ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 6 MARCH 2018

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 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, at the request of Council officers. Report 393-17 refers.

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.

REPORT AUTHOR: Cathie Wyllie, Audit Manager
EMAIL DETAILS: ChiefExec@angus.gov.uk

List of Appendices:
Appendix 1 - Internal Audit Activity Update Report (attached)

Angus Council Internal Audit

Update Report

Scrutiny & Audit Committee

6 March 2018

Cathie Wyllie
Audit Manager
Chief Executive's Unit

Contents Page

Introduction

This report presents the progress of internal audit activity within the council up to the end of January 2018 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 20 February 2018. Definitions for control assurance assessments are shown on page 19.

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Corporate Governance					
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	Complete	Limited		6 March 2018
Best Value Audit Follow-up: Public Accountability	Dec. 2017	Complete	Comprehensive		6 March 2018
Best Value Audit Follow-up: Performance Information	Dec. 2017	Complete	Comprehensive		6 March 2018
Financial Governance					
Schools' Funds – Governance (primary schools)	Aug. 2017	Complete	Limited		22 August 2017
Recharging of Central Administration Costs	Oct./Nov. 2017	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)
Financial Governance (cont.)					
Payroll	Continuous Auditing	In progress			*21 November 2017 Revised 24 April 2018*
Accounts Payable	Continuous Auditing	In progress			*21 November 2017 Revised 24 April 2018*
IT Governance					
IT User Access Administration	Nov./Dec. 2017	Draft report under review			*23 January 2018 Revised 24 April 2018*
Internal Controls					
Contractual Arrangements	Sept./Oct. 2017	Complete	Comprehensive		21 November 2017
Property Repairs Work Allocation	Jan. 2018	In progress			*24 April 2018*
Service Level Agreements	Jan. 2018	In progress			*24 April 2018*
Council Oversight of IJB	March 2018	In planning			*19 June 2018*
Asset Management					
Stocks (2016-17 year-end)	June 2017	Complete	N/A	N/A	22 June 2017
Community Asset Transfer Process	Dec. 2017/ Jan. 2018	Complete	Substantial		23 Jan. 2018
Fixed Asset Register	Oct. 2017	Complete	Substantial		6 March 2018

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Legislative and other compliance					
LEADER - European Maritime Fisheries Fund (Rural Funding)	Sept./Oct. 2017	Complete	Substantial		21 November 2017
Carbon Reduction	Feb. 2018	Draft report issued			*24 April 2018*
Interreg (European Funding)	January 2018	Complete	N/A	N/A	6 March 2018

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.

The draft report for the IT User Access Administration (Integra) audit has been drafted and is currently under review. This should now be reported to the April Committee.

Members are asked to consider the following summaries and provide any commentary thereon: -

- GDPR Readiness
- Fixed Asset Register
- Audit Scotland Best Value Report - Internal Audit Follow-up
- Interreg (European Funding)

General Data Protection Regulation (GDPR) Readiness – Phase 2

The final report was issued on 19 February 2018.

The new General Data Protection Regulation (GDPR) comes into effect from 25 May 2018 and although derived from the Treaty on the Functioning of the European Union (TFEU) Article16, will not be affected by Brexit. The regulation will impose new duties and requirements upon local authorities including:

- Compliance with the accountability principle;
- Appointment of a data protection officer;
- Legal requirement to conduct data protection impact assessments;
- Establishment of an information asset register;
- Internal records of processing activities;
- Shorter period for dealing with subject access requests.

Phase 1 of the audit was reported in a memo to the Information Governance Steering Group on 17 May 2017 and to the Scrutiny & Audit Committee meeting on 22 June 2017 (Report 217-17 refers).

The work involved a review of the draft GDPR Report and Angus Council Action Plan (dated 24 April 2017) to identify any gaps and comment on the planned activity in relation to meeting the May 2018 date for GDPR implementation.

The review identified some issues with timings to ensure GDPR readiness by May 2018. Given the financial and reputational risks related to the changes in GDPR it was recommended that the Information Governance Steering Group needed to take this forward as a matter of urgency.

