

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 24 APRIL 2018

INTERNAL AUDIT ACTIVITY UPDATE

REPORT BY MARGO WILLIAMSON, CHIEF EXECUTIVE

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.

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List of Appendices:

Appendix 1 - Internal Audit Activity Update Report

Angus Council Internal Audit



Update Report

Scrutiny & Audit Committee

24 April 2018

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 March 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 12 April 2018. Definitions for control assurance assessments are shown on page 15.

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	Removed from 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.)					
Continuous Auditing – Payroll & Accounts Payable	Continuous Auditing	Update included in this report	Comprehensive	N/A	24 April 2018
IT Governance					
IT User Access Administration (Integra)	Nov./Dec. 2017	Complete	Limited		Revised 24 April 2018
Internal Controls					
Contractual Arrangements	Sept./Oct. 2017	Complete	Comprehensive		21 November 2017
Property Repairs Work Allocation	Jan. 2018	In progress			<i>24 April 2018</i> <i>Revised 19 June 2018</i>
Service Level Agreements	Jan. 2018	In progress			<i>24 April 2018</i> <i>Revised 19 June 2018</i>
Council Oversight of IJB	March 2018	In progress			<i>19 June 2018</i>
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	Complete	Comprehensive		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 reports for the Property Repairs Work Allocation and Service Level Agreement (SLA) audits are currently being prepared. These should now be reported to the June Committee.

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

- Carbon Reduction
- Continuous Auditing – Payroll & Accounts Payable
- Integra User Access Management

Carbon Reduction

The final report was issued on 13 March 2018.

The CRC Energy Efficiency Scheme is a mandatory carbon emissions reduction scheme for the UK. It was introduced by the UK Government to help meet legally binding greenhouse gas reduction targets established by the Climate Change Act 2008.

The CRC scheme is currently in Phase 2 which commenced on 1 April 2014 and runs until 31 March 2019. The scheme requires that a periodic review of the internal procedures and a quality check of the data are carried out. This has been carried out by Internal Audit annually since 2012.

In addition to the requirements of the CRC Scheme, a Statutory Order section 46 of the Climate Change Act came into force on 23 November 2015, requiring “major player” public bodies to annually report on compliance with the climate change duties. The Order sets out the reporting requirements, list of public sector major players involved and the standard climate change reporting form. As a major player, Angus Council is required to complete and submit the template report.

The Sustainable Scotland Network (SSN) acts as the administrator for the Climate Change Duties reports and the 2016/17 Analysis Report is available on their website. The document focuses on the quantitative information on the corporate emissions reported by the 180 public bodies, Angus Council included.

Scope

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

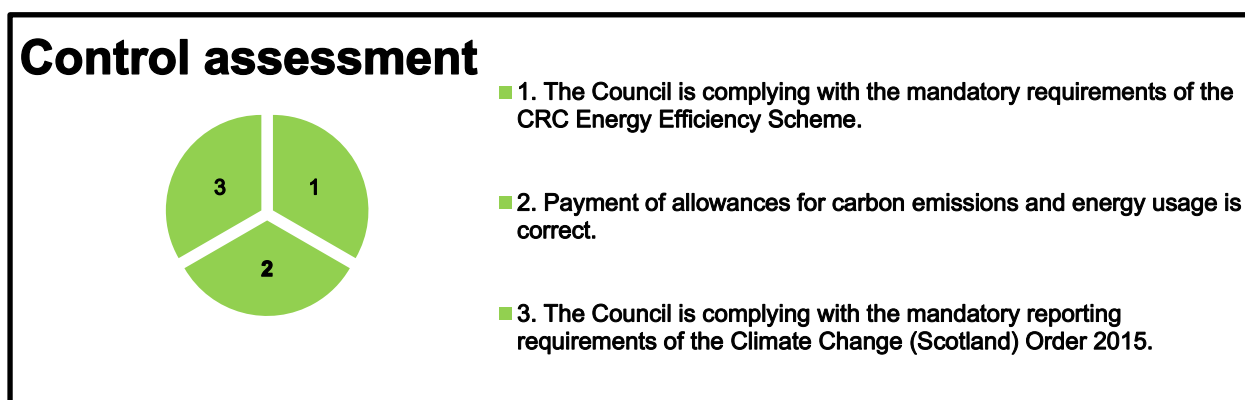
- The Council is complying with the mandatory requirements of the CRC Energy Efficiency Scheme.
- Payment of allowances for carbon emissions and energy usage is correct.
- The Council is complying with the mandatory reporting requirements of the Climate Change (Scotland) Order 2015.

