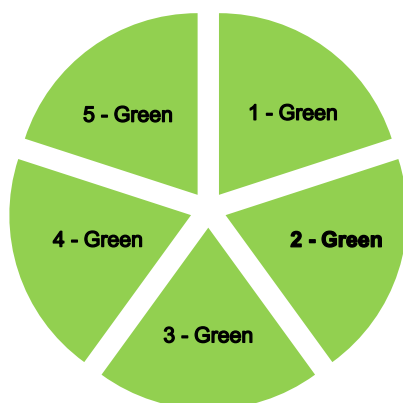
## Conclusion

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

## Overall Assessment of Key Controls

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

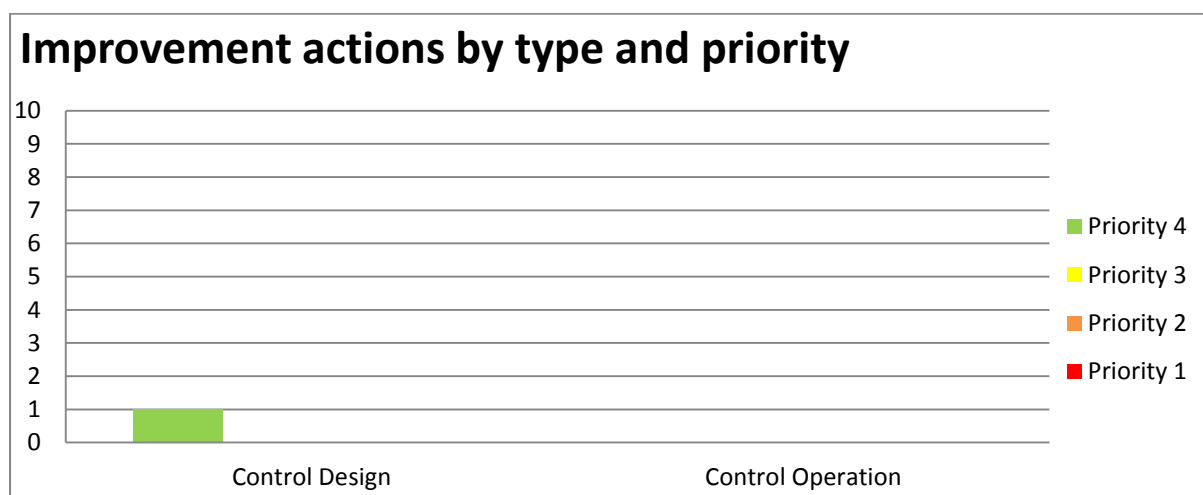
### Control assessment



- 1. Procurement Processes are carried out in accordance with organisational policy and procedures and in compliance with all relevant legislation, including EU rules.
- 2. Management plan and operate the procurement process effectively, achieving value for money.
- 3. Procurement methods are supported by a robust system of appraisal of various options. Ensuring appropriate balance between price and quality.
- 4. Contract monitoring guidance is in place which establishes clear procedures and relevant roles and responsibilities in relation to the management of external suppliers.
- 5. There is a clear performance reporting framework with sufficient information available to inform regular assessment of external provider performance.



## Audit Recommendations summarised by Type & Priority



There is 1 priority 4 control recommendation in this report.

### Key Findings

#### Good Practice:

We have identified the following areas of good practice:

- Procurement Guidance and model documents are available on the corporate Intranet. These are linked to the Scottish Government Procurement Journey to ensure that the council is up to date with current legislation.
- Section 16 of the Financial Regulations covers Procurement.
- Angus Council have never had a legal challenge to any procurement award.
- There was an example of good collaborative working by Waste Services and the NHS to reduce healthcare waste contaminating recycling loads. The opportunity for collaboration was identified from contract monitoring and has resulted in a reduction in healthcare waste contamination and therefore a reduction in the risk of contamination charges or the rejection of an entire load of recyclable material.

#### Planned Improvements/ Changes:

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

- A strategic review of Procurement is being carried out as part of the Change programme.
- The register of authorised procurement officers for each Directorate, available on the corporate intranet, is not up to date. There is a note on the page stating 'July 2017 – page under review to reflect new structure'

#### Areas Identified for Improvement:

During the audit the following area was identified where further work would improve the tendering and contract process:

- The information on the Corporate Procurement site should be reviewed to ensure that only current advice is available and all links to other sources are still active

## LEADER – Liaison Entre Actions de Développement de l’Economie Rurale (Rural Funding)

The final report was issued on 24 October.