Phase 2 of the audit sought to provide assurance that appropriate measures and controls are being implemented to ensure compliance with the GDPR when it comes into effect in May 2018.

Scope

The audit reviewed the arrangements in place against the following control objectives:

- Adequate resources are in place to prepare for GDPR requirements
- The project plan is on track to ensure compliance with the GDPR requirements from May 2018;
- The project plan is monitored regularly, and action taken to address slippage;
- Appropriate training and education is planned for staff; and
- Data-sharing protocols are identified and are being reviewed for GDPR compliance.

Conclusion

The overall level of assurance given for this report is **Limited Assurance**. This is in no way a criticism of those involved in the GDPR project, but rather it is a reflection of the impact the limited staffing resource available has had on GDPR preparations.

Overall assessment of Key Controls

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


Control assessment

- 1. Adequate resources are inplace to prepare for GDPR requirements.
- 2. The project plan is on track to ensure compliance with GDPR requirements from May 2018.
- 3. The project plan is monitored regularly, and action taken to address slippage.
- 4. Appropriate training and eductaion is planned for staff.
- 5. Data-sharing protocols are identified and are being reviewed for GDPR compliance.

Audit Recommendations summarised by Type & Priority
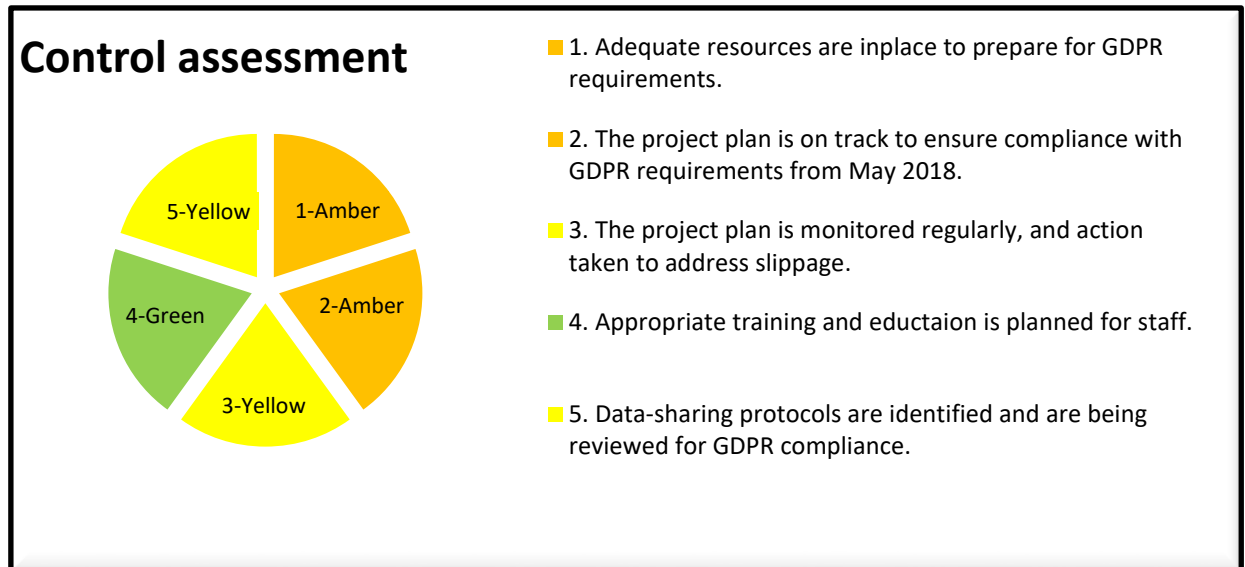
Improvement actions by type and priority
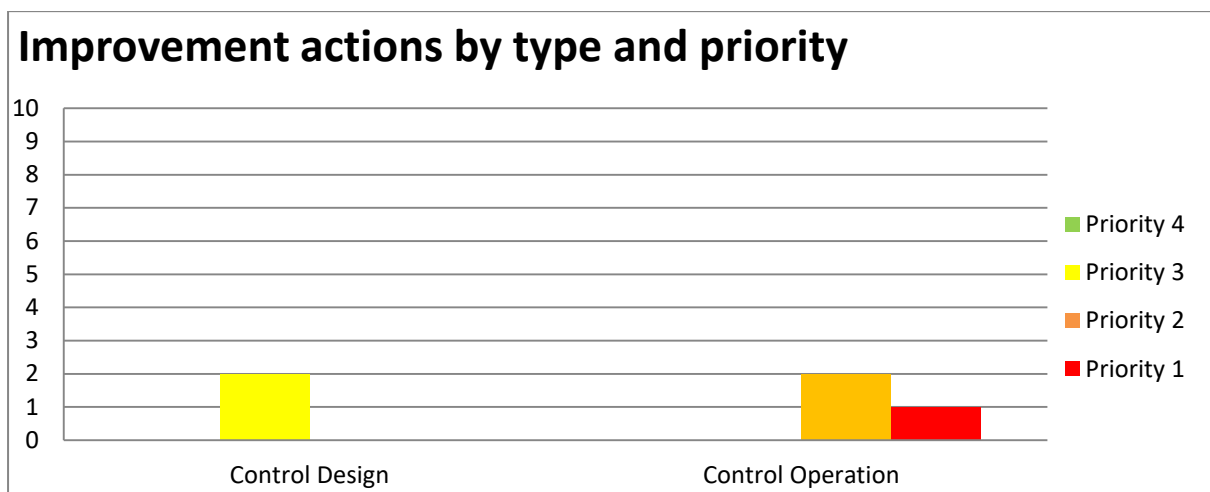
There are 5 recommendations in this report - 2 design control recommendations (both priority 3) and 3 operational control recommendations (one priority 1 and two priority 2).

