

**ANGUS COUNCIL**

**SCRUTINY AND AUDIT COMMITTEE – 20 NOVEMBER 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.
- (iii) approve postponement of the review of Business Continuity Planning and Disaster Recovery until the 2019/20 plan, and agree not to bring another review forward to replace it.

**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). Ad hoc requests for advice are being dealt with as they arise.

## 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.

The committee is asked for approval to postpone the review of Business Continuity Planning and Disaster Recovery until the 2019/20 plan, and not to bring another review forward to replace it.

## 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

20 November 2018

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

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## Introduction

This report presents the progress of Internal Audit activity within the Council up to the 1 November 2018 and provides an update on:

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

The report also requests approval to postpone the review of Business Continuity Planning and Disaster Recovery until the 2019/20 plan, and not to bring another review forward to replace it.

## Audit Plan Progress Report




### 2018/19 Internal Audit Plan – Progress update




The table below summarises progress as at the 8 November 2018. Definitions for control assurance assessments are shown on page 29.

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 Chief Executive commissioned an ad hoc review relating to Report 151/18 which recommended demolition of the Lochside Leisure Centre to the May 2018 P&R Committee. The work was undertaken during September and October.

Due to current activity around changes to Business Continuity and Disaster Recovery planning it is proposed that our audit review be postponed until 2019/20. This will allow the audit review to consider new processes and procedures to ensure they have been implemented as planned and are effective. Further detail on this is provided on page 9. Given the time spent to date on ad-hoc advice and queries, and time taken exceeding budget on some of the work already completed, we do not propose to bring forward another project to replace this review. This will not compromise the ability to provide annual assurances for 2018/19.

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>Corporate Governance</b>					
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	Dec. 2018				5 March 2019
General Data Protection Regulations (GDPR) Readiness	June 2018	Complete	Substantial		21 August 2018
Risk management	Nov./Dec. 2018				5 March 2019
Council Governance & Oversight of Arrangements with Angus Alive	Feb. 2019				23 April 2019
Council oversight of IJB	Nov. 2018				22 January 2019
<b>Financial Governance</b>					
Schools' Funds – Governance (follow-up)	Jan./Feb. 2019				23 April 2019
Savings targets/Income generation	Nov./Dec. 2018				5 March 2019
Change programme / Agile Savings	Oct./Nov. 2018				22 January 2019
Review of Voluntary Severance scheme	June 2018	Complete	Substantial		25 September 2018
On-line payments/ "Cashless Council"	Feb. 2019				23 April 2019
On-line school payments	Oct. 2018	In progress			22 Jan. 2019
BACS system	Aug. 2018	Complete	Substantial		20 November 2018
Data Analysis – Payroll & Accounts Payable	Continuous Auditing	On-going			22 January 2019

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>IT Governance</b>					
Carefirst Social Work system	Jan. 2019				<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	Feb. 2019				<i>23 April 2019</i>
<b>Internal Controls</b>					
Contract specification process	Feb./March 2019				<i>18 June 2019</i>
Change Management/Project Management procedures	Nov./Dec. 2018				<i>5 March 2019</i>
Business continuity planning and disaster recovery	Request to Postpone until 2019/20 Audit Plan				<i>2019/20</i>
School transport	July 2018	Complete	Comprehensive		20 November 2018
Nursery/Early years expansion	July 2018	Complete	Substantial		20 November 2018
<b>Asset Management</b>					
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	Draft report under review			<i>22 January 2019</i>

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>Legislative and other compliance</b>					
LEADER	October 2018	Draft report issued			<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	In progress			<i>5 March 2019</i>
Corporate Health & Safety	Jan./Feb. 2019				<i>23 April 2019</i>
Interreg (European Funding)	Dec. 2018				<i>22 January 2019</i>
<b>Chief Executive Reports</b>					
Lochside Leisure Centre	Oct 2018	Complete	N/A	N/A	20 November 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. The third audit for 2018/19 for Angus Alive is currently in progress, and work on our main IJB audit assignment for 2018/19 is nearing completion. Reports for both bodies are presented to the respective audit committees throughout the year.



## Business Continuity Management – Progress Update

The Civil Contingencies Act 2004 and Contingency Planning (Scotland) Regulations 2005, (as amended 2013) places a duty on the local authority to provide and maintain business continuity plans, to ensure that the Council can continue to perform its key functions / core services (critical activities) in the event of an emergency.

Business continuity plans outline the processes which the council will follow to deal with an emergency incident and the arrangements in place to return to business as normal or near normal situation following an emergency or incident impacting the delivery of council services.

The council has in place corporate and operational action plans, outlining key actions and priorities on an annual basis. This is complemented by a three year training and exercising programme, detailing the training and testing of plans across the organisation.

The responsibility for business continuity management sits within the Chief Executive's Unit, Strategic Policy, Transformation and Public Sector Reform. The work is led by the manager for risk, resilience and safety. Due to the level of, and, pace of change within the organisation, a full review of business continuity management arrangements is currently being undertaken to address the following areas:

- Review of the content within all plans, reflecting changes in structures, services and resourcing, including consideration of combining plans.
- Identification of any new areas of service which require to be included within an existing plan or development of a new plan.
- Full review of information technology and digital requirements, aligning to the council's overall resilience and digital road map.
- Full review of business continuity co-ordinators, roles, services and training for new co-ordinators.
- Updated three year training and exercising programme incorporating 2019 - 2021.
- Identification of key risks and opportunities for improvement.
- Provision of evidence for additional funds to increase the council's resilience to deliver priorities as outlined within the council plan.
- Updated corporate and operational action plans for 2019 – 2021.

