

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 19 JUNE 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

There was some slippage in delivering the 2017/18 plan to the original timetable however this has been caught up and the 2017/18 Plan is now complete. Work continues within the Internal Audit team to progress the 2018/19 Internal Audit Plan agreed by this Committee in April 2018.

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 and 2018/19 Internal Audit Plans. The Committee is asked to note this report.

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

6. FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

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

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List of Appendices:

Appendix 1 - Internal Audit Activity Update Report

Angus Council Internal Audit



Update Report

Scrutiny & Audit Committee

19 June 2018

Donna Gibbs
Team Leader – Internal Audit
Chief Executive's

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Introduction





This report presents the progress of internal audit activity within the council up to the 8 June 2018 and provides an update on:







- Progress with the 2017/18 Internal Audit Plan;
- Progress with the 2018/19 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 the end of May 2018. The 2017/18 Plan is now complete. Definitions for control assurance assessments are shown on page 17.

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	Complete	Limited		19 June 2018
Service Level Agreements	Jan. 2018	Complete	Limited		19 June 2018
Council Oversight of IJB	March 2018	Update included in this report	N/A	N/A	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	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.

With reference to item 7(ii) of the minute of the Scrutiny & Audit Committee on 24 April 2018, the Audit Manager agreed to obtain the IJB audit time allocation data from Fife, Tayside and Forth Valley Management Services (FTF). FTF allocated 20 days to the delivery of the Angus IJB internal audit plan. This excludes management time for the Chief Internal Auditor.

A further 30 days are included in Angus Council's internal audit plan specifically for work on IJB internal audits; this work is carried out by the Council's internal audit team on behalf of FTF. In addition, many of the audits carried out on the Council's systems and controls, as part of the Council's own Internal Audit Plan, also cover work done by Council staff on behalf of the IJB.

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: -

- Service Level Agreements
- Property Repairs Work Allocation
- Council Oversight of IJB

These 3 pieces of audit work were concluded after 30 April 2018, when the Audit Manager's contract ended. The findings would not adversely impact on the Audit Manager's overall opinion.

Service Level Agreements (SLAs)

As part of the 2017/18 annual plan, Internal Audit has completed an audit on the use of Service Level Agreements (SLAs) for the provision of services to the Council. The audit did not cover SLAs that are part of a formal contract, or agreements with Joint Boards and Joint Committees.

The audit sought to provide assurance that appropriate controls and processes are in place for the provision and monitoring of services provided under a SLA.

A Service Level Agreement (SLA) is an agreement between a service provider and service recipient which states the standard, specifications and price of a service to be supplied. It is conventionally distinguished in Angus Council from a commercial contract by being with a voluntary body by way of grant funding and/or where there is no market for a commercially sourced service.

There is no central register of SLAs (although there is a corporate contracts register). At the planning stage of this review we emailed each directorate requesting them to supply a list of SLA's they held and were responsible for maintaining. The information received included contracts which were not part of this audit. This highlighted that there is ambiguity in what is an SLA and will be addressed in the findings of this report.

The process to be followed when entering into and drawing up an SLA is published on the Council's Intranet, under Council Info/Finance/Following the Public Pound Guidance, with a template SLA provided. Financial Regulations (FR) Section 29 (grants and subscriptions) also has relevance to SLAs, especially 29.2 and 29.5.

Scope

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

- There is adequate and consistent policy and guidance provided to staff (including FR 29) to decide when the use of a Service Level Agreement rather than a contract is appropriate, and on the negotiation process to be followed and form these should take;
- Services provided under SLAs are appropriately monitored to ensure quality of service, that payments are only made for delivered services, and appropriate action is taken when services are not delivered as agreed;
- SLAs are regularly reviewed to ensure they are still required and appropriate to need; and
- Value for money is assessed and maximised during the negotiation of the SLA and agreement of price.
- The Council has adequate procedures in place to provide corporate visibility of all SLAs both in place at any point in time and also forward plans for review or renewal.