Key Findings

Good Practice

We have identified the following areas of good practice:

- A GDPR Implementation Action Plan is in place which includes all of the key steps required to ensure compliance with the new regulations;
- A GDPR Group has been set up with representatives from all Council services, with monthly meetings scheduled until May 2018;
- Regular GDPR updates are reported to CMT by the Head of Legal & Democratic Services;
- Agendas & minutes of GDPR Group meetings, reports and other relevant documentation are stored on a specific GDPR section of Sharepoint on the Council's Intranet;

- Announcements have been placed on the Council's Intranet carousel to make all staff aware of the new GDPR requirements;

- The Council has an e-learning course for Data Protection, and it is compulsory for all staff to complete this annually;

- The Council has a webpage for data subjects which explains how to contact the Council regarding issues relating to personal data;

- The Information Asset Register template being used by services to complete their IAR includes a section on data retention periods, and separate retention schedules are currently available;

- The Council holds a register of all data breaches and security incidents, under the Information Governance section of the Intranet;

- A Personal Data Sharing Flowchart has been developed which provides a detailed step-by-step guide on dealing with requests from third parties to share personal information;

- Guidance documents have been developed for the use by services on GDPR-compliant Privacy Notices and Consent;

- A briefing document has been distributed to all services on data controller, joint data controller and data processor concepts and responsibilities under GDPR;

- A communications strategy has been drafted which details how the organisation will communicate the key messages about GDPR;

- A training plan has been drafted which details the various means of training being employed to inform staff and members on GDPR;

- A Data Protection Response Plan is being prepared which will narrate the measures taken by the Council to prevent data protection breaches and the steps to be taken in the event of a breach;

- The Council has adequate information systems security which includes physical, logical, technical and operational measures that ensure the security of personal data.

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. It should be noted that several of these are time critical in order to ensure compliance by May 2018:

- Management support and direction for data protection compliance is being developed in a framework of policies and procedures;

- A needs based data protection training programme for all staff is to be developed, and is due to be delivered in April 2018, prior to the GDPR implementation deadline;

- Guidance on Data Protection by design and default is due to be issued in April 2018 to ensure GDPR compliance, and guidance documents on procurement of new systems/data processors is to be revised for GDPR by May 2018;

- The Council's existing templates and guidance for Data Privacy Impact Assessments (DPIA) are to be reviewed once specific guidance has been issued by ICO, to ensure they meet GDPR requirements;

- All Council privacy notices are to be reviewed by the end of January 2018, including those on the website and cookies. Draft guidance on privacy notices and declarations of consent under GDPR was agreed by the GDPR Group on December 14 2017;

- The Council's Data Protection e-learning course will be updated for GDPR;

- Procedures for dealing with subject access requests from third parties are to be reviewed by April 2018 to ensure compliance with GDPR.