LEADER (Liaison Entre Actions de Développement de l’Economie Rurale) is a European Rural Development programme funded from European and Scottish Government money and is part of the Scottish Rural Development Programme, (SRDP) aimed at promoting economic and community development within rural Angus areas for the period 2014-20.

The LEADER rural development programme funding awarded to Angus Council is £2,750,186. The programme was launched in February 2016 and will run until all funds are fully committed or up to the point the UK leaves the EU whichever comes first.

As part of the Service Level Agreement (SLA) between the Scottish Government Agriculture, Food and Rural Communities Directorate (SGAFRC) and Angus Council, acting as Accountable Body for Angus Local Action Group (LAG), the Council is required to submit an annual confirmation certificate and report. This has to include a summary of work undertaken by the Council’s Internal Audit function and details of any findings noted in determining whether compliance with the SLA requirements has been achieved.

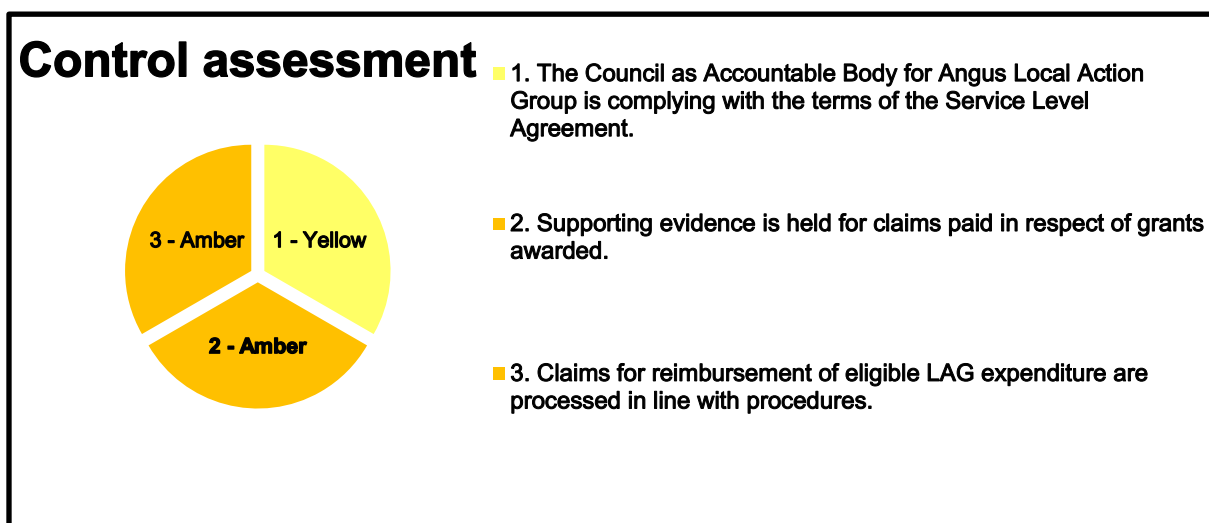
The overall objective of the audit assignment is to confirm that for the year 16 October 2016 to 15 October 2017 Angus Council has undertaken the delegated function as specified in the SLA between Scottish Government and LAG.