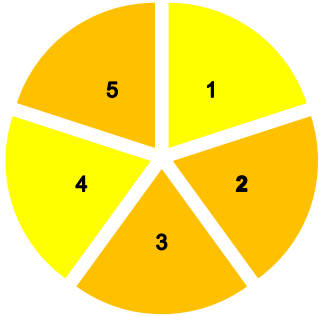
Conclusion

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

Overall assessment of Key Controls

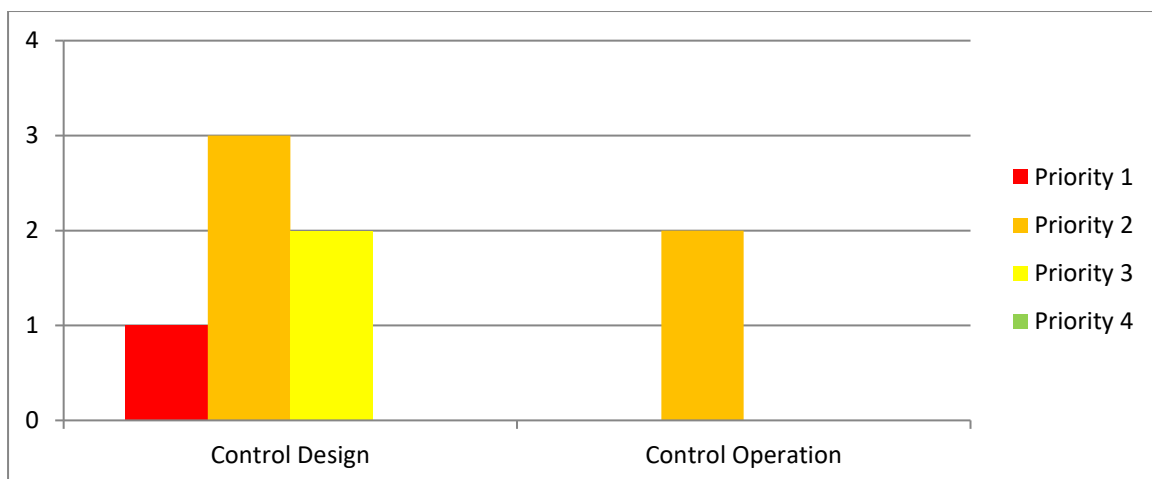
The audit reviewed and assessed the controls in place to manage the following Key Control Objectives:

Control assessment



- 1. There is adequate and consistent policy and guidance provided to staff (including FR 29) to decide when the use of a Service Level Agreement rather than a contract is appropriate, and on the negotiation process to be followed and form these should take
- 2. Services provided under SLAs are appropriately monitored to ensure quality of service, that payments are only made for delivered services, and appropriate action is taken when services are not delivered as agreed.
- 3. SLAs are regularly reviewed to ensure they are still required and appropriate to need.
- 4. Value for money is assessed and maximised during the negotiation of the SLA and agreement of price.
- 5. The Council has adequate procedures in place to provide corporate visibility of all SLAs both in place at any point in time and also forward plans for review or renewal.

Audit Recommendations summarised by Type & Priority



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

Key Findings

Good Practice:

We have identified the following area of good practice:

- Agreements detail the aims and objectives of the service to be provided which is linked to the Council's priorities.

Planned Improvements/Changes:

In addition, the following is planned and should address areas identified in this report under control objective 1:

- A review on SLAs/contracts by the contracts team and other interested parties will address the following:-
 - Clarification of whether the wording 'SLA' is relevant;
 - When to use an agreement for grant funding or a contract for services provided;
 - Establish a new process for renewal of agreements;
 - A revised process for provision of agreements with Nursery providers.

Areas Identified for Improvement:

We have made 8 recommendations to address high and moderate risk exposure; 1 priority 1, and 5 priority 2 and 2 priority 3 which are:

Priority 1

- A corporate grants register should be established.

