

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 25 SEPTEMBER 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 2018/19 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 on-going 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 2018/19 Internal Audit Plan agreed by this Committee in April 2018. (Report 134/18 refers).

5. PROPOSALS

The attached report provides Scrutiny and Audit Committee members with an update on progress with the 2018/19 Internal Audit Plan. The Committee is asked to note this report.

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

6. FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

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

REPORT AUTHOR: Cathie Wyllie, Service Leader – Internal Audit

EMAIL DETAILS: ChiefExec@angus.gov.uk

List of Appendices:

Appendix 1 - Internal Audit Activity Update Report

Angus Council Internal Audit



Update Report

Scrutiny & Audit Committee

25 September 2018

Cathie Wyllie
Service Leader – Internal Audit
Strategic Policy, Transformation & Local Government Reform

Contents Page

- Introduction 5
- Audit Plan Progress Report 5
- Implementation of internal audit recommendations 15
- Definition of Assurance Levels, Control Assessments & Recommendation
Priorities 17

Introduction

This report presents the progress of Internal Audit activity within the Council up to the 14 September 2018 and provides an update on:

- Progress with the 2018/19 Internal Audit Plan; and
- Progress with implementing internal audit recommendations.


Audit Plan Progress Report


2018/19 Internal Audit Plan – Progress update

The table below summarises progress as at the 14 September 2018. Definitions for control assurance assessments are shown on page 17.

Timings for some audits have been revised since the last progress report. This is to accommodate operational requirements in services or to ensure the audit is undertaken at the time it will add most value. It should be noted that timings for IT Governance audits are dependent upon completion of the new tender for specialist IT audit support. The following items were originally planned for reporting to this meeting and will now be reported to the next meeting.

- BACS system
- Nursery/Early years expansion

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Corporate Governance					
Corporate Governance annual review – 2018-19	June 2018	Complete	N/A	N/A	19 June 2018 (report 204/18)
New Management Structure - revised Governance Arrangements	Oct. 2018				<i>22 January 2019</i>
General Data Protection Regulations (GDPR) Readiness	June 2018	Complete	Substantial		21 August 2018
Risk management	Nov./Dec. 2018				<i>5 March 2019</i>
Council Governance & Oversight of Arrangements with Angus Alive	Feb. 2019				<i>23 April 2019</i>
Council oversight of IJB	Oct. 2018				<i>22 January 2019</i>

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Financial Governance					
Schools' Funds – Governance (follow-up)	Jan./Feb. 2019				<i>23 April 2019</i>
Savings targets/Income generation	Nov./Dec. 2018				<i>5 March 2019</i>
Change programme / Agile Savings	Oct. 2018				<i>22 January 2019</i>
Review of Voluntary Severance scheme	June 2018	Complete	Substantial		<i>25 September 2018</i>
On-line payments/ "Cashless Council"	Feb. 2019				<i>23 April 2019</i>
On-line school payments	Oct. 2018				<i>22 Jan. 2019</i>
BACS system	Aug. 2018	Draft Report Under Review			<i>20 November 2018</i>
Data Analysis – Payroll & Accounts Payable	Continuous Auditing	On-going			<i>20 November 2018</i>
IT Governance					
Carefirst Social Work system	Dec. 2018				<i>23 April 2019</i>
IT User Access Administration – Integra (follow-up)	Feb./March 2019				<i>23 April 2019</i>
IT User Access Administration - Resourcelink	Jan. 2019				<i>23 April 2019</i>
Internal Controls					
Contract specification process	Feb./March 2019				<i>18 June 2019</i>
Change Management/Project Management procedures	Mar./April 2019				<i>18 June 2019</i>
Business continuity planning and disaster recovery	Sept. 2018	Planned			<i>20 November 2018</i>
School transport	July 2018	In progress			<i>20 November 2018</i>
Nursery/Early years expansion	July 2018	Draft Report Issued			<i>20 November 2018</i>