Areas Identified for Improvement

During the audit the following areas were identified where further work is required in order to improve efforts to achieve GDPR compliance by the deadline of 25 May 2018: -

- The list of outstanding Information Asset Registers should be brought to the attention of the CMT as a matter of urgency, to ensure that the completion of these is prioritised by services.

- The Information Governance Risk Register should be updated to include specific reference to the risks relating to the new GDPR requirements.

- A generic statement on responsibility for data protection, with particular reference to GDPR, should be written into all new job descriptions. More specific responsibilities on data protection and GDPR should be included in job descriptions for particular posts where this is considered necessary.

Fixed Asset Register

The final report was issued on 7 February 2018.

The Head of Corporate Finance is required, under section 10.4 of Angus Council's Financial Regulations, to maintain an Asset Register which shall record the assets of the Council and which shall support the Capital Accounting Framework. An asset for this purpose will include:
- land (both operational and non-operational);
- buildings (both operational and non-operational);
- infrastructural assets;
- major items of equipment (subject to a de minimis level of £5,000);
- vehicles; and
- any assets which have become surplus to requirements.

Chief Officers are responsible for ensuring that the Head of Corporate Finance is supplied with all the information necessary to maintain the Register. Such information should be supplied within one month of any transaction taking place, and will normally include:

- details (description of asset, monetary value, funding, date of transaction), of each and every asset acquisition or disposal;
- details of all major activities which could reasonably be expected to materially affect the value of an existing asset (e.g. improvements, partial demolition); and
- details of all assets which have become surplus to requirements.

The Council's 2015/16 Annual Audit Report from the external auditor highlighted that the value of land and buildings in the asset register was overstated due to capital spend being recorded on an asset in addition to a revised valuation of the asset. The auditor reported that sample testing of the non-current assets as part of the 2016/17 external audit process did not identify any double counting of assets; however one new asset had not been depreciated appropriately in 2016/17 in the unaudited accounts. This was due to an asset not being moved from "Assets Under Construction" to "Other Land & Buildings" when it was completed two years prior to the audit.

Scope

The audit reviewed the arrangements in place against the following control objectives:

- An accurate & up-to-date fixed asset register is maintained in which all capital purchases and disposals are recorded, in accordance with the Council's Financial Regulations and current accounting regulations.

- Adequate and effective processes and controls are in place to ensure that the necessary information is received from Council services to ensure that the fixed asset register is updated on a timely basis, and that updates are checked and authorised.

- Fixed asset registers are regularly reconciled to the accounting records, including the General Ledger.

- Fixed assets are physically verified on a regular basis and agreed to the fixed asset register; results of the physical verification are documented.

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

4-Green | 1-Yellow

3-Green | 2 -Green

■ 1. An accurate & up to date fixed asset register is maintained in accordance with the Financial Regulations.

■ 2. Adequate and effective processes and controls are in place to ensure the fixed asset register is updated on a timely basis.

■ 3. Fixed asset registers are regularly reconciled to accounting records.

■ 4. Fixed asset registers are physically verified on a regular basis and agreed to the fixed asset register.

