

Angus Council Internal Audit



Internal Audit Annual Report 2017-2018

30 April 2018

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Executive Summary - Overall Opinion and Assurances

Background

1. The Public Sector Internal Audit Standards (PSIAS) state that:

“The Chief Audit Executive (Audit Manager) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”

2. To meet the above requirements, this Annual Report summarises the conclusions and key findings from the internal audit work undertaken during the year ended 31 March 2018, including my overall opinion on internal control system.
3. My governance, risk management, and internal control audit and assurances for 2017-18 are informed by a number of sources detailed in paragraph 9 below.
4. My opinions relate solely to the Council and do not include those bodies included in the group accounts.

Overall internal audit opinion

Objectives

5. The PSIAS require me to provide the Scrutiny & Audit Committee with assurance on the whole system of internal control. In giving my opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the whole system of internal control. My report also provides:
 - assurances to Members of the Council and the Chief Executive in relation to my assessment of, and opinion on, the Corporate Governance arrangements during the year under review
 - assurances to the Head of Corporate Finance in relation to internal financial controls to support and inform his duties as s95 Officer.
 - performance information in relation to internal audit and
 - the results of the internal audit quality assurance programme.

Opinion

6. In my professional judgement as Audit Manager sufficient and appropriate audit procedures have been conducted and evidence gathered to support the basis and the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations as they existed at the time against the audit criteria. The evidence gathered meets professional audit standards and is sufficient to provide senior management with the proof of the conclusions derived from the internal audit.
7. In my opinion the Council has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, effective and efficient achievement of objectives and the management of key risks, and proper arrangements are in place to promote value for money.
8. The internal audit work of the year has identified a number of areas of good practice and good internal control. Significant improvement has again been made in addressing implementation of internal audit recommendations and this should be continued in 2018-19. A number of level 1 recommendations have again been made with the more material findings highlighted in section 2.4.

Basis of opinion

9. In assessing the level of assurance to be given, I have taken into account:
 - All reviews undertaken as part of the 2017-18 internal audit plan;
 - Any scope limitations imposed by management. There were no limitations of scope to the audit work conducted in 2017-18, although the plan was revised to take account of reduced resources in the internal audit section for 2017/18 (see further comments at para. 44);
 - Matters arising from previous reviews and the extent of follow-up action taken;
 - Expectations of senior management, the Council and other stakeholders;
 - The extent to which internal controls address the Council's risk management /control framework;
 - The effect of any significant changes in the Council's objectives or systems;
 - The internal audit coverage achieved to date;
 - Formal assurances received from the Head of Corporate Finance (Section 95 Officer) and the Head of Legal & Democratic Services (Monitoring Officer);
 - Certification against minimum governance and internal financial control standards received from the Strategic Directors and from the Chief Executive's Unit;
 - My observations of the work of the Corporate Governance Officers Group (CGOG) in relation to their self-assessment of local code compliance;
 - The assessment of risk completed during the preparation of the audit plan;
 - Reports issued by the Council's External Auditors and other review agencies; and
 - My knowledge of the Council's governance, risk management, financial and performance monitoring arrangements.

Internal Audit Role and Structure

Role of Internal Audit

10. The PSIAS 2017 defines Internal Audit 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.”

Structure and Reporting

11. For the year to 31 March 2018 Internal Audit was part of the Governance section of the Chief Executive’s Unit. As Audit Manager, I had open access to all members and officers of the Council and operated in accordance with the Internal Audit Charter.
12. I reported the results of all internal audit work to the Scrutiny & Audit Committee in my own name. The Committee remit is to consider the outcomes of audit and investigation work; monitor the discharge by management of the recommendations made; ratify internal audit plans; and review the performance of internal audit.
13. Internal Audit undertakes an annual programme of work based on a formal risk assessment process which is revised on an on-going basis to reflect emerging risks and changes within the Council.
14. All internal audit reports are subject to consultation with management for consideration of factual accuracy and recommendations made. It is management’s responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken to implement the agreed action plans. I am required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Significant matters (including non-compliance with audit recommendations) arising from internal audit work are reported to the Head of Corporate Finance, Chief Executive and the Council’s Scrutiny & Audit Committee.

Summary of Internal Audit Activity 2017-18

Scope and Responsibilities

Management

15. It is the Council's Strategic Directors' responsibility to establish a sound internal control system. The internal control system comprises the whole network of systems and processes established to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- risk management;
- the effectiveness of operations;
- the economic and efficient use of resources;
- compliance with applicable policies, procedures, laws and regulations;
- safeguards against losses, including those arising from fraud, irregularity or corruption; and
- the integrity and reliability of information and data.