Given that a full review is underway, the proposed timescales for undertaking the internal audit as outlined in the original audit plan for 2018/19 (report 134/18 refers) have been reviewed. Many of the audit objectives are recognised within the detail of the review and therefore the audit has been rescheduled to the second half of the 2019/20 plan.

## 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.

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

- Early Years
- BACS
- Continuous Auditing – Payroll & Creditors/Accounts Payable
- School Transport
- Lochside Leisure Centre

### Early Years

The Children and Young People (Scotland) Act 2014 set out the commitment to the current 600 hours of annual entitlement to free early learning and childcare (ELC) for all three and four year olds, and eligible two year olds. In March 2017, Scottish Government published “The Blueprint for 2020: The expansion of Early Learning and Childcare in Scotland”. Through this, Scottish Government has made a commitment to increase free ELC to 1,140 hours by 2020 and set out its vision for ELC across Scotland. Central to this expansion are four guiding principles: Quality, Flexibility, Accessibility and Affordability.

Table 1 below sets out a summary timeline for the Council’s Early Year’s Expansion Programme.

**Table 1**

Date	Event
March 2017	Scottish Govt. published “The Blueprint for 2020: The expansion of Early Learning and Childcare in Scotland”
March 2017	National Quality Action Plan released
June 2017	Angus Council Early Years’ Strategy approved by Committee.
Sept. 2017	Deadline for councils to submit initial proposals for achieving 1,140 hours ELC provision by 2020
Nov. 2017	Angus Council Early Years Expansion Programme was set up to plan and coordinate all of the activities required to meet the 1,140 hour commitment.
Feb. 2018	Scottish Govt. requested that all councils refresh their ELC Expansion Finance Templates (bids) per their updated guidance.
March 2018	Deadline for submission of refreshed bids.
April 2018	Angus Council ELC Blueprint for Expansion approved by Committee.
May 2018	Scottish Govt. agreed a multi-year revenue and capital funding allocation for ELC. Angus Council’s allocation of revenue funding totals £10.503m (revenue) and £8.740m (capital) by 2020/21.

The audit reviewed the plans and procedures which have been put in place to ensure that Angus Council can meet the Scottish Government requirements and facilitate the provision of 1,140 funded ELC hours by 2020. The audit sought to provide assurance on the following objectives:

- A detailed programme plan is in place which is on track to achieve the targeted increase in hours by August 2020;
- An adequately resourced programme team is in place, together with a Programme Board, which monitor the plans regularly and take action to address any slippage;
- Appropriate consultation has taken place with all stakeholders;
- Reliable data has been used to project the number of ELC places which are likely to be required in each area, and the number of additional staff which will be required;
- The programme plan includes actions to ensure that a sufficient pool of adequately qualified staff will be available by 2020.
- The Council has made a robust assessment of the revenue and capital resources required to meeting the 1,140 hour target by 2020 and operate the new arrangements on an on-going basis;
- The additional funding provided to Angus Council by the Scottish Government for ELC expansion has been allocated correctly, and the Council has effective procedures in place to monitor that funding to ensure it is sufficient to meet the additional commitment.

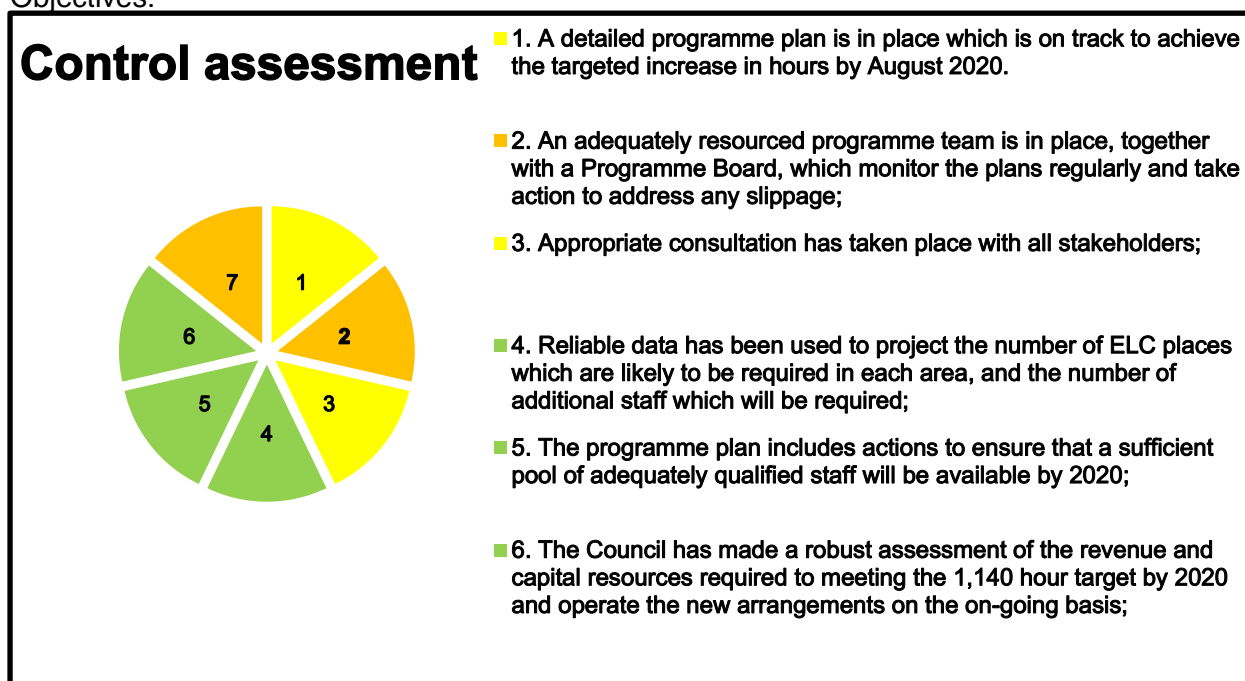
We used a combination of meetings with relevant staff and reviewed a sample of documents for evidence of compliance with procedures. An internally generated risk and control matrix based on the identified control objectives was used to document the work performed.