Priority 2

- The wording 'SLA' should cease and new guidance on what is a 'contract for service' or 'grant funding' should be completed;
- Monitoring requirements for grant funding should be reviewed;
- Following the Public Pound Guidance , Appendix 2, should be used as a template by staff for monitoring purposes;
- Authorisation limits for grant funding agreed and included in Financial Regulations;
- A new process for renewals is to be established which takes into consideration the type of service and value of the grant.

Priority 3

- Financial Regulations Section 29 and Following the Public Pound Guidance should be changed to reflect the new guidance established;
- A responsible officer to confirm monitoring information is being documented.

Property Repairs Work Allocation

In August 2017, following an investigation, the Council's Fraud Team issued a report on the allocation of urgent electrical contracts.

One recommendation of the report was that Internal Audit should carry out an audit to review the allocation of work to contractors. This review addresses that recommendation and includes a wider consideration of contract management.

The overall objective of the audit is to provide assurance that there are appropriate controls in place over the allocation and subsequent management of urgent work to contractors. The contract frameworks for the following areas were covered by this review:

- Urgent Repair & Jobbing – covering 20+ trades such as electrical, plumbing, roofing, rough-casting, data installations and pest control

The final report was issued on 7 June 2018.

Scope

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

- The Council has adequate arrangements in place for the allocation of work to contractors;
- The arrangements for allocation are applied properly in practice;
- Adequate records of contract decision making are maintained;
- Adequate induction and on-going training is provided to staff involved in contract allocations;
- Adequate guidance and procedures are in place to ensure staff are aware of their responsibilities with regard to conflicts of interest and the requirement to declare these in the Staff Register of Interests; and
- Contractor performance is managed to ensure contract specifications are met.

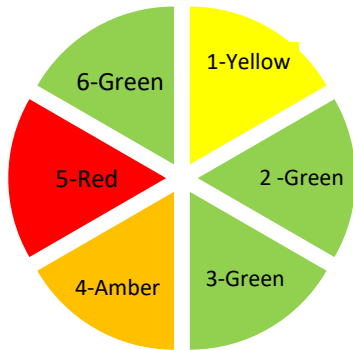
Conclusion

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:

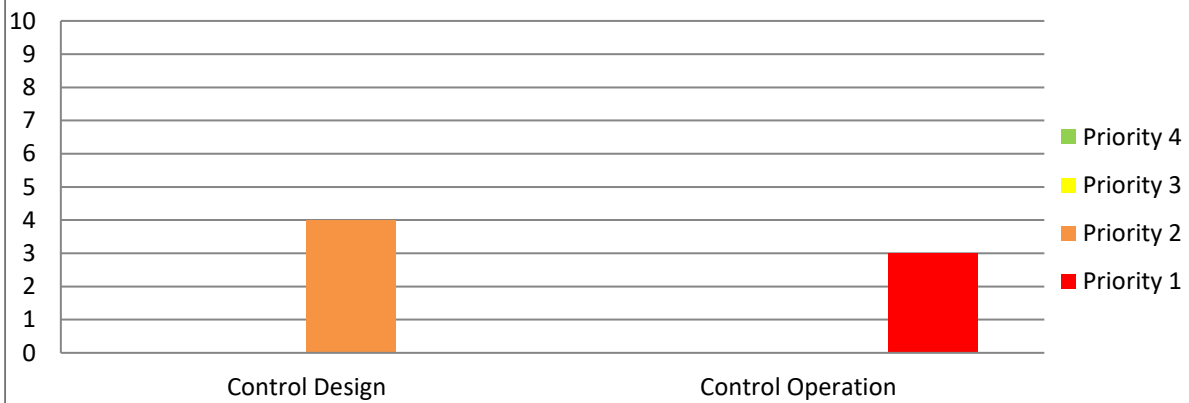
Control assessment



1. The Council has adequate arrangements in place for the allocation of work to contractors.
2. The arrangements for allocation are applied properly in practice.
3. Adequate records of contract decision making are maintained.
4. Adequate induction and on-going training is provided to staff involved in contract allocation.
5. Adequate guidance and procedures are in place to ensure staff are aware of conflict of interest and declare these in the Staff Register of Interests
6. Contractor Performance is managed to ensure contract specifications are met.