Conclusion

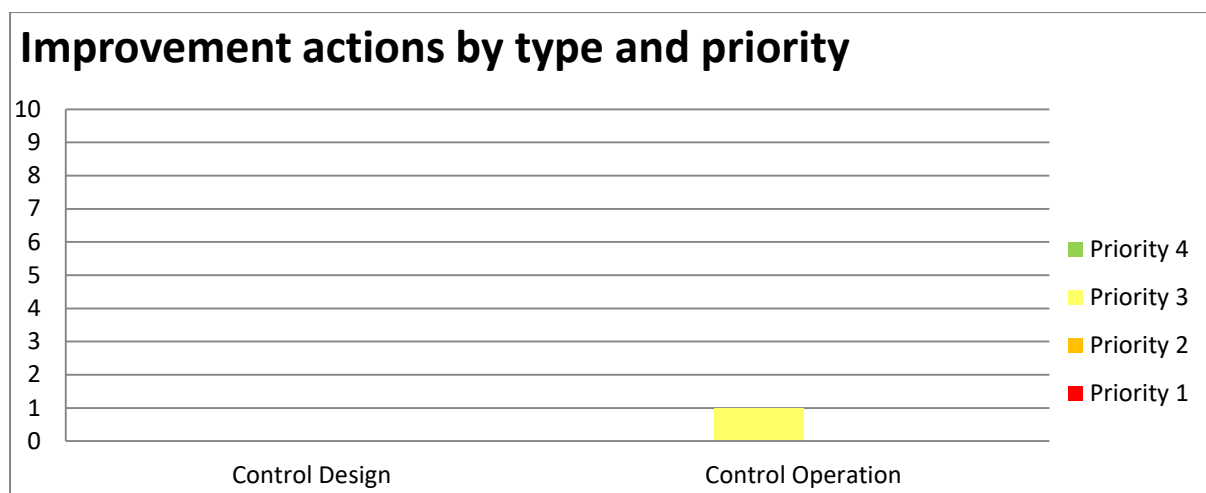
The overall level of assurance given for this report is **Comprehensive Assurance**.

Overall assessment of Key Controls

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



Audit Recommendations summarised by Type & Priority



There is 1 recommendation in this report regarding the operation of a control.

Key Findings

Good Practice

We have identified the following areas of good practice:

- Staff refer to the most current Government guidance on the CRC Energy Efficiency Scheme;
- Spreadsheets are maintained to record all the Council's energy supplies and meter readings;
- Non meter readings are checked manually by Energy Technicians three times a year;
- Staff perform monthly reasonableness checks on the consumption totals entered on the monitoring master spreadsheet;
- Reconciliations between the consumption totals on the monitoring spreadsheet and suppliers invoices are completed twice a year;
- The Policy and Resources Committee receive an annual report on the Council's compliance with its climate change duties.

Areas Identified for Improvement

During the audit the following area was identified where further work is required in order to address limited risk:

- A note should be issued to the Council Management Team detailing the importance of notifying the Energy Management Unit when there has been a change to an Angus Council Property.

Continuous Auditing – Payroll & Accounts Payable

As part of the 2017/18 annual plan, Internal Audit has completed an exercise to interrogate Payroll information as part of the Continuous Auditing Programme. We used the data analysis software, CaseWare IDEA (Interactive Data Extraction Analysis) to analyse the data.