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Asset Management					
Stocks	May 2018	Complete	Limited		25 September 2018
MEB (Formerly DERL)	Nov. 2018				<i>22 January 2019</i>
Property Repairs Work Allocation	Dec. 2018/ Jan. 2019				<i>5 March 2019</i>
Section 75 agreements	Sept. 2018	In progress			<i>20 November 2018</i>
Legislative and other compliance					
LEADER	October 2018	Planned			<i>22 January 2019</i>
Carbon Reduction / Climate Change Targets 2020	Jan./Feb. 2019				<i>23 April 2019</i>
IR35 (off payroll working rules)	Nov./Dec. 2018				<i>5 March 2019</i>
Procurement Reform (Scotland) Act 2014	Jan. 2019				<i>23 April 2019</i>
EESH 2020 housing standards compliance	Nov. 2018				<i>22 January 2019</i>
Environmental Health, Consumer Protection and Food Safety Enforcement	Nov. 2018				<i>5 March 2019</i>
Corporate Health & Safety	Jan./Feb. 2019				<i>23 April 2019</i>
Interreg (European Funding)	September 2018				<i>20 November 2018</i>

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. The second audit for 2018/19 for Angus Alive has recently been completed, and the final IJB report for 2017/18 has also been completed and will be reported to this Committee once it has been reported to the IJB Audit Committee. Work has also commenced on our main IJB audit assignment for 2018/19. Reports for both bodies are presented to the respective audit committees throughout the year.

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. Execution of recommendations is followed up by Internal Audit and reported to this Committee.

- Inventory & Stocktaking Compliance
- Voluntary Severance Scheme & Exit Packages

Inventory & Stocktaking Compliance

As part of the 2018/19 annual plan, Internal Audit has completed a review on compliance with inventory and stocktaking procedures. The audit does not cover inventory or stock takes performed by Angus Alive or Joint Boards.

The review sought to provide assurance that Council Directorates are following the guidance per Financial Regulations Section 24, Stores, Inventories and Assets – Custody and Control.

In place of the annual internal audit review of stock takes at the end of the financial year it was agreed by Internal and External Audit that ad hoc exercises during the year would be performed to provide assurance that these records are complete and accurate.

On the Council's carousel, 14 March 2018, the Annual Accounts 2017/18 Guidance 1 – Stock taking (Stock and Inventory), stated that year end stock takes and the corresponding submission of stock valuations to Corporate Finance was no longer required. However stock takes should still take place on an on-going basis as part of effective stock control procedures.

We visited two locations to review their inventories - Angus House, Orchardbank, Forfar and Forfar Academy, Community Campus, Kirriemuir Road, Forfar.

The locations we visited for stock take compliance were chosen because they recorded high values of stock at the end of the previous financial year, and these are:

- Burgh Yard, Broomfield Road, Montrose - Fertilisers, Tools & Equipment, Protective Clothing etc. (stock value at 31 March 2017 was £23,636.06)
- Community Safety Team, The Mart, Forfar - Enforcement Wardens Uniforms (stock value at 31 March 2017 was £37,822.93)

The total stock value for the Council at 31 March 2017 was £373,143.64

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

- Inventories are maintained in accordance with Financial Regulations;
- Staff are complying with stock take requirements.

We used a combination of meetings with relevant staff and an internally generated risk and control matrix based on the identified control objectives to document the work performed.