## Conclusion

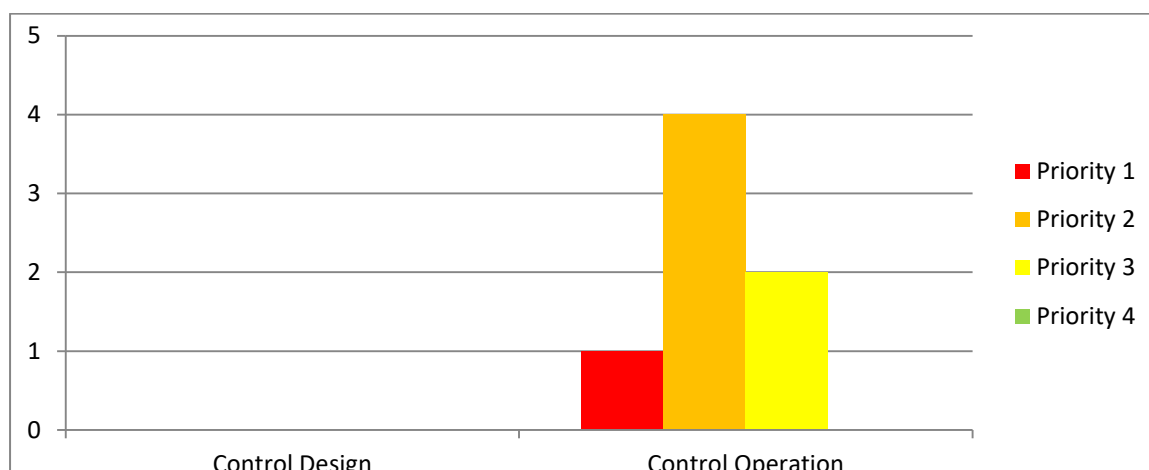
The overall level of assurance given for this report is ‘**Substantial Assurance**’. Whilst it is recognised that the ELC Expansion Programme is very much a work-in-progress, the implementation of the recommendations in this report should provide increased assurance that appropriate controls and processes are in place to ensure that Angus Council can meet the Scottish Government requirements and facilitate the provision of 1,140 free ELC hours by 2020.

## 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 seven recommendations in this report, with all seven regarding operation of controls. There are one priority 1, four priority 2, and three priority 3 recommendations.

## Key Findings

### Good Practice:

We have identified the following areas of good practice:

- A work programme has been developed showing the scope of projects, Programme Team, Risk and Issues Registers.
- Regular newsletters have been developed to inform stakeholders of progress.
- A blueprint has been approved giving the strategy and outline of the Angus Early Years Expansion Programme to achieve 1,140 ELC hours by 2020.

### Areas Identified for Improvement:

We have made eight recommendations to address risk exposure in this area; one priority 1, four Priority 2 and three priority 3 recommendations have been made, which are: -

#### Priority 1

- Urgent reconciliation of the projected phasing of the revenue budget expenditure over the lifetime of the project, against the available budget and grant funding allocation, is required. Regular updates should then be undertaken to reflect any significant changes as the programme progresses.

#### Priority 2

- The strategies for Workstreams 2 & 3 should be finalised and approved as soon as possible.
- The official project documentation and reported information should contain the same information and figures. Version control and updates should be completed timeously.
- The Programme Board should consider if the staffing resource currently in place is adequate to complete the ELC programme by 2020, and whether additional staffing resource is required on a temporary basis.
- The Programme Board should assess whether there is sufficient support agreed from the relevant Council services at the correct time. It should not be assumed that other divisions will have the resources to support the programme within the programme timeframe.

### **Priority 3**

- Ensure consideration of progress with the whole ELC programme is undertaken and evidenced to highlight potential bottlenecks and strain on current resource provisions.
- Ensure that all aspects of the agreed blueprint have been included in the plan; where there have been changes to remove previously agreed aspects of the project then these should be recorded to evidence the change.

### **Wider Learning Points to be Disseminated Across the Council**

- As a result of changes in personnel some supporting information relating to initial projects and bids had been deleted, going forward all such documentation should be retained in line with the Council's records management guidelines.
- Where a pilot has been, or is being tested, the success or otherwise should be assessed against the pre-determined pilot objectives and the results documented; alternative options should then be appraised if required before being shared with the Project Board, to inform decisions on the way to proceed.