The exercise analysed 6,335 payroll payments for 2017/18, up to and including January 2018, to produce a list of employees with:

- No National Insurance Number.
- Duplicate National Insurance Numbers
- Duplicate bank accounts.
- High Value Payments.

A very small number of anomalies were identified by our testing in this period, and most of these have been explained to our satisfaction. There are three outstanding queries which have still to be clarified by Payroll.

The overall level of assurance given as a result of our testing to date is **Comprehensive Assurance**.

Continuous Auditing of Accounts Payable using IDEA will commence following finalisation of the Internal Audit report on Integra User Access Administration and full consideration of the Accounts Commission's report on the recent fraud case at Dundee City Council.

Integra User Access Management

As part of the 2017/18 annual plan, Internal Audit completed an audit of the user account and access management controls in place within the Council's Integra finance system.

The Council is reliant on the Integra finance application (which includes General Ledger, Purchase Ledger and Sales Ledger modules), supplied by CAPITA, to support the overall financial management of the Council. It is essential that there are adequate controls in place for the system to ensure that only valid users have access and that access management processes ensure that segregation of duties is maintained. A recent payments fraud in another local authority has highlighted the importance of adequate controls in this area.

The audit sought to provide assurance that appropriate controls are in place to ensure the confidentiality, integrity and availability of the Integra finance system data. The review considered the adequacy of user access controls to ensure effective segregation of duties. Also, the weaknesses identified as enabling fraudulent activity in another local authority, as mentioned above, were considered as part of the review.

The audit report was agreed on 12 April 2018.

Scope

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

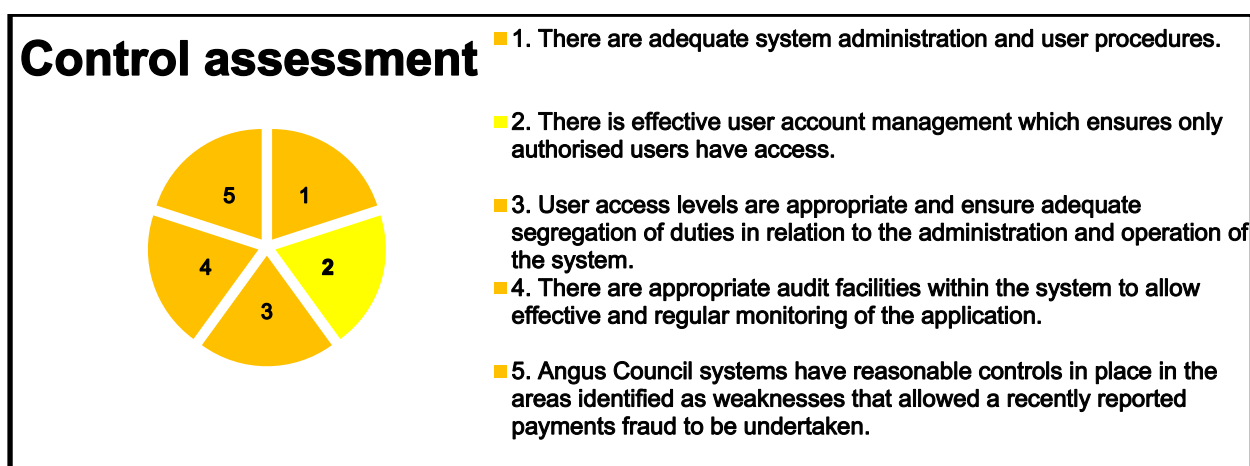
- There are adequate system administration and user procedures.
- There is effective user account management which ensures only authorised users have access.
- User access levels are appropriate and ensure adequate segregation of duties in relation to the administration and operation of the system.
- There are appropriate audit facilities within the system to allow effective and regular monitoring of the application.
- Angus Council systems have reasonable controls in place in the areas identified as weaknesses that allowed a recently reported payments fraud to be undertaken.