Internal audit

16. Internal Audit assists management by examining, evaluating and reporting on the controls in order to provide an independent assessment of the adequacy of the internal control system. To achieve this, Internal Audit should:

- analyse the internal control system and establish a review programme;
- identify and evaluate the controls which are established to achieve objectives in the most economic and efficient manner;
- report findings and conclusions and, where appropriate, make recommendations for improvement;
- provide an opinion on the reliability of the controls in the system under review; and
- provide an assurance based on the evaluation of the internal control system within the organisation as a whole.

17. The main areas of audit conducted in the year, with a summary of the more material findings, supplemented by our review work on discharge of level 1 recommendations, are outlined in section 2.4.

Planning Process

18. In order to be able to provide an annual assurance statement supporting the Governance Statement, I include all of the Council's activities and systems within the scope of the internal audit reviews.

19. The annual internal audit plan is designed to provide the Scrutiny & Audit Committee and management with assurance that the Council's internal control system is effective in managing the

key risks and value for money is being achieved. The plan is therefore informed by the Council's risk management system and linked to the Corporate Risk Register.

20. The Annual Internal Audit Plan was agreed in consultation with senior management and formally approved by the Scrutiny & Audit Committee in April 2017. The plan can be subject to revision during the year to reflect changes in the Council's risk profile. No changes were required to the 2017-18 plan during the year as a result of changes in the risk profile.
21. Changes to scope were made to accommodate a reduction in available resource following failure to recruit one FTE temporary post resulting from secondment of the post holder to Finance. The changes were reported to the June 2017 Scrutiny & Audit Committee (report 216/17 refers). At that time I concluded that the reduction, as a one-off occurrence, would not impair my ability to provide my opinions for 2017-18. That is still my view. The secondment ended on 31 March 2018 and the internal audit team is now back at full strength for 2018-19.
22. We have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. However, internal audit can never guarantee to detect all fraud or other irregularities and cannot be held responsible for internal control failures.

Cover achieved





23. At 30 April 2018 the 2017-18 plan has been delivered in full, with the exception that three items will be reported to the June Scrutiny & Audit committee. Fieldwork for all three is largely complete and whilst areas for improvement have been identified I am not aware of any significant findings at 30 April 2018 that would adversely impact on my opinion. An update to confirm this or revise the opinion if that position changes will be brought to the meeting. The projects are:







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



Main Audit Findings

24. The majority of control objectives were assessed as having been achieved, with a number of areas of good practice noted and a number of actions agreed to improve the control environment or tighten up the operation of the existing controls.

25. A variety of audit reports in both financial and non-financial areas have been issued during 2017-18 and all were considered by the Scrutiny and Audit committee.

Audits	WIP status	Overall control assurance	Control assessment by objective	No. of Audit Actions by Priority			
				1	2	3	4
Corporate Governance							
Corporate Governance annual review – 2016-17	Complete	N/A	N/A	-	-	-	-
General Data Protection Regulations (GDPR) Readiness – Phase 1	Complete	N/A	N/A	-	-	-	-
General Data Protection Regulations (GDPR) Readiness – Phase 2	Complete	Limited		1	2	2	-
Best Value Audit Follow-up: Public Accountability	Complete	Comprehensive		-	-	-	-
Best Value Audit Follow-up: Performance Information	Complete	Comprehensive		-	-	-	-
Financial Governance							
Schools' Funds – Governance (primary schools)	Complete	Limited		5	2	1	-
Recharging of Central Administration Costs	Removed from plan in September 2017	N/A	N/A	-	-	-	-

Audits	WIP status	Overall control assurance	Control assessment by objective	No. of Audit Actions by Priority			
				1	2	3	4
Financial Governance (cont.)							
Continuous Auditing – Payroll & Accounts Payable	Complete	Comprehensive	N/A	-	-	-	-
IT Governance							
IT User Access Administration (Integra)	Complete	Limited		2	3	3	-
Internal Controls							
Contractual Arrangements	Complete	Comprehensive		-	-	-	1
Property Repairs Work Allocation	Complete	Limited		3	4	-	-
Service Level Agreements	Complete	Limited		1	5	2	-
Council Oversight of IJB	Update included in this report	N/A	N/A	-	-	-	-
Asset Management							
Stocks (2016-17 year-end)	Complete	N/A	N/A	-	-	-	-
Community Asset Transfer Process	Complete	Substantial		-	3	2	2
Fixed Asset Register	Complete	Comprehensive		-	-	-	1

