

**ANGUS COUNCIL**

**SCRUTINY & AUDIT COMMITTEE – 24 APRIL 2018**

**ANNUAL INTERNAL AUDIT PLAN 2018-19**

**REPORT BY MARGO WILLIAMSON, CHIEF EXECUTIVE**

**ABSTRACT**

This report submits the Audit Manager's Annual Internal Audit Plan for 2018-19 for approval.

**1. RECOMMENDATIONS**

It is recommended that the Scrutiny and Audit Committee:-

- (i) note that a risk-based approach methodology has been utilised to develop the proposed Internal Audit Plan for 2018-19.
- (ii) approves the proposed 2018-19 internal audit plan

**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**

In terms of the Public Sector Internal Audit Standards (PSIAS), the Audit Manager is required to set a risk based audit plan sufficient to provide the required assurances to members and officers in relation to corporate governance, risk management and internal controls.

This report presents, at Appendix 1, the outcomes of the annual planning exercise and the Audit Manager's proposed 2018-19 Internal Audit Plan, for approval.

Best practice requires that the annual audit plan is developed using a risk based approach in consultation with audit stakeholders. Appendix 1 explains the well-established process which is utilised within internal audit from consultation on the audit universe, calculation of available audit days, through identification of auditable areas to risk assessment and the final proposed plan.

**4. PROPOSALS**

The 2018-19 Internal Audit Plan sets out the proposed activity to be performed by the Council's Internal Audit team in order to allow the Service Leader (Internal Audit) to provide an Annual Internal Audit Opinion in June 2019. The Scrutiny & Audit Committee members are asked to approve the plan.

**5. FINANCIAL IMPLICATIONS**

There are no financial implications arising directly from this report. Delivery of the internal audit plan can be achieved from the audit resources which have been budgeted for in financial year 2018-19.

**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 - 2018-19 Internal Audit Plan

# Angus Council Internal Audit



## Annual Internal Audit Plan 2018-19

March 2018

Cathie Wyllie  
Audit Manager  
Chief Executive's Unit

# Contents Page

Introduction.....	3
2018-19 Audit Plan – Detailed Outputs.....	10
2018-19 Outputs to Scrutiny & Audit Committee.....	16
Conclusion .....	16
Annex 1 – Summary of Corporate Risk Register (as at 22 February 2018) ....	17

# Introduction

Internal audit is defined in the Public Sector Internal Audit Standards (PSIAS) as:

“An independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

Management are responsible for establishing the risk, governance and internal control processes and systems as well as their on-going monitoring. Management are also responsible for managing fraud risks and ensuring that internal control systems are designed to guard against fraud and misappropriation. Internal audit is not a substitute for these management responsibilities. Rather it is the review function which will challenge current practices and recommend best practice and improvements to lead to a strengthening of the control environment and therefore assist the council in achieving its objectives.

Professional practice in relation to the provision of internal audit service is defined by PSIAS issued by the relevant authorities (CIPFA for local government). These standards are exacting in relation to the organisation’s governance of internal audit and internal audit’s own arrangements and practices. The Standards were last updated in March 2017.

An External Quality Assessment (EQA) performed in late 2014 by CIPFA confirmed that Internal Audit was fully compliant with the requirements of the PSIAS. An annual self-assessment is undertaken to confirm continuing compliance with the Standards.

Due to the continuing changes within the council, the plan should be considered to be flexible and will be periodically reviewed and amended as required to reflect any new requirement or significant change to Council risks. Any amendments will be brought to the Scrutiny & Audit Committee for approval.

Our Internal Audit plan will be delivered in accordance with the Internal Audit Charter that was approved by the Scrutiny & Audit Committee in September 2017. This sets out the role, professional requirements, independence and overall responsibilities of Internal Audit.

The Council’s management review has changed how the internal audit and counter fraud teams will be managed in future. The Internal Audit team has been complemented by a co-source arrangement which provides 110 days per annum with 80 days dedicated to the Audit Manager role. The current contract ends in April 2018. The new management structure includes a full time post of Service Leader – Internal Audit responsible for the internal audit and counter fraud teams. The Scrutiny & Audit Committee approved recruitment to this post (Report 81/18 refers) and this is currently underway.

The authority, access rights and reporting arrangements for the Internal Audit function are also contained within the Internal Audit Charter. This details the functional reporting arrangements for the Audit Manager to the Scrutiny & Audit Committee and Chief Executive as well as, for contract management purposes, the Service Manager – Governance and Consultancy (from 1 April 2018 the Manager – Governance, Risk and Scrutiny). The Charter requires annual approval and in previous years has been presented to the Scrutiny & Audit Committee in September. Following the management restructure and the decision taken at

the Special Scrutiny & Audit meeting in February 2018, the reporting arrangements will change once the new Service Leader is in post. The Service Leader - Internal Audit will bring a revised Charter to the first meeting after taking up their appointment.