## **BACS**

Bankers' Automated Clearing Services (**BACS**), now known as BACS Payment Schemes Limited became a wholly owned subsidiary of the New Payment System Operator (NPSO) on 1 May 2018.

BACS Payment Schemes Limited is a membership organisation consisting of 16 of the UK's leading banks. In 2017, over 6 billion UK payments were made through the BACS system with a total combined value of almost £5 trillion. There are two types of payment within the BACS system: Direct Debit and BACS Direct Credit. Bank to bank payments can also be made through Faster Payments and CHAPS.

BACS Direct Credit (also known as 'bank transfer') is a secure service enabling organisations to make payments directly into another bank or building society account. The advantage of BACS is that it is a cheap way of making regular payments. The disadvantage is that it is not suitable for same-day payments (takes 3 working days).

BACS uses BACStel-IP, a system protected by SSL encryption. It also requires a secure, encrypted password, and the system is constantly monitored to validate data and user authorisation.

The types of payments made via BACS by Angus Council are:

- Supplier Payments from Integra
- Education maintenance allowances
- Payroll
- Housing Benefits
- School Clothing Grants.

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

- There are written guidance procedures for staff to follow for BACS payments.
- User responsibilities for the operation of the BACS system are in place and defined, and include adequate arrangements for segregation of duties.

- The information to be transferred for payment via BACS is correct and authorised.
- BACS payments are authorised properly and paid correctly.
- Management checks between the BACS prints and the Council's financial system are completed.

A new system for the transmission of BACS payments is being introduced by the supplier. The new PT-X will supersede the current e-Pay system, providing more flexibility in that, unlike the current system which requires use of one of two designated laptops, any laptop can be used to transfer payments as long as a token and bank card are used by an authorised member of staff to gain access to the system. The process for the uplift of files and transmission of payments will remain the same. At the moment test files have been completed and the system is expected to go live 31 October 2018.

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

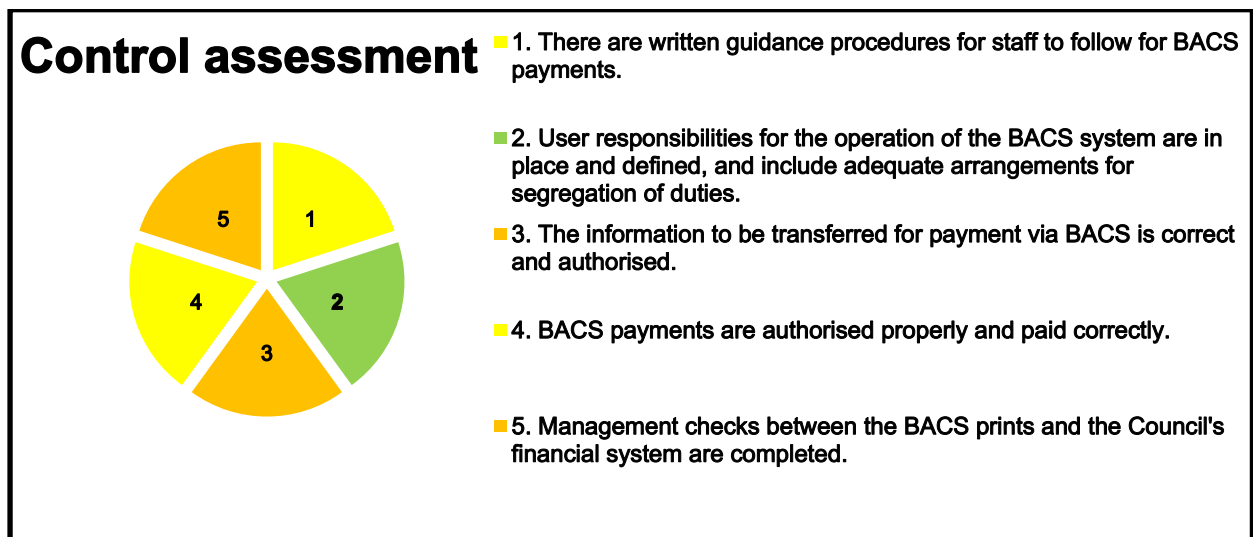
The output is a report to the Strategic Directors of Place and People, and a summary of the outcomes to the Scrutiny and Audit Committee.