Audits	WIP status	Overall control assurance	Control assessment by objective	No. of Audit Actions by Priority			
				1	2	3	4
Legislative and other compliance							
LEADER (European Rural Development Programme)	Complete	Substantial		-	3	1	-
Carbon Reduction	Complete	Comprehensive		-	-	1	-
Interreg (European Funding)	Complete	N/A	N/A	-	-	-	-

26. Five areas were assessed as providing limited assurance that controls were adequate. In respect of the first 3 cases listed below, management have worked to address the issues, with all actions either complete or substantially progressed at 30 April 2018. The other 2 audit reports were completed after 30 April, and are summarised in the Internal Audit Activity Update Report to this Committee meeting (Report 203-18). The five areas of limited assurance were:

- **General Data Protection Regulations (GDPR) Readiness.** The audit identified that further resource was required to bring the action plan to achieve GDPR readiness by the deadline of 25 May 2018 back on track. This has been actively pursued by management and further audit consideration will be reported after the recess as it is planned to carry out further audit work in late May 2018.
- **Governance of School Funds (primary schools).** This audit was undertaken in primary schools because the audit in secondary schools in the previous year identified a number of areas for improvement. Similar findings were made in the current year audit and as a result School funds guidance has been updated and issued to all schools. A full follow-up audit is planned in 2018/19 to ensure schools are actively following the guidance.
- **IT User Access Administration.** This year the Integra financial system was tested, with particular attention paid to access issues highlighted in a recent fraud case in another Council. Actions agreed to reduce the number of administrator access accounts and ensure no one has end to end processing rights in the purchase cycle have already been implemented.
- **Service Level Agreements (SLAs).** A review of SLAs/grant agreements/contracts is currently being carried out by the Procurement Team and other interested parties, which will address areas for improvement identified in the report.
- **Property Repairs Work Allocation.** The audit was undertaken on contract frameworks for Urgent Repairs & Jobbing, following a recommendation resulting from an investigation by the Council's Fraud Team. A similar audit of the new Schedule of Rates for planned maintenance, electrical work, heating, painting, roofing, etc. is planned for 2018/19.

Action plans have been agreed to address all of the identified issues.

27. Internal Audit also contributed to the 2017-18 internal audit work for the Angus Integration Joint Board (IJB) as part of the agreement of shared services. A follow-up review of the 2016/17 financial management findings was carried out in the Place Directorate (Finance section) of Angus Council and the Angus Health and Social Care Partnership. The IJB audit service is led by the Chief Internal Auditor of NHS Tayside. At 18 May 2018 one piece of audit work is still in progress. Once this is finalised the results of this audit will be reported to the IJB.

Discharge of Audit Recommendations

28. As part of the annual audit work, the discharge of recommendations is reviewed.
29. All Services now monitor their audit recommendations through Pentana (formerly called Covalent). During the year we reviewed the progress of implementation of audit recommendations in some detail, reporting to the Council Management Team and the Scrutiny & Audit Committee.
30. All Directorates have taken significant steps to address the outstanding recommendations, and in particular the level 1 recommendations. We have seen a steady improvement during 2017-18 in recommendations being cleared by their due date. There was one overdue Level 1 recommendation as at 30 April 2018; however the completion date for this has subsequently been revised due to on-going service reviews.
31. We will continue to review implementation of recommendations as part of our 2018-19 follow up work.

Independence

32. PSIAS require me to communicate on a timely basis all facts and matters that may have a bearing on internal audit's independence.
33. I confirm that the staff members involved in each 2017-18 internal audit review were independent of the area under review and their objectivity was not compromised in any way.

Corporate Governance

34. The Council has a Local Code of Corporate Governance which is kept under review and is updated to reflect recognised best practice in corporate governance.
35. Compliance with the code is assessed on behalf of the Chief Executive on an annual basis by an officer working group on Corporate Governance. The outcome is reported to the Chief Executive and Scrutiny & Audit committee in June each year.
36. I have concluded that the Local Code is adequate and effective, and although some areas for improvement have been identified, the Code is complied with in all material respects.

37. Our audit work identified a small number of areas of non-compliance with the core internal financial controls within individual directorates. It was noted that work is still required to update schemes of delegation and authorised signatory lists.