In discharging the internal audit role, the Audit Manager is required to set a risk based audit plan sufficient to provide the required assurances to members and officers in relation to corporate governance, risk management and internal controls. These assurances will be provided throughout the year. We will present the results of individual audit reviews through Internal Audit Update reports to each Scrutiny & Audit Committee. The activity related to the Counter Fraud Team will be reported bi-annually. In June 2019 the Annual Internal Audit Report will present an overall summary of the effectiveness of governance, risk and the internal control environment as well as an opinion on the corporate governance of the Council.

## The Planning Approach

The audit planning process for developing a risk based audit plan is well established within the Council.

The process involves determining the potentially auditable areas of the Council and updating these each year. The auditable areas are identified from a number of sources including:

- Consultations with Council Members (incl. Scrutiny & Audit Committee)
- Consultations with the Council Management Team (incl. the Head of Corporate Improvement and Finance)
- Knowledgebase within Internal Audit
- Council plans and policy documents
- Corporate and departmental risk registers
- External inspection reports
- Internal service, efficiency reviews etc.
- Liaison with external auditors
- Any matters arising from the work of the Scrutiny & Audit Committee

This then establishes the audit universe for the upcoming year from which the specific individual areas of audit will be chosen, based on the risk assessment methodology discussed below.

## The Risk Assessment Model

Once the auditable areas are identified they are separately risk assessed in accordance with the model which considers aspects of corporate importance and sensitivity of the area and the control and inherent risk. This then allows the elements of the audit universe to be classified into Critical, High, Medium or Low risk. There are also a number of 'core' areas which are reviewed every year, regardless of the risk classification.

Each of the risk assessed areas within the "universe" is then allocated to a "headline area" as follows:

- Corporate Governance
- Financial Governance
- Information Technology Governance
- Internal Controls
- Asset Management
- Legislative and other compliance

The headline areas are subject to a high level risk assessment model which looks at the relative risk and relative risk maturity of the headline areas to work out a broad allocation of the available audit days. This is not considered a rigid calculation but more a guide to the balance of the plan which can be amended to reflect specific needs and drivers.

The high level risk assessment takes into consideration the local risks contained within the corporate risk register as well as known risks at a national level.

## The Audit Plan

The final step in the development of the annual plan is to identify the individual audits from the audit universe which will sit below each of the headline areas and form the plan for the year. This choice is determined by a number of factors including:

- The assessed risk from the audit universe
- The time lapse since last audit
- Review of Corporate Risk Register
- Known problems or issues arising in previous audits/inspections, etc.
- Reviews being undertaken by other assurance providers (e.g. External Audit)
- Special requests

In addition, a portion of the plan has been reserved for contingency activity. Contingency resource will be available to fulfil reviews at the request of the Scrutiny & Audit Committee and management. This can relate to specific assignments where the objectives are set jointly by Internal Audit and by the Committee/Management or can be advisory or project assurance roles.

## The 2018-19 Internal Audit Plan

The 2018-19 Internal Audit Plan has been developed on the basis of the above model plus specific management requests.

The internal audit team has a dedicated internal resource comprising three auditors and one senior auditor (3.6 FTE). There is a 0.4 FTE Audit Manager provided under the co-sourced contract until the end of April 2018. Following completion of recruitment there will be a full time Service Leader (Internal Audit) at some point after April 2018. The plan prepared below for 2018-19 reflects

- the availability of a full complement of staff,
- the co-sourced manager until the contract end in April 2018
- an assumption of 10 months of the Service Leader (Internal Audit), and
- 30 days for specialist support for IT audit, for which a contract will require to be put in place during 2018 following the end of the current co-sourced contract in April.

The total number of productive days available from the Internal Audit team has taken into consideration the following:

- Maximum number of available days
- Professional development for staff
- Annual leave, plus contingency for sickness absence
- Internal administration activities

The Counter Fraud Team (2FTE) will continue to carry out data matching exercises to identify fraud and error; publicise, promote and enforce the Counter-Fraud and Corruption Strategy and framework; continue to develop joint working arrangements with colleagues across the Council; and will liaise with other local authorities to identify areas of best practice.



The Council's participation in the National Fraud Initiative (NFI) continues to be an integral part of the corporate approach to the prevention and detection of fraud and errors. Update reports will be submitted to this committee, together with a summary of the local outcomes.