Audit Recommendations Summarised by Type & Priority

Improvement actions by type and priority

	Control Design	Control Operation	
			■ Priority 4
			■ Priority 3
			■ Priority 2
			■ Priority 1
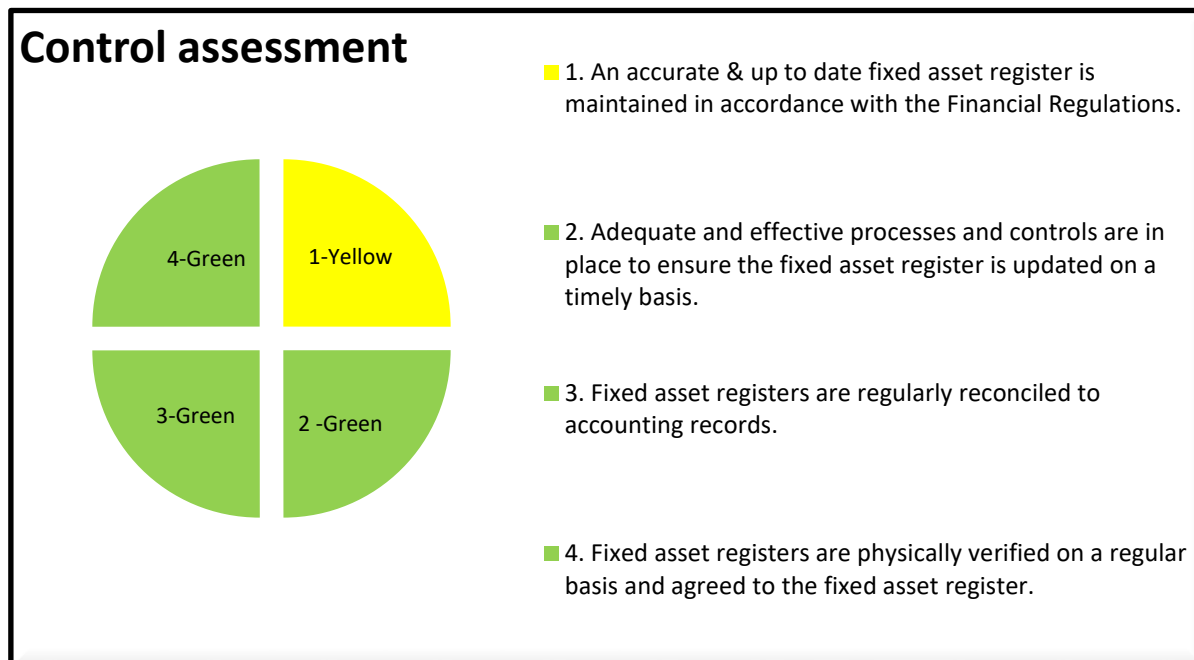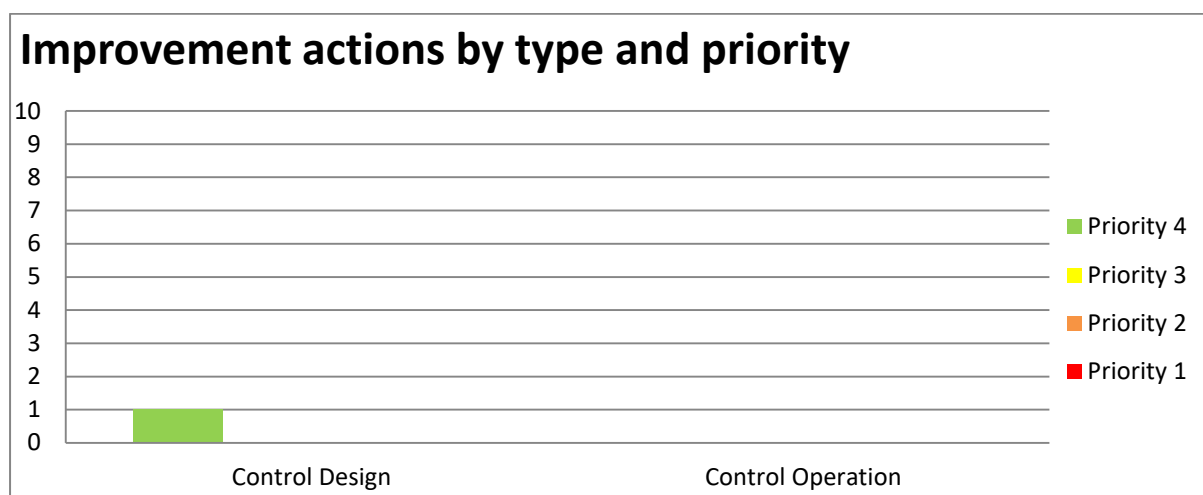
There is 1 priority 4 recommendation in this report relating to design control with no operational control recommendations.