## Conclusion

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

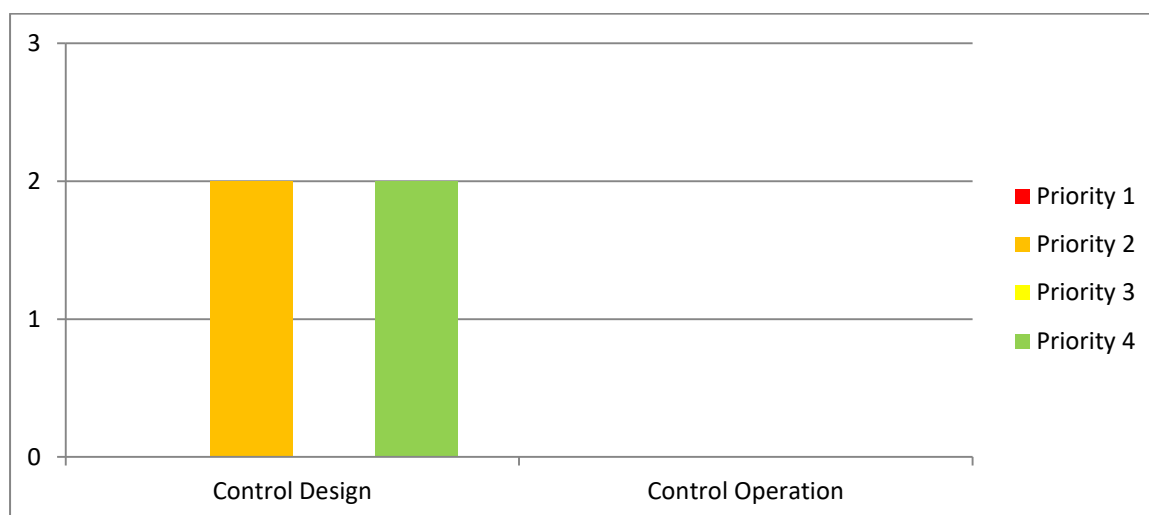
## Overall assessment of Key Controls

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



Overall Assessment of Key Controls

## Audit Recommendations summarised by Type & Priority



### Improvement Actions by type and priority

There are two priority 2 and two priority 4 design recommendations in this report.

## Key Findings

### Good Practice:

We have identified the following areas of good practice:

- The Payments team complete a Payment Processing Schedule form for each stage of the payment run process.
- The bank cards required to access the e-Pay system are unique to an individual, they record their name and expiry date.
- An audit trail of reports and transmission forms are saved electronically in date order.

### Planned Improvements/Changes:

- A new system for the transmission of BACS payments is being introduced by the supplier. The new PT-X will supersede the current e-Pay system, providing more flexibility.
- A checklist for the daily processes performed by the Systems team is to be introduced once the new transmission system is live.

### Areas Identified for Improvement:

We have made four recommendations to address high and limited risk exposure which are:

#### **Level 2**

- Systems staff should include the validation report when emailing all sub-system staff that the interface is complete and these should be checked to the originating reports. Discrepancies should be investigated and explanations to resolve the differences recorded.

- Payroll staff should check that BACS transmissions for Payroll data is completed intact and reconciled to the Council's financial system.

#### Level 4

- The BACS Systems Processing Procedural notes should be updated to reflect the current practice of the Systems team. All procedures should be dated when completed and reviewed.
- Authorisation of the Interface payment should be completed by an appropriate Revenues and Benefits officer, this may be a line added to the checklist which should be copied to the Systems team as authorisation to uplift then process the payment through BACS.

## Continuous Auditing – Payroll & Accounts Payable

As part of the 2018/19 annual plan, Internal Audit carries out interrogation of Payroll information as part of the Continuous Auditing Programme. We used the data analysis software, CaseWare IDEA (Interactive Data Extraction Analysis) to analyse the data.

The exercise analysed 22,720 payroll payments over 4 payroll runs in 2018/19, up to and including 31 July 2018, to produce a list of employees with:

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

Two anomalies were identified by our testing in this period, and these have both been explained to our satisfaction.

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

Continuous Auditing of creditors/accounts payable using IDEA has also commenced following finalisation of the 2017/18 Internal Audit report on Integra User Access Administration and full consideration of the Accounts Commission's report on the recent fraud case at Dundee City Council.

This work analysed 17,867 payments to suppliers, for the period from 1 April – 31 July 2018.

A very small number of anomalies/errors were identified by our testing in this period, most of which involved payments being registered and authorised on Integra by the same member of staff, rather than the duties being segregated. In all cases satisfactory explanations were received (3 incidents occurred in school offices during holiday periods when no other staff member was available), and the actual invoices had been authorised by another appropriate member of staff.

In one case it was discovered that two clerical staff were sharing one log-in for the Integra Payments System, to save time logging in and out of the system. One member of staff registered the payment, and the other authorised it, but both stages were completed on the same log-in, therefore the system's audit log appears to show the same person carrying out



both processes. All payments which were made in this way have been reviewed to ensure they were made to the correct supplier. The staff concerned have been advised that this practice is not acceptable, and that personal log-in details should never be shared. This point will be included in our wider learning points to be disseminated across the Council.

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

## School Transport

Angus Council provides a school transport service for approximately 2,200 pupils. All primary pupils who live 2 or more miles from their catchment school are entitled to free school transport. All secondary pupils who live 3 or more miles from their catchment school are also entitled. Children and Young People with Additional Support Needs or medical needs are considered on an individual basis.

There is a Home to School Transport Policy Statement which states: 'Angus Council are committed to providing a school transport service that meets the requirements of pupils, parents and schools.'

Guidance documents are issued to parents each August detailing Transport arrangements/emergency procedures and the School Transport Behaviour Code which details how pupils should conduct themselves prior to and during travel.

Children and Learning service are responsible for issuing school transport entitlement and in consultation with Transport Team and transport operators will manage pupil behavioural issues.

The Transport Team manages school transport contracts and coordinates operational aspects of the provision.

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

- School Transport provided under contracts is appropriately monitored to ensure quality of service.
- The Angus Council School Transport Conditions of Contract is being adhered to by contract providers.
- Contract failure procedures are in place to ensure appropriate action is taken when services are not delivered as agreed to maintain continuity of service and the safety of pupils and contractors.
- School Transport payments are only made for delivered services.

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.