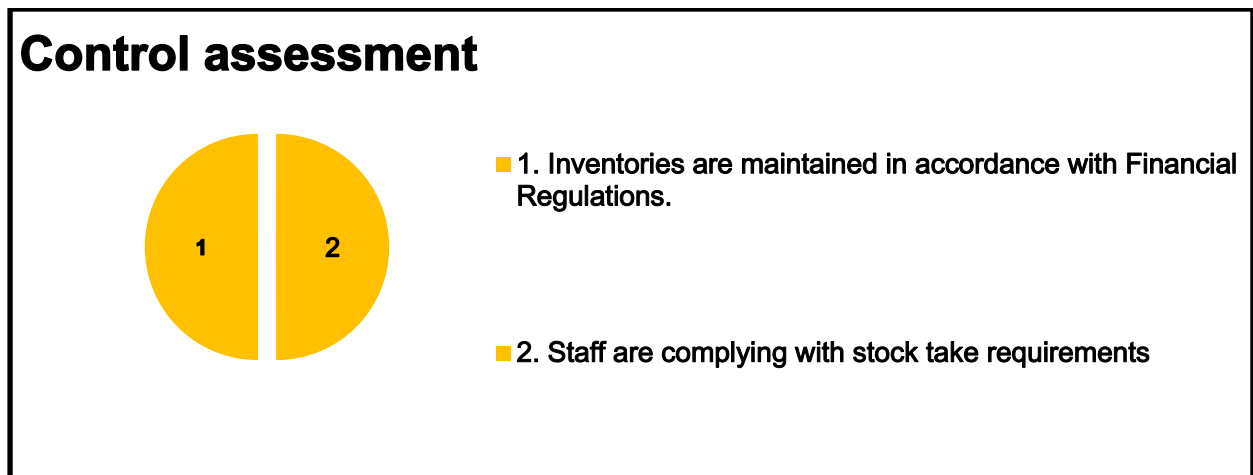
The final audit report was issued on 11 September 2018.

Conclusion

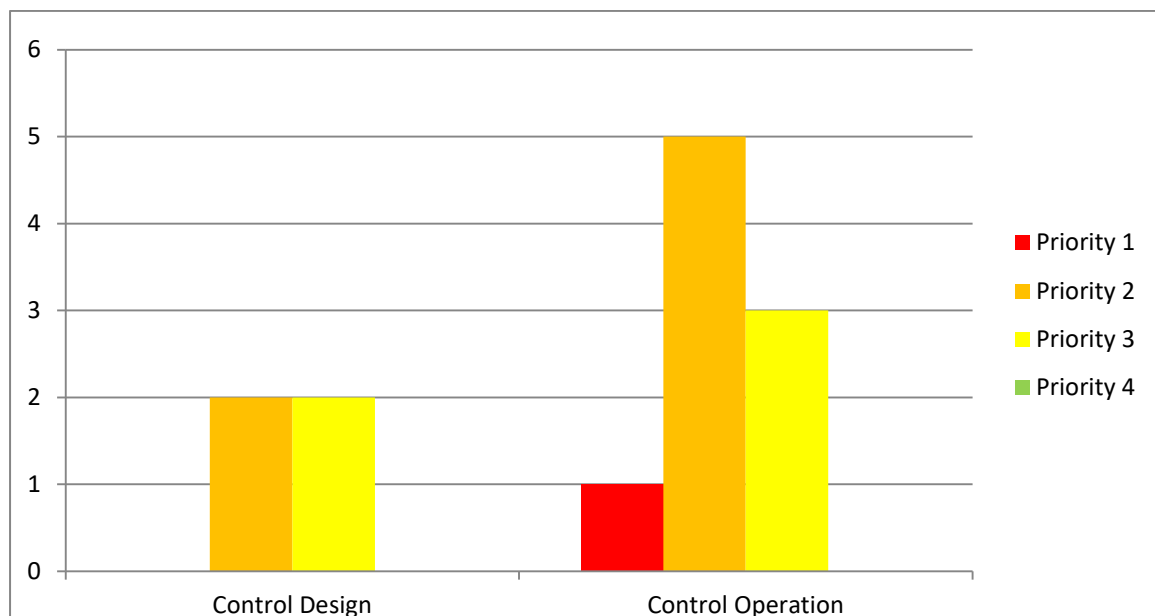
The overall level of assurance given for this report is '**Limited Assurance**'.