Key Findings

Good Practice:

We have identified the following areas of good practice:

- There is a five year rolling programme to physically verify assets;
- The Council employs professional chartered surveyors to physically verify and value assets;
- Fixed Asset registers are reconciled to the General Ledger at year end;
- Capital Accounts are reconciled to the financial management system, Integra.

Planned Improvements/ Changes:

- Integra has an asset management module which Finance are aware of and this may be purchased in the future depending on available funding.

Areas Identified for Improvement:

During the audit we identified the following area for improvement: -

- Section 10.4 of the Financial Regulations should be reviewed and possibly updated as it was felt by the staff interviewed in Financial Services that paragraph 2 is not the current practice.

Audit Scotland Best Value Report – Internal Audit Follow-up

The final report was issued on 20 February 2018.

Audit Scotland published a Best Value report in October 2016. This was reported to the Council Meeting on 27 October 2016 in report 369/16 Accounts Commission Findings – Best Value Audit Report 2016.

External Audit followed up on Best Value as part of their 2016/17 audit. This was reported to the Scrutiny and Audit Committee meeting on 26 September 2017. The follow-up considered pace of change, the Change Programme and related budget implications.

The Best Value report identified two areas for improvement to aid scrutiny by elected members; performance management and public accountability. The detail of the comments is available in the report which can be found here:

http://www.audit-scotland.gov.uk/uploads/docs/report/2016/bv_161004_angus.pdf

Scope

This Internal Audit reviewed the Council's response to the Best Value report in relation to performance management and public accountability, to seek to provide assurance on the following control objectives:

- Decisions made by the Council and notified to the Accounts Commission in response to the Audit Scotland's Best Value report include activity to address the issues raised in the report around performance management and public accountability.

- More open and transparent forms of members' scrutiny have been identified and established.

- Performance reporting includes high-level corporate overview of performance against the council plan and its priorities.

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

3-Green   1-Green

2 -Green

- 1. Decisions made by the Council and notified to the Accounts Commission in response to Audit Scotland's Best Value report around performance management and public accountability.

- 2. More open and transparent forms of members' scrutiny have been identified and established.

- 3. Performance reporting includes high-level corporate overview of performance against the Council Plan and its priorities.
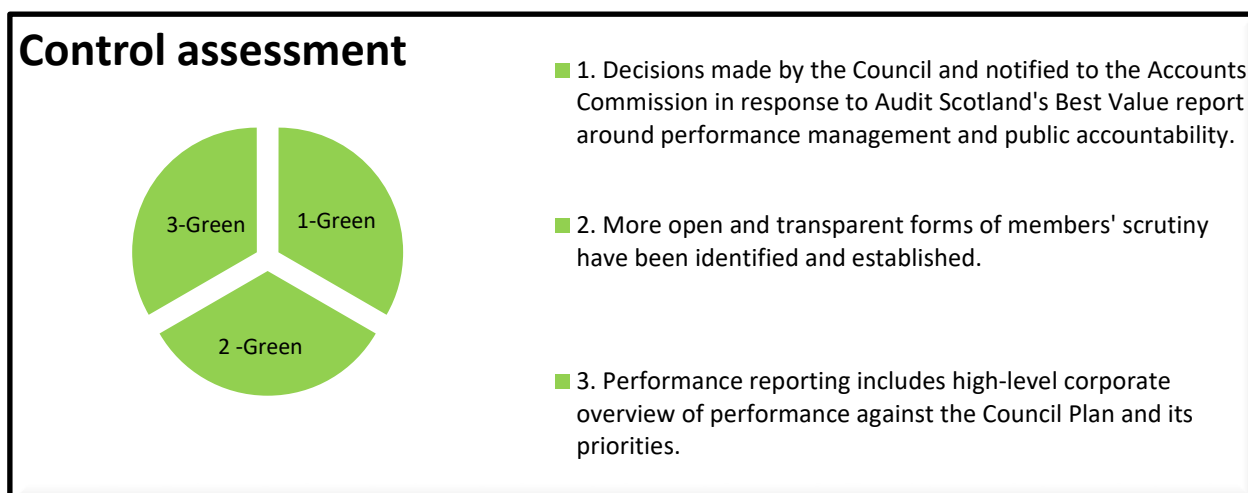
Audit Recommendations Summarised by Type & Priority