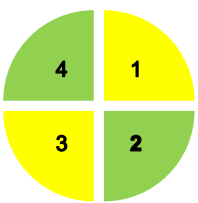
The output is a report to the Strategic Director – Place and a summary of the outcomes to the Scrutiny and Audit Committee.

### Conclusion

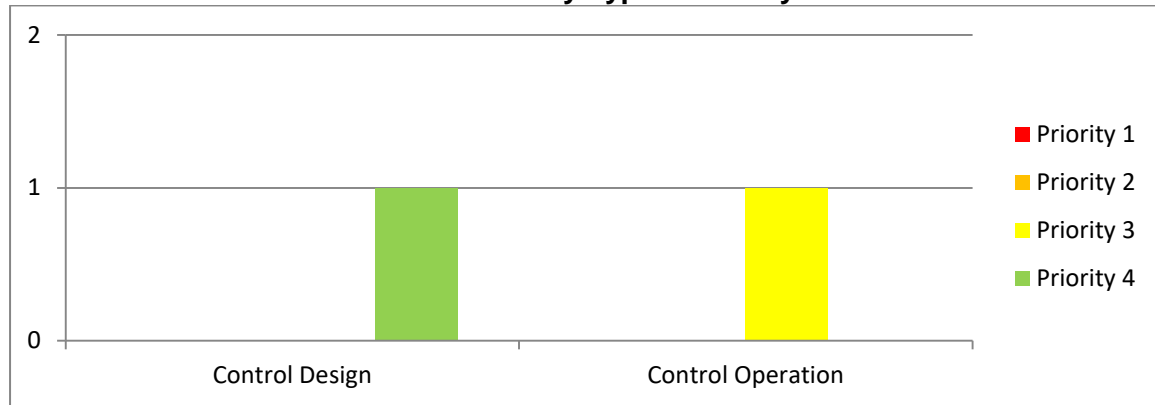
The overall level of assurance given for this report is '**Comprehensive Assurance**'.

### Overall assessment of Key Controls

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

<h2>Control assessment</h2> 	<ul style="list-style-type: none"><li>■ 1. School Transport provided under contracts is appropriately monitored to ensure quality of service.</li><li>■ 2. The Angus Council School Transport Conditions of Contract is being adhered to by contract providers.</li><li>■ 3. Contract failure procedures are in place to ensure appropriate action is taken when services are not delivered as agreed to maintain continuity of service and the safety of pupils and contractors.</li><li>■ 4. School Transport payments are only made for delivered services.</li></ul>
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## Audit Recommendations summarised by Type & Priority



There is one grade 4 design recommendation and one grade 3 operational recommendation in this report.

### Key Findings

#### Good Practice:

We have identified the following areas of good practice:

- Information pertaining to contracts is kept in individual contract files saved in the Transport Teams shared drive, which is assessable only by authorised staff.
- A schedule is maintained for monitoring Contractors/Operators receipt of their drivers' Protecting Vulnerable Groups (PVG) scheme details.
- The Transport Team are now contactable from 7am on school days, which has resulted in a decrease in the number of complaints received, as any issues with contractors (e.g. delays, route changes) can be communicated to parents more promptly.

#### Planned Improvements/Changes:

- The provision and circulation of child protection e-learning to private contract drivers is being discussed between the Transport Team and Schools & Learning.

#### Areas Identified for Improvement:

We have made two recommendations to address moderate and limited risk exposure which are:

##### **Level 3**

- Staff should be reminded to save a conclusion to a complaint in the relevant file. Where these are letters issued by a different team (e.g. Schools & Learning), confirmation of the issue of these letters should be received and retained on file.

##### **Level 4**

- A standard procedure should be documented for dealing with services that are not delivered, detailing general steps for staff to follow which can be enhanced depending on each case that requires investigation.

# Lochside Leisure Centre

## Introduction and Background

In May 2018, following consideration of report 151/18, the Policy & Resources committee of the Council declared the former Lochside Leisure Centre as surplus, and agreed to demolish it and reinstate the land, which belongs to the Common Good. The cost is estimated to be £500,000.

In August 2018 the Depute Leader raised a proposal with the Chief Executive that the Administration were considering revisiting the decision concerning Lochside Leisure Centre. They had been approached by a potential buyer. During August the potential buyer was given access to the building and commissioned a Structural Inspection. A copy of the engineer's report (dated 7 September 2018) on the building's condition was provided to the Chief Executive and concluded:

"... it would appear the building does show evidence of structural settlement; however, the defects noted are not symptomatic of ongoing or progressive structural movement. The nature of the finishes in the building would clearly present evidence of ongoing ground movement issues: this evidence was not observed during the inspection"

Report 151/18 states

"The building had previously suffered subsidence with ongoing settlement and whilst a number of potential opportunities have been explored the building will ultimately need to be demolished."

## Scope

Given the prevailing view within the senior management team that the building had a very limited lifetime due to the effects of on-going subsidence and the apparent difference in assessment between report 151/18 and the engineer's report the Chief Executive has asked Internal Audit to

- Review the processes and evidence that led to the recommendation in report 151/18,
- Consider the governance procedures applied in preparing the recommendation
- Consider whether proper account was taken of the community and partners' participation in asset disposal as required in the Community Empowerment (Scotland) Act 2015
- If appropriate standards of probity and propriety in relation to best value would reasonably have been expected to be achieved

## Methodology

Information gathered to date and supplied to the Chief Executive was reviewed and the following people were interviewed in the first instance to identify further relevant information and /or further people that should be interviewed:

- Head of Finance & Legal
- Head of Infrastructure

Following discussions with them, several Council staff in the Place Directorate (specifically Finance, Legal & Democratic, and Infrastructure (Assets)), and Strategic Policy, Transformation & Public Sector Reform, were also contacted to provide information.