Audit Recommendations summarised by Type & Priority

Improvement actions by type and priority



There are 7 recommendations in this report; 4 design control recommendations (all are priority 2); and three operational control recommendations (all priority 1).

Key Findings

Good Practice:

We have identified the following areas of good practice:

- The winning contractor for each specific trade and geographical area (lot) is uploaded to the Helpdesk system with this being the default contractor and showing in a drop-down box when a job for the trade in the area is input;

- Letters are issued quarterly to contractors containing their pass, fail and percentage performance against the 70% pass rate needed for the contract, with underachieving contractors being invited for a meeting to discuss performance.

Planned Improvements/ Changes:

- There have been significant improvements in the procedures for the allocation of Property repairs work in the last year.

Areas Identified for Improvement:

During the audit we identified a number of areas for improvement, and have made the following recommendations:

Priority 1

- All staff involved in procurement must consider their personal relationships with anyone connected with a Council contractor. Staff must comply with the Employee Code of Conduct and should complete a “Staff Register of Interest” form where appropriate. Any staff who are uncertain should discuss the situation with their line manager;
- The Asset leadership team should be reminded of the need to consider the impact of any “Staff Register of Interest” declarations and appropriate re-allocation of duties if necessary.
- Staff in Property should not issue any orders to a contractor that they have declared an interest in;

Priority 2

- The risk register should be reviewed for risk CTPSSR_0028 Risk of fraud, corruption and bribery.
- The Property induction pack should be reviewed and updated to ensure it contains current information.
- Staff with responsibility for procurement and placing orders for works in Property should receive training from management on all policies and procedures relating to procurement and anti-fraud. A record should be kept of those who are trained.
- Procurement and anti-fraud training for staff involved in procurement for urgent repair and jobbing contracts should be provided at least every 2 years.

Council Oversight of IJB

The piece of audit work carried out on Council Oversight of the IJB in 2017/18 was a fact-finding exercise to establish what governance arrangements are in place to monitor the Council's relationship with the IJB, and whether these are adequate in terms of the IJB Integration Scheme. The meetings we have had confirm that adequate procedures are in place to satisfy the terms of the Integration Scheme, which requires that an annual report is presented to the Council's Scrutiny & Audit Committee.

In addition, all IJB agendas and reports are copied to the Council's Chief Executive, who will decide whether any of these requires to be reported to Council Committees for their information. As the IJB is not an employing authority, and cannot hold contracts, reports on decisions taken by the Council on behalf of the IJB are reported to the Council's Policy & Resources Committee. There are also regular meetings held between the IJB Chief Officer and the Chief Executive, with additional meetings attended by the IJB Chief Finance Officer and the Council's Head of Finance & Legal to discuss the annual financial settlement and negotiate budget proposals. Briefings on IJB matters have been arranged for the Council's elected members, with specific meetings arranged as necessary to inform them of issues of significant change or which have a high interest level for elected members. A Member-Officer Group (MOG) on general IJB matters is held which includes the 3 Councillors who are members of the IJB.

The working relationships between the IJB and the Council are still relatively new, and governance arrangements are therefore still being developed and refined. Further work on this area will therefore be undertaken as part of the 2018/19 Internal Audit Plan.

2018/19 Internal Audit Plan – Progress update

Work on the 2018/19 Internal Audit Plan (as agreed in Report 134-18) has commenced, and a full progress report and summary of the first audit reports from that Plan will be presented to this Committee after the recess.

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 21 May 2018. The CMT 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	-	-	3	3

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	-	-	-	-	-
People	2016/17	-	-	-	-	-
Place	2015/16	-	-	-	-	-
	2016/17	-	1	-	-	1
	2017/18	-	1	1	-	2
Grand Total		-	2	1	-	3

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.