There are no recommendations in this report relating to design or operational controls. The main purpose of this audit was to ensure that the issues highlighted in the Council's Best Value Report, published in October 2016 by Audit Scotland, have been addressed.

Key Findings

Good Practice:

  We have identified the following areas of good practice:

- An action plan to address the recommendations in the Best Value audit is in place and progress on this is reported to CMT;

- There is clarity in where the savings needed are coming from and assurance that these can be achieved;

- The Preparation of the 2018/19 Revenue & Capital Budgets, Medium Term Budget Strategy, The Council Plan, the Local Outcomes Improvement Plan (LOIP), Workforce Strategy and the Change Programme went to committee as a package in September 2017 to inform members and provide greater transparency. This is the first time these reports have been presented to committee at the same time;

- The Revenue & Capital Budgets, the Council Plan, Local Outcome Improvement Plan and Workforce Plan all align with each other under the banners of the economy, people and place;

- The Change Programme is also under the headings of economy, people and place

- A suite of training is available to members covering a variety of subjects, with a record of the training each member has attended.

Planned Improvements/ Changes:

- A pilot self-assessment exercise based on 'How Good is Our Council' is being carried out in the three areas of Finance, HR and Digital. The results will inform the corporate method of carrying out reviews.

- It is planned that the Change Programme will deliver improvements and savings.

Interreg (European Funding)

Angus Council is participating in the project "***Like! Building a Local Digital Innovation Culture"*** which has been awarded funding from Interreg NSR ERDF. There are ten partners from across the NSR with Gemeente Groningen being the Lead Beneficiary. "Like!" will significantly enhance the capacity of the public sector to facilitate and deliver innovation and result in the development of a wide range of services with innovative solutions for improved public service delivery. Local governments, citizens, universities and SMEs will come together to co-create smarter, more efficient and more innovative services through nine transnational pilots that cover 3 core themes. Angus Council is contributing to all the themes and is the lead partner for one of them.

Angus Council is required to obtain external verification of project outputs and expenditure. Following a tender process the Council has formally appointed Grant Thornton as its external verifier First Level Controller by way of a formal letter of engagement dated 9 and 11 October 2017 ("the Engagement").

Further verifications may be required by Interreg's second or third tier controllers as part of the project verification requirements.

Verifications will include the following procedures:

- Administrative verifications (based on documentation provided) in respect of each application for reimbursement by Interreg VB North Sea Region Programme ERDF

- On-site verification at least once a year throughout the life of project to check the reality of the project delivery and those aspects of compliance that can't be done through administrative checks.

Each expenditure verification requires to be 'end-to-end'. This means checking:

- The relevance of the expenditure to the project
- The eligibility according to programme rules
- The provision within the approved budget
- The methodology for claiming costs such as overheads and staffing
- The compliance with procedures for buying goods and services
- The defrayment through accounting and payroll evidence
- Compliance with publicity requirements

In order to assist with the verification process, Internal Audit have provided advice to staff involved with the Interreg project regarding the evidence and supporting documentation which is required for Interreg Claim 1 (for the period to 30 September 2017). A number of checks on the expenditure included in the claim were also carried out. Claim 1 has now been submitted to the First Level Controller (FLC) for external verification.

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 26 February 2018. The EMT is now receiving and reviewing regular detailed 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
Total overdue	**1**	**-**	**1**	**2**

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

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Grand Total
Chief Executive	2016/17	-	-	-	1	1
People	2016/17	-	-	-	-	-
Place	2016/17	-	-	1	-	1
	2017/18	-	-	-	-	-
Grand Total		**-**	**-**	**1**	**1**	**2**

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.**