## Reporting

It was agreed that a draft report would be prepared for the Chief Executive by 16 October 2018. This was done and a final report, including a completed action plan was issued on 19 October 2018.

## Acknowledgement

The help of all Council staff involved in providing information for this review is acknowledged, in particular the help and information provided by the Heads of Finance & Legal and Infrastructure.

## Overall conclusion

I found that the evidence available was consistent with the decision making and there is nothing that makes me concerned the wrong decision was made at the time to recommend demolition.

I am however not able to categorically say there is strong written evidence for all of the decisions made and why they were made. Evidence for some of the areas I reviewed was difficult and time-consuming for people to find. The spread-out nature of the evidence, some of it in emails, also added to the time taken, and weakened the evidence base. The decision making about Lochside Leisure Centre, and to some extent my review, relied on officers' knowledge of the history of the building and the events between its closure in 2017 and now, rather than a definitive written record.

The sections of the Community Empowerment (Scotland) Act 2015 relating to change of use of Common Good assets, which are in force now, were not in force in May 2018 when the Policy & Resources committee made their decision to declare the Leisure Centre surplus to Council requirements and to demolish it.

I have made recommendations which would strengthen the evidence base, make it easier to find after the event if required, and strengthen the Council's ability to demonstrate the consideration of all aspects of Best Value. These are about

- exit strategies for vacant properties,
- recording of key events and options appraisals for decision making, and
- summarising the options appraisal in reports to committees being asked to make decisions.

Given the apparent disparity between the Council information about the building's condition and the report from the prospective buyer's advisors, I would have recommended that the Council consider obtaining an independent structural review now, but I understand this has been instructed. It should be noted that the review commissioned by the potential buyer was visual and not intrusive to the building. Also the reports the Council has previously received explain the seasonal nature of the subsidence, with cracks closing in summer. It is possible that this, coupled with the summer weather we have had in 2018, contributed to the visual review being more favourable than it might otherwise have been.

I have also made two other recommendations about related matters that arose during my review.

## Observations, Conclusions on Each Objective and Key Findings

I have concluded on each objective and provided key observations in this section. Detailed consideration of all the evidence reviewed which supports these conclusions is contained in the main report.

### Review the process and evidence that led to the recommendation in Report 151/18

Report 151/18 was presented to the May 2018 Policy & Resources Committee and included the following recommendation:

“It is recommended that the Committee approves that the former Lochside Leisure Centre, Craig O’ Loch Road, Forfar, shown outlined on the plan at **Appendix 1**, is declared surplus to Angus Council’s requirements and demolished with the land reinstated.”

The process for coming to the decision is not set within a formal exit strategy for the building but was based on the knowledge and experience of officers involved. It has already been recognised by officers that better exit strategies should be developed. (R1)

From discussion with the Head of Infrastructure, supported by information from others and available evidence, the process followed in arriving at the recommendation in Report 151/18 appears reasonable. This includes taking members views into account, considering other uses within the Council and Angus Alive, knowing there was no community group interest in the building, and having a consideration for the community if they took on the building, the site the building is on, and the condition and history of the building. The process is not documented as such, but the evidence of actions taken is consistent with the Timeline produced by the Head of Infrastructure for the Chief Executive in August (the Timeline) and follows a logical flow. Formal file notes of key events and decisions would be helpful to demonstrate process and option appraisal. (R2)

Following the building becoming vacant a draft report was prepared and consulted on in June 2017 for the Communities Committee proposing that the building be declared surplus and disposed of on the open market. This report was shared with the Convenor, Vice-Convenor, Leader and Deputy Leader.

The report was not presented to the committee because it was late in being prepared and the Convenor asked for further information about exploring community benefit and whether the building should be demolished. Discussion with Angus Alive about alternative uses then took place and the May 2018 report was presented after these were abandoned.

There is no definitive evidence to explain why the recommendation changed from sale in June 2017 to demolition in May 2018, however it appears from my discussion with officers that the activity during the period between the two reports led to a fuller understanding of the condition of the building, particularly the estimated future life span of the building, and this influenced the change. Recording a formal options appraisal prior to each report would have evidenced this (R2).

There is evidence to support the majority of the statements in report 151/18, although some of the written evidence was time consuming to find and relied on emails and other information that had to be requested from several individuals. In some cases there is no written record of the decisions made and why they were made.

Written evidence to directly support the statement in Report 151/18 that “the building will ultimately need to be demolished” is not available. This statement appears to have been based on the knowledge of the history of the building and taking other factors such as the site being in the Country Park and other issues noted in paragraph 19 above into account. Given the information available within the council about the condition of the building this conclusion does not seem unreasonable. A record of options appraisal would have been able to demonstrate how this assessment and recommendation was reached. (R3).

I have reviewed substantial evidence confirming that the building has previously suffered subsidence, which had gone on for a considerable period, primarily:

- Structural reports from 1998, 2001, and 2008.
- Photographic evidence relating to doors, floors and walls showing damage consistent with subsidence.