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



Improvement Actions by type and priority

There are 13 recommendations in this report, with 4 regarding control design and 9 operational controls. There are two priority 2 and two priority 3 control design recommendations. The operational recommendations are one priority 1, five priority 2 and three priority 3.

Key Findings

Good Practice:

We have identified the following area of good practice:

- Members of staff have been assigned to maintain inventory and stock records.

Areas Identified for Improvement:

We have made 1 recommendation to address high and moderate risk exposure; 7 priority 2, and 5 priority 3 recommendations which are:

Level 1

- The master stock records at Broomfield Depot, Montrose should be stored on a secure shared folder and completed with movements in stock promptly. A stock take should be performed to ensure the stock records are correct.

Level 2

- Inventories should be completed for all areas at Angus House and maintained in line with Financial Regulations and corporate guidance.
- Inventories should be completed for Forfar Academy, maintained in line with Financial Regulations and corporate guidance, and made available for inspection.
- Corporate guidance on inventories should be provided to clarify the type/value of assets which should be included on an inventory, and which Council locations are required to hold inventories. The guidance should emphasise that services are responsible for ensuring that procedures are in place to keep inventories up to date, and to ensure that inventories are checked and self-certified annually by an appropriate member of staff.
- Staff at Forfar Academy should be reminded to update inventories with acquisitions, transfers and disposals promptly.
- Stock take and inventory guidance notes should be held on the Council's Intranet for staff to follow, and staff should be notified where to find this guidance.
- The Community Safety team stock records should detail all stock movement and checks to the physical stock take should be noted.
- Stock count sheets at Broomfield Depot should be dated and signed off by the staff member carrying out the physical count.

Level 3

- A corporate inventory format should be made available and include sufficient detail for the item on the inventory to be reconciled to the item actually present, the date of any updates to the format should also be recorded.
- The annual check of inventories for furniture and fittings at Forfar Academy should be completed by an independent employee who is not responsible for the maintenance of the inventory; the annual check should be recorded, dated and verified as complete by a Manager.
- Section 24.1 of the Financial Regulations should be amended to reflect the current practice of annual returns of stocks and stores no longer being required to be provided to the Head of Corporate Finance. The Financial Regulations should also

be updated in light of any new guidance on inventories & stock-taking resulting from Recommendations 1c and 6.

- Guidance should be issued to relevant staff at Broomfield Depot on who to contact in order to get computer files promptly re-instated from back-ups if a file is accidentally deleted.
- Stock items no longer required at Broomfield Depot should be listed separately and disposed of in line with Financial Regulations 24.3.

Voluntary Severance Scheme & Exit Packages

As part of the 2018/19 annual plan, Internal Audit has completed a review of Early Retirals and Voluntary Redundancies (ERVR)/ Exit Packages granted by Angus Council in 2017/18.

The audit sought to provide assurance that appropriate controls and processes are in place to ensure that the required information on exit packages had been disclosed, exit packages were complete, clear, concise, authorised, free from misstatement and appropriately recorded in the Annual Accounts.

Angus Council employees have the option to apply for Early Retirement and Voluntary Redundancy (ERVR) by applying through the ERVR Scheme. Personnel Advisory Bulletin No. 7 gives details of the ERVR Scheme.

The CIPFA Code of Practice on Local Authority Accounting (UK) requires authorities to disclose in bands the number of exit packages agreed and the costs of those packages to the authority in the financial year. As this is a requirement, External Audit would normally examine exit packages as part of their work at the final accounts audit stage. Internal Audit had agreed to undertake this audit to provide assurance to the Council and External Audit.

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

- The Council ERVR Scheme is compliant with Scottish Government approval;
- There is clear guidance in relation to the ERVR Scheme with the policies and guidance being applied consistently across the Council;
- There is a clear business case and approval for each ERVR payment ;
- Value for money (payback period) is assessed and considered as part of the decision process;
- Confidentiality clauses have been used;
- The Council ERVR Scheme has been accounted for in accordance with the CIPFA Code of Practice on Local Authority Accounting (UK).