Performance & Quality Assurance

Performance & Quality Assurance

38. Quality assurance arrangements within the Internal Audit section are contained within the Audit Manual and encompass a robust day to day quality system and file review process.
39. The External Quality Assessment completed by CIPFA in 2014-15 confirmed that the internal audit function was compliant with the PSIAS. This has been reconfirmed annually through an internal assessment process. Following each annual assessment an improvement plan is updated in compliance with the PSIAS.

Conformance with Public Sector Internal Audit Standards

40. I confirm that the Council's internal audit service conforms to the Public Sector Internal Audit Standards, which are based on the International Standards for the Professional Practice of Internal Auditing. This is confirmed through our quality assurance and improvement programme, which includes cyclical internal and external assessments of our methodology and practice, against the standards. A summary of the results of my most recent internal assessment is provided at Appendix 1. An external review is next due in 2019.
41. During 2017-18 the main improvement made to the service was the introduction of a new reporting template, incorporating revised grading assessments for control assurance and recommendations, and introducing an overall assurance level conclusion for each audit. The new template was used for reporting throughout 2017-18.
42. The internal audit service during 2017-18 was delivered through a mix of Council staff and a co-sourcing contract with Scott Moncrieff. The co-sourcing contract provided internal audit staff, an Audit Manager and IT audit support. The FTE mix of staff is shown in the table below.

Period	Council staff	Co-Sourced Audit Staff	Co-Sourced Audit Manager and IT support	Unfilled vacancy	Total
	FTE	FTE	FTE	FTE	FTE
April 2017 to May 2017	1.6	2	0.5	0	4.1

June 2017 to March 2018	2.6	0	0.5	1	4.1
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43. During most of 2017-18 the section was 1.0 FTE person down on the full complement of 4.1 FTE staff. This position resolved in April 2018 following the return of a team member who had been on secondment. The 2017-18 plan was revised to take account of this temporary gap in resources and was reported to the June 2017 Scrutiny & Audit Committee (report 216/17 refers).
44. The co-sourced contract for the Audit Manager ended on 30 April 2018. As agreed in report 81/18 to the Scrutiny & Audit Committee on 20 February 2018, an external recruitment exercise is in progress. The new post will bring the internal audit staff compliment to 4.6 FTE equivalent. The element of the co-sourcing contract for IT audit support also ceased on 30 April 2018 and will be re-tendered during 2018-19.
45. Currently, performance indicators used for Internal Audit are those developed by the CIPFA Directors of Finance Section. For 2017-18, the efficiency indicator shows the section discharged 91% of planned productive hours, compared with 57% in the previous year (the previous year's indicator was significantly impaired by staff vacancies).
46. The work of the Internal Audit function is reviewed by External Audit as part of their annual audit. The purpose of this review is to ensure that the Internal Audit section performs to professional standards in the conduct of audit work in order that External Audit can place reliance on it. In their 2017-18 planning document Audit Scotland, the Council's external auditor, concluded that they can place reliance on the Internal Audit service.

Appendix 1 – Summary of Internal Quality Assurance Assessment

Public Sector Internal Audit Standards require disclosure of the outcome of our regular internal and external quality assessments.

The table below summarises the outcome of the most recent internal quality assessment, in which I have assessed the extent to which the internal audit methodology conforms to the standards.

Standard	Does not conform	Conforms	Improvements we have identified
Purpose & positioning			
• Remit		√	
• Reporting lines		√	
• Independence		√	
• Other assurance providers		√	√
• Risk based plan		√	
Structure & resources			
• Competencies		√	
• Technical training & development		√	√
• Resourcing		√	√
• Performance management		√	
• Knowledge management		√	
Audit execution			
• Management of the IA function		√	
• Engagement planning		√	√
• Engagement delivery		√	

Standard	Does not conform	Conforms	Improvements we have identified
<ul style="list-style-type: none"> Reporting 		√	√
Impact			
<ul style="list-style-type: none"> Standing and reputation of internal audit 		√	
<ul style="list-style-type: none"> Impact on organisational delivery 		√	
<ul style="list-style-type: none"> Impact on Governance, Risk and Control 		√	

Overall, the service conforms to the requirements of the International Standards for the Professional Practice of Internal Auditing. A range of actions have been identified which will improve the overall effectiveness and consistency with which our methodology is applied. For example, we plan to expand our use of assurance mapping in the Audit Needs Assessment process to assess reliance that the Council can place on other assurance providers, we will continue to expand our use of IDEA software for continuous auditing, will consider further improvement that can be made to planning and reporting, and begin consideration of the most efficient replacement for our current audit recording software package.

My assessment is based on the overall service that is delivered. Compliance with the methodology will be monitored through the audit review process.