Conclusion

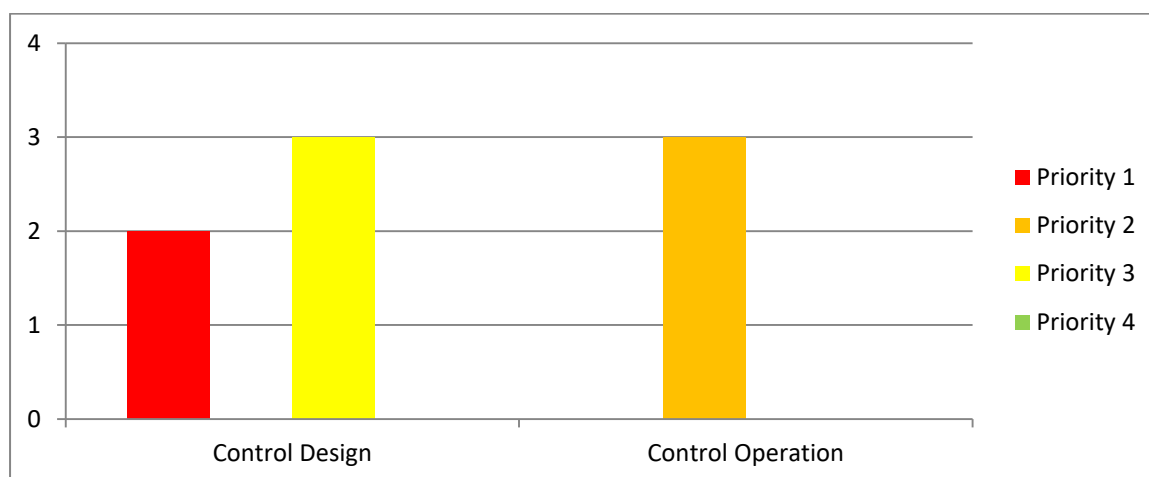
The overall level of assurance given for this report is '**Limited Assurance**'.

Overall assessment of Key Controls

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



Audit Recommendations summarised by Type & Priority



There are 8 recommendations in this report, with 3 regarding operation of controls and 5 for control design. There are two priority 1, and three priority 3 control design recommendations. The three control operation recommendations are all priority 2.

Key Findings

Good Practice:

We have identified the following areas of good practice:

- There are dedicated Systems Administrators currently in post who have a clear understanding of their roles and responsibilities.
- Each System Administrator has their own login and password.
- A formal process is in place for providing access to the system, and checks are conducted to ensure that the access requested is appropriate (para. 19 refers).
- Integra records cannot be deleted by System Administrators; only CAPITA have the necessary permissions to do this.
- Formal IT security policy and acceptable usage guidance is in place for staff to follow.
- Third party access to the system is strictly controlled.

Areas Identified for Improvement:

During the audit the following areas were identified where further work is required to address high, moderate and limited risk exposure:

- A comprehensive review of the 10 accounts with full administrator access should be undertaken as a matter of urgency. Accounts that do not require this access should be disabled and the relevant staff given standard access rights commensurate with their post.
- A report detailing leavers should be requested monthly by the Corporate Finance Systems Officer from Resourcelink staff, and those with Integra user access should be disabled in the system.
- Immediate action should be taken to ensure that no member of staff has system access rights which could allow them to create and complete a full purchase to payment lifecycle. This links to Recommendation 1.
- A review of Integra user access levels should be performed by line managers within services to ensure that they remain aligned to the user's role and responsibilities. This should be re-performed annually.

- Integra audit capabilities should be used on a regular basis to ensure those with full Administration access have not abused their authority.
- Monitoring of access made by those users with full system administrator rights should be performed on a frequent basis.
- All Directorates should be reminded of their responsibilities regarding segregation of duties, and the requirement to run regular reports and review these to ensure that segregation of duties is being performed in all cases.

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.

As at 23 March 2018, there are no outstanding Internal Audit recommendations on Pentana. This excludes recommendations relating to Angus Alive and the Angus Health & Social Care IJB.

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

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.