We used a combination of meetings with relevant staff and reviewed a sample of documents for evidence of compliance with procedures. An internally generated risk and control matrix based on the identified control objectives was used to document the work performed.

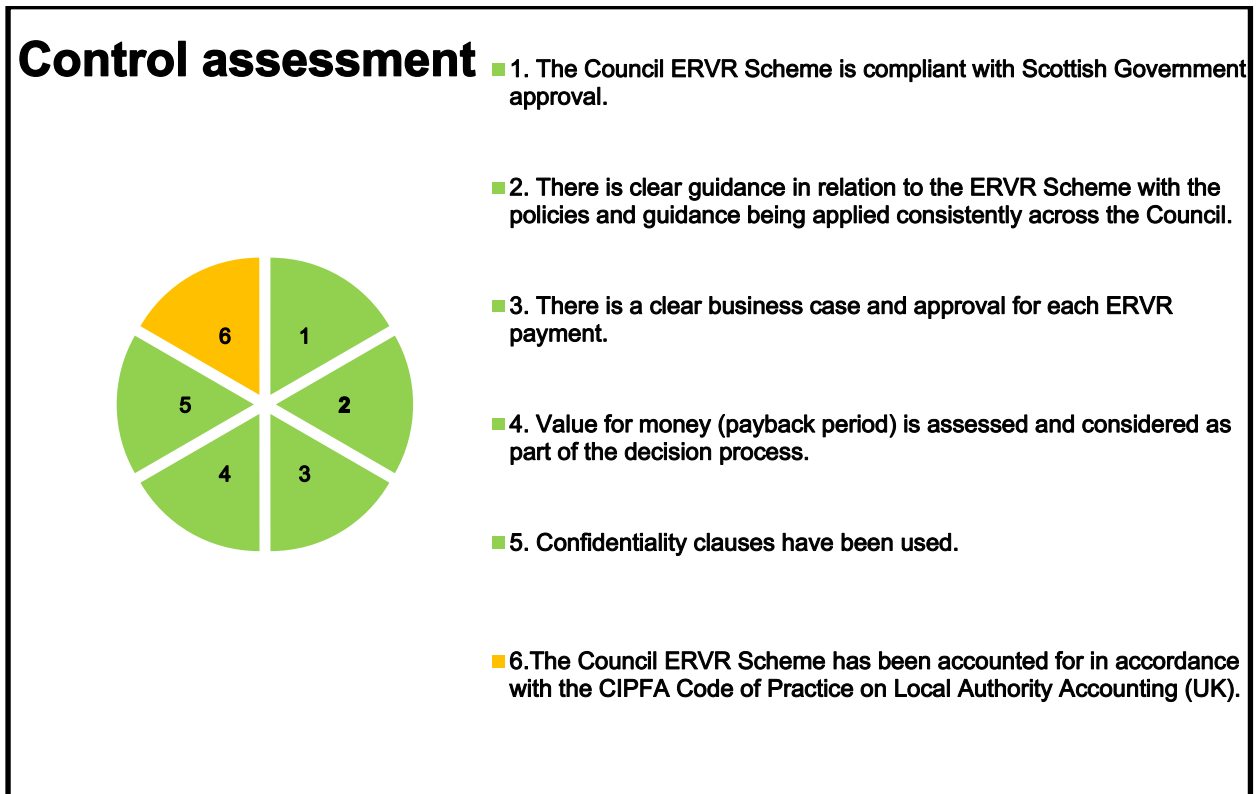
The final audit report was issued on 17 September 2018.