The Audit Plan continues to include work carried out in relation to Angus Alive. Internal Audit will agree with the Angus Alive Board a specific plan for Angus Alive. The output from these audits will be prepared for the Angus Alive Board and if relevant for the Council Scrutiny & Audit Committee.

The overall Internal Audit and Counter Fraud resource and allocation is included in the table below:

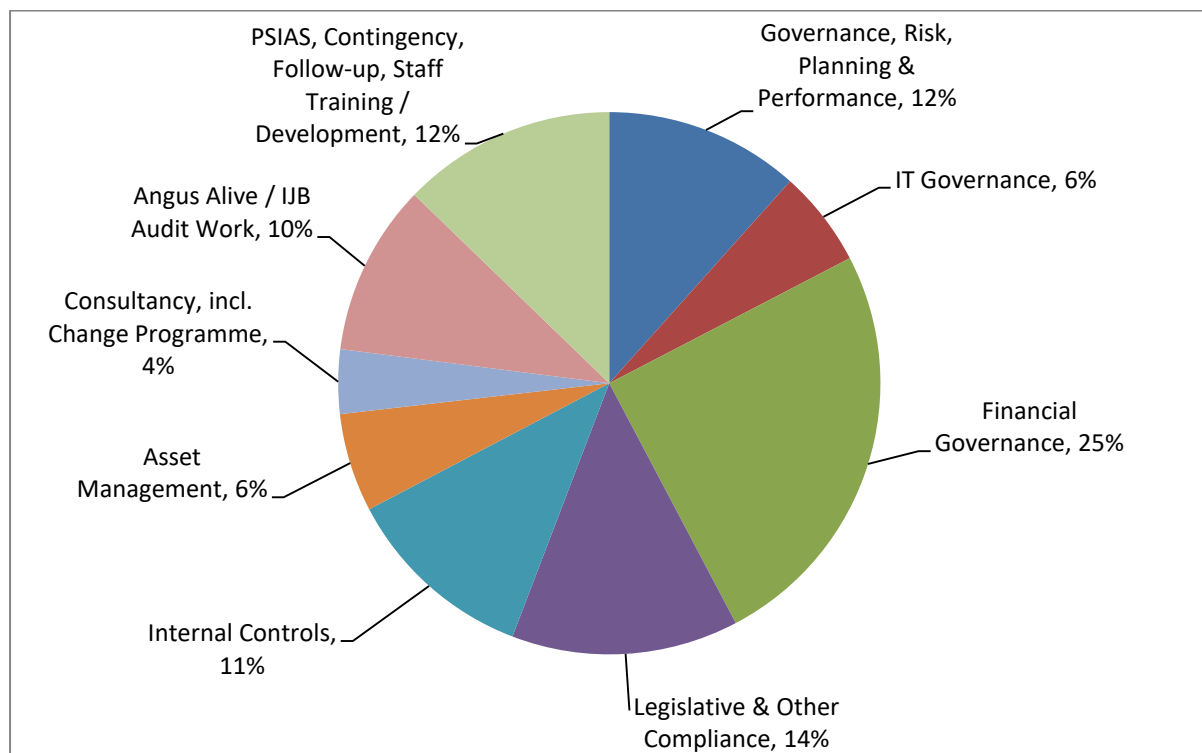
Areas	Audit Days
<b>Productive days available from: Internal Audit team</b>	<b>785</b>
<b>Counter Fraud Team</b>	<b>436</b>
<b>Audit Manager and supplementary co-source provision</b>	<b>40</b>
<b>Service Leader (Internal Audit)</b>	<b>181</b>
<b>Total available days</b>	<b>1,442</b>
<b>Allocated as follows</b>	
<b>Audit plan (see 2018-19 Detailed Outputs below)</b>	<b>703</b>
<b>Counter Fraud Team</b>	<b>436</b>
<b>Angus Alive</b>	<b>50</b>
<b>Angus Health and Social Care Partnership</b>	<b>30</b>
<b>Admin, management and planning</b>	<b>223</b>
<b>Total allocated days</b>	<b>1,442</b>

The current resource availability is sufficient to allow production of the Annual Internal Audit Opinion and provide the required assurances to Scrutiny & Audit Committee Members as well as the Head of Corporate Improvement & Finance in his role as Section 95 Officer.