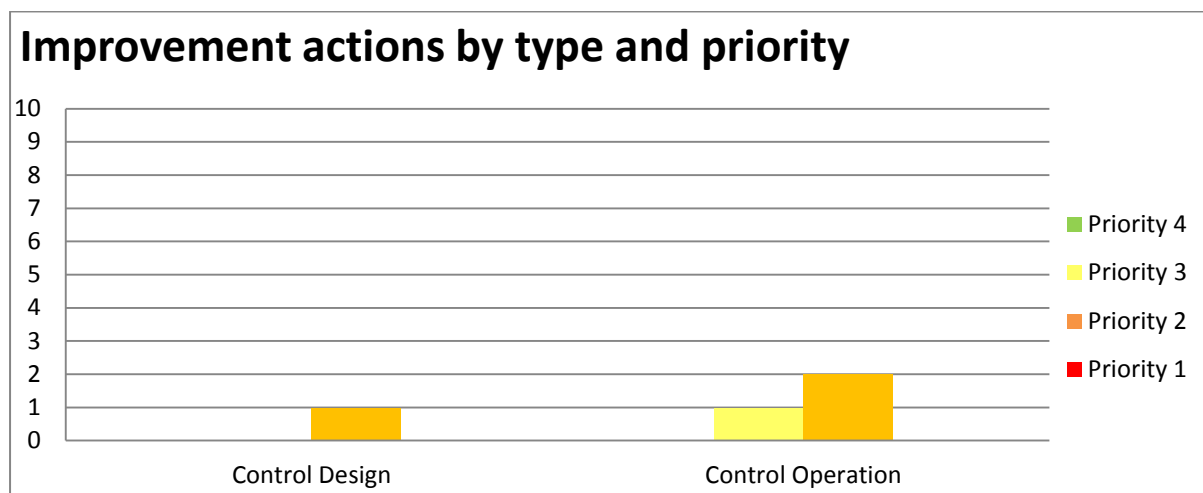
### Conclusion

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

### Overall Assessment of Key Controls

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





There are 4 recommendations in this report, with 3 regarding operation of controls and 1 for control design. There are three priority 2 and one priority 3 recommendations. The design control is priority 2.

### Key Findings

#### Good Practice:

We have identified the following areas of good practice:

- Staff are aware of and practicing the Retention of Documentation policy.
- There is a Privacy Policy for LARC's and staff are adhering to the Data Sharing Agreement. It has been recognised that LEADER will follow any changes to Angus Council processes as a result of GDPR requirements.
- The IT Security Policy and User Access Control Policy are held on the Council's Intranet for staff to refer to.
- LAG meetings are held four times a year, where updates on budgets and projects are discussed with minutes held for decisions taken.

#### Planned Improvements/ Changes:

In addition, the following is planned to improve efficiency and should address one area identified in this report:

- The internal staff guidance notes are to be updated prior to the submission to Scottish Government.

#### Areas Identified for Improvement:

We have made four recommendations to address high and moderate risk exposure; 3 grade 2 recommendations to address high risk exposure are:

- All project information, evidence of claims and payments made should be uploaded to LARCs timeously to ensure it reflects the most up to date status for each project and complies with the SLA requirement.
- Drawdowns from Scottish Government for paid grants should be processed timeously in order that Angus Council are repaid the money they have processed.
- Management checks and procedures should be put in place to ensure that administration claims are made quarterly in line with the SLA deadlines, to maximise positive cash flow and ensure Angus Council is not penalised for late claims.

## Ad-hoc reviews

Some of the contingency set aside within the 2017/18 Internal Audit Plan has been utilised for work on ad-hoc reviews in recent weeks, at the request of Council officers. The most significant of these reviews related to problems encountered by staff making cash deposits at local Post Offices from secondary schools, following the closure of Clydesdale Bank branches. Our review concluded that the problems stemmed from the Post Office being unable to cope with the volume of cash being deposited, rather than from internal Council controls and procedures. Our findings were reported to the Head of Corporate Finance, and alternative arrangements have been put in place for depositing the cash.

# 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, "Pentana", previously known as "Covalent". Work continues to be carried out on the configuration and management of the Pentana system to provide improved management information and to bring greater efficiency to the follow-up process.

The information presented below reflects the position at 27 October 2017. The EMT is now receiving and reviewing detailed bi-monthly reports on the outstanding level 1 & 2 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 Pentana.**

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

	Chief Executive	People	Place	Grand Total
<b>Total overdue</b>	<b>6*</b>	<b>5</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	2016/17	-	6*	-	-	6*
People	2015/16	-	2	-	-	2
	2016/17	-	3	-	-	3
Place	-	-	-	-	-	-
<b>Grand Total</b>		<b>-</b>	<b>11</b>	<b>-</b>	<b>-</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. <b>Very high risk exposure.</b>
2	Recommendation concerning absence or non-compliance with key control which creates significant risks within the organisation. Substantial weakness identified. Prompt management action required. <b>High risk exposure.</b>
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. <b>Moderate risk exposure.</b>
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. <b>Limited risk exposure.</b>