Conclusion

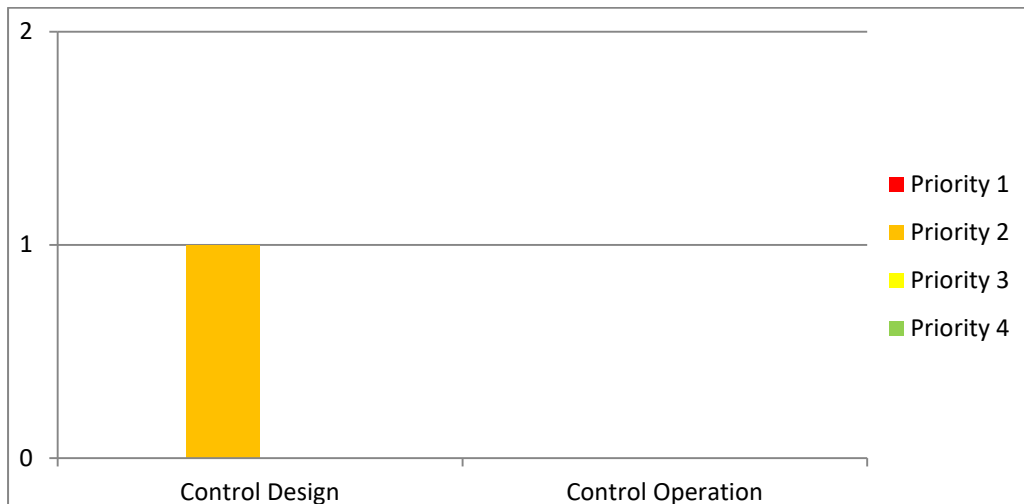
The overall level of assurance given for this report is '**Substantial Assurance**'.

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 priority 2 recommendation in this report, regarding control design.

Key Findings

Good Practice:

We have identified the following areas of good practice:

- The CIPFA Code of Practice is reviewed regularly for changes.
- Information between Finance, Human Resources and Dundee City Council/ Tayside Pensions is shared freely.
- Details of ERVR payments are supplied timeously from Payroll in order to prepare Remuneration Report.

Areas Identified for Improvement:

Due to timing a number of staff whose leaving date was the last working day of the year were not included in the Curtailment Report received from Tayside Pensions Fund (Administered through Dundee City Council). As a result the total Curtailment Costs were understated and the banding by total costs of each exit package was wrong.

We have made 1 recommendation to address moderate risk exposure, which is:

Level 2

- Finance should introduce a check to ensure that they are capturing all the information necessary to complete the Remuneration Report per the IAS 19 guidance.

Implementation of internal audit recommendations

Background

The summary report is presented below in accordance with the agreed reporting schedule.

Summary of Progress

The figures presented in the tables below have been obtained after analysis of the corporate action recording and monitoring system, "Pentana". 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 of the 29 actions in progress at 14 September 2018 (excludes actions for Angus Alive and IJB). The CLT receives and reviews regular detailed reports on the outstanding level 1 & 2 recommendations.

- Table 1 below shows **overdue** internal audit recommendations by Directorate, year of audit and grade. The recommendations classed as overdue are those where the required action has not been completed by the original completion date.
- Table 2 separately identifies recommendations which would have been overdue but have had the original completion date extended at the request of the Directorate.
- Table 3 details all other recommendations which are currently in progress (not yet reached due date).

Table 1 – Overdue Recommendations by Directorate, year and grade (per Pentana).

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

Table 2 – Recommendations in Progress (Original Completion Date Extended)

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Grand Total
Chief Executive	2016/17	2	-	-	-	2
People	2016/17	3	3	-	-	6
Place	2015/16	-	1	-	-	1
	2017/18	-	3	1	-	4
Grand Total		5	7	1	-	13

Table 3 – Recommendations in Progress

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Grand Total
Chief Executive	-	-	-	-	-	-
People	2017/18	-	-	-	-	-
Place	2017/18	1	9	5	-	15
Grand Total		1	9	5	-	15

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.