The initial allocation of the available days in delivering the audit plan is shown below:

Headline Area	Audit days 2018-19
<b>Governance, Risk, Planning &amp; Performance</b>	91
<b>Financial Governance</b>	195
<b>IT Governance</b>	45
<b>Internal controls</b>	90
<b>Asset Management</b>	46
<b>Legislative &amp; Other Compliance</b>	106
<b>Angus Alive and IJB work</b>	80
<b>Follow-up, PSIAS Review, Contingency</b>	75
<b>Consultancy</b>	30
<b>Staff and Team Development</b>	25
<b>Sub-total:</b>	783
<b>Fraud Prevention and Detection - Counter Fraud Team</b>	436

The diagram below illustrates the percentage allocation of audit days (excluding the Counter Fraud Team) for 2018-19:



We believe that this allocation is appropriately aligned to risk profile and will address the assurance needs of the Council in 2018-19.

It should be noted that at this stage, the days per headline area are an estimate and will be firmed up once more detailed scoping work has been carried out. The outputs detailed in the '2018-19 Audit Plan – Detailed Outputs' section below include all the outputs which will be provided.

All audit work will be conducted by the Internal Audit team under the guidance and direction of the Audit Manager/Service Leader (Internal Audit) and Senior Auditor. Where any team member has a perceived or actual conflict of interest in relation to an Internal Audit assignment or investigation, they will not be permitted to have any involvement in that piece of work. In addition, Internal Audit staff who are involved in consultancy work will not be permitted to be involved in any internal audit work that is directly related to that work.

## 2018-19 Audit Plan – Detailed Outputs

The table below sets out the individual audits to be conducted during the 2018-19 financial year and the output that will be generated from each piece of work. We have included, where relevant, a link to those risks contained within the Corporate Risk Register (CRR ref.) as at February 2018 (see Annex 1). This allows Members and management to identify where Internal Audit can provide assurance on the effectiveness of the controls implemented to mitigate risks. A number of projects were considered for inclusion in the current plan but were excluded on a risk assessed basis due to the available resources. These may be included, following discussion with management and the Scrutiny & Audit Committee, if for any reason a project is postponed.

- Performance Framework, and public reporting of performance
- Data protection compliance in schools
- Income and debtors management
- Community participation requests
- Community planning partnership/partnership governance/LOIP
- Participatory budgeting
- Review of contract monitoring arrangements in place re Tayside Contracts
- Recharges to HRA for support services
- Review how charitable trusts are managed/Governance/OSCR compliance
- Arrangements for achievement of 2020 Landfill targets
- Protection of vulnerable groups

Audits	Output	Commentary	CRR ref.
<b>Corporate Governance</b>			
Corporate Governance annual review – 2017-18	Annual Report	Review of the self-assessment process and progress with action plans.	N/A
New Management Structure - revised Governance Arrangements	Consultancy input / Report	Governance review following implementation of new Mgt. Structure. Consultancy/advice on good governance, e.g. new Scheme of Delegation.	2,3

Audits	Output	Commentary	CRR ref.
<b>Corporate Governance (cont.)</b>			
General Data Protection Regulations (GDPR) Readiness	Report	Follow up work re previous review of corporate arrangements for compliance with new data protection legislation that will be enacted May 2018.	7
Risk management	Report	Review of risk management arrangements at corporate and departmental level, including risk appetite, escalation procedures and monitoring and review arrangements.	all
Arrangements with Angus Alive	Report	Review of Council governance and oversight of the arrangements with Angus Alive.	1,4
Council oversight of IJB	Annual assurance input	Overview of Council governance & oversight to inform assurance arrangements and planning for IJB audit.	15
<b>Financial Governance</b>			
Schools' Funds – Governance (follow-up)	Report	Follow-up of implementation of previous actions plans in a sample of schools.	1
Savings targets/Income generation	Report	Review procedures to set, monitor and report progress with savings targets and income generation.	1, 3
Change programme	Report	Review realisation of Agile savings and anticipated outcome.	1, 3
Review of Voluntary Severance scheme	Report	Review of operation of Voluntary Severance scheme and checking of all payments over £50,000.	1
On-line payments/ "Cashless Council"	Report	Review of progress with implementation of on-line payments and move towards "Cashless Council".	1, 3

Audits	Output	Commentary	CRR ref.
<b>Financial Governance (cont.)</b>			
On-line school payments	Report	Post-implementation review of on-line school payments.	1, 3
BACS system	Report	Review of BACS payment controls.	1
Data Analysis – Payroll and Accounts Payable	Report(s)	Data analytics tools will be used to analyse payroll data to identify data trends, anomalous or missing data, etc. Duplication with National Fraud Initiative will be avoided.	1
<b>IT Governance</b>			
Carefirst Social Work system	Report	Post-implementation review of upgraded system.	N/A
Integra User Access Admin. - Integra	Report	Follow-up 2017/18 audit/further work if required.	1, 7
IT User Access Administration - Resourcelink	Report	Administration of user access to IT systems is devolved to local managers and a core financial system is reviewed each year. Resourcelink has been selected this year.	1, 7
<b>Internal Controls</b>			
Contract specification process	Report	A review of procedures and processes, (including approach to maximising value for money/best value) in place to develop contract specifications.	1

Audits	Output	Commentary	CRR ref.
<b>Internal Controls (cont.)</b>			
Change Management/ project management procedures	Report	Review of Change Management procedures, to include Project Management procedures at individual project level.	3, 4
Business continuity planning and disaster recovery	Report	Review of BCP arrangements, including IT disaster recovery and back-up arrangements. This is a high risk area, particularly during a period of change.	19
School transport	Report	Review of arrangements for contract management and contract failure procedures.	16, 20
Nursery/Early years expansion	Report	Review progress towards meeting legislative requirements by 2020.	6, 18
<b>Asset Management</b>			
Stocks	Report	Review of stock control arrangements in two locations.	1
MEB (Formerly DERL)	Report	Review of contract management and monitoring arrangements.	1
Property Repairs Work Allocation	Report	Review of new Schedule of Rates for planned maintenance, electrical work, heating, painting, roofing, etc.	1
Section 75 agreements	Report	Review procedures for and management of contributions.	18

Audits	Output	Commentary	CRR ref.
<b>Legislative and Other Compliance</b>			
LEADER	Report	Annual review of LEADER programme expenditure.	1
Carbon Reduction/Climate change responsibilities	Report	Annual review of Carbon Reduction return.	1,4,16
Climate change targets 2020	Report and/or Advice	Review monitoring and reporting arrangements around management of achieving targets and/or advice re climate change peer review process.	4,18
IR35 (off payroll working rules)	Report	Review arrangements for compliance with new legislation in place April 2017	18
Procurement Reform (Scotland ) Act 2014	Report	Review arrangements to ensure compliance with new requirements	18
EESH 2020 housing standards compliance	Report	Review arrangements to monitor, report and manage compliance	18
Environmental Health, Consumer Protection and Food Safety Enforcement	Report	Review arrangements to ensure statutory obligations are met	16,18,20
Corporate Health & Safety	Report	Review of arrangements and staff training	20
Interreg (European Funding)	Report	On-going advice as required and review of payroll information for next claim	1



Audits	Output	Commentary	CRR ref.
<b>Other</b>			
Follow-up of previous recommendations	Quarterly update	Continuing work to identify progress in implementing agreed audit actions. Maintain regular updates to Scrutiny & Audit Committee & CMT.	N/A
Staff Training and Team Development	Nil	Ensuring staff have knowledge and expertise to perform reviews in new areas and that Internal Audit meets relevant standards and achieves best practice.	N/A
PSIAS (Public Sector Internal Audit Standards) Review and Contingency	Annual Report	Annual internal quality assessment and compliance with standards as required.	N/A
<b>Consultancy – Advice/Specific</b>			
Consultancy support for Change Programme & specific Member and/or management projects	Advisory	As determined by requests	3

## 2018-19 Outputs to Scrutiny & Audit Committee

The table below lists the outputs expected to be presented to the Angus Council Scrutiny & Audit Committee until June 2019.

Committee Meeting	Output
<b>June 2018</b>	Internal Audit Annual Report 2017-18 Internal Audit Update Report Counter Fraud Report
<b>August 2018</b>	Internal Audit Update Report
<b>September 2018</b>	Internal Audit Update Report Approval of Updated Internal Audit Charter
<b>November 2018</b>	Internal Audit Update Report Counter Fraud Report
<b>January 2019</b>	Internal Audit Update Report
<b>March 2019</b>	Internal Audit Update Report Internal Audit Annual Plan 2019-20
<b>April 2019</b>	Internal Audit Update Report
<b>June 2019</b>	Internal Audit Annual Report 2018-19 Internal Audit Update Report Counter Fraud Report

## Conclusion

This report has outlined the audit planning and risk assessment process utilised within the council to develop the annual internal audit plan and presents the proposed audit plan for 2018-19. Members are asked to approve this plan, the discharge of which will be reported to the Scrutiny & Audit Committee at each Committee cycle.

## Annex 1 – Summary of Corporate Risk Register (as at 22 February 2018)

Risk No.	Description	Current Risk Score	Risk Appetite
1	Securing Financial Sustainability	16	6
2	Cultural Change	8	9
3	Change Programme	16	6
4	Performance Management	9	6
6	Workforce fit for the future	10	12
7	Information Governance	12	8
15	Health and Social Care Integration	12	9
16	Public Protection	12	8
18	Legislative change	9	9
19	IT Systems Business Continuity	10	2
20	Health & Safety Compliance	16	4