No comprehensive structural review has taken place since 2008, however in terms of the conclusion that the building is subject to on-going settlement the following evidence is available:

- There is information in the structural reports about the nature of the ground the building is built on, and the ground stabilisation method used in the construction, that suggests the position in 2008 would continue.
- There is evidence from 2010 about a crack requiring attention.
- Regular visual inspection that continued until December 2015 show minor but ongoing evidence of issues resulting from subsidence.
- Works carried out between 2012 and 2016, although minor in nature and cost, relate to issues that are consistent with on-going settlement.

The seasonal impact on the cracks in the building discussed in the 1998 structural report, where they closed in summer, may have led to the visual inspection carried out on behalf of the potential buyer, following a period of unusually hot, dry weather, assessing these cracks favourably.

Given that the potential buyer’s report suggests that ongoing settlement is not occurring, definitive current evidence on this would require confirmation from an engineer and I understand an independent structural review has been instructed from Shepherd Chartered Surveyor.

The available evidence and knowledge of the team involved with the building suggests that it would be costly to make the building functional and safe, although what this would involve has not been detailed and costed. Given its history there would be an on-going need to monitor the building from a safety perspective if it was put back into use and it appears likely there would be ongoing additional maintenance costs related to subsidence.

The Timeline identifies other considerations if the decision is reversed. It should also be noted that there appear to be bats roosting in the building and further review of this position will be needed before demolition goes ahead. If it is confirmed there are breeding bats present this will affect the timing of demolition.



The statement in Report 151/18 regarding the budget available is strictly factually correct, although only £300k of the £500k allowance was for the demolition and reinstatement of the land. The other £200k was for a store/toilet.

## **Recommendations**

- R1 Exit strategies should be developed as part of the decision making process to vacate a building.**
- R2 Key discussions and decision making about potentially surplus assets should be fully recorded, including the reasons for accepting/rejecting various options.**
- R3 Reports to committee should include a brief summary of the options considered, their pros and cons, and the reasons for rejecting options and the selection of the recommended action.**

## **Consider the governance procedures applied in preparing the recommendation**

The report assumes a level of knowledge and understanding of previous events and decision making. As noted in the previous section, there is not a clear written evidence trail that can be accessed easily, and there is no written record of the appraisal of the various options. This weakens the ability to fully evidence the process of reaching the recommendation.

Evidence for the governance process in terms of consulting on the report prior to inclusion in the papers for the committee is limited; however there is nothing that leads me to think the correct procedures were not followed. In particular the robust process that is in place, where anyone who should have been consulted and was not would be able to note this at the pre-agenda stage, provides assurance on this issue.

Adherence to Financial Regulations followed the required process, with the exception that the “Disposal Procedure Checklist” was not completed. It is not clear if this should have been completed or not. (R4)

## **Recommendations**

Covered in the previous section, and

- R4 The use of the “Disposal Procedure Checklist” referred to in the Financial Regulations at 17.1.3, and in the Guidance on Procedural Matters Relating to the Disposal of Land and Property should be clarified in terms of whether it is still in use and if so whether it should be used in cases of demolition. Thereafter the documents should be updated if required or the need for further guidance should be considered.**

## Consider whether proper account was taken of the community and partners' participation in asset disposal as required in the Community Empowerment (Scotland) Act 2015

No requests for Community Asset Transfer have been received by the Council in relation to the Leisure Centre.

The sections of the Community Empowerment (Scotland) Act 2015 relating to change of use of Common Good assets, which are in force now, were not in force in May 2018 when the Policy & Resources committee made their decision to declare the Leisure Centre surplus to Council requirements and to demolish it. There was therefore no requirement under the Act to consult on the change of use. Any revision to the decision from May 2018 would require the provisions of the Act to be implemented.

The spreadsheet recording community asset transfer enquiries includes four entries of enquiries that appear to relate to Lochside, although none is about the Leisure Centre itself. There are three other enquiries, apart from the one that instigated this report, that I was given information about which did not appear on the central spreadsheet. (R5)

### Recommendation

**R5 With Reference to Community Asset Transfer it can be difficult to identify when an enquiry from the community should be recorded. There is guidance about how enquiries should be dealt with but it may be that further guidance on when to record an enquiry should be considered.**

## Consider if appropriate standards of probity and propriety in relation to best value would reasonably have been expected to be achieved

It is very difficult to absolutely demonstrate "Best Value", and Best Value is not only achieved in terms of financial considerations. There are a number of circumstances to be considered in each case:

At May 2018 it is clear that no viable option had been identified for the building and taking all of the available information into consideration it does not appear that the decision to recommend demolition was obviously the wrong one.

On balance I think the decision to recommend the demolition of the building was taken in good faith and based on a reasonable assessment of all the available information and issues that should have been considered at the time. This therefore would indicate that probity and propriety in relation to Best Value would be achieved. Four things influence my view of this in particular:

- The history of the building and the structural information available in several reports.
- There had been discussion about other options for use over several months, none of which had been deemed viable, before the demolition proposal was made in Report 151/18.

- Consideration of the Council's responsibility to the community in relation to the ongoing future costs of maintaining the building and its life expectancy should anyone take it on, and
- The location of the site within the Country Park and the need to consider the wider amenity of the area.

My only other observation in this regard relates to the recommendations about evidence and option appraisal. Strong, easily retrievable evidence was not available for all elements that I considered. Some of the evidence I have seen and recorded in this report took considerable time to find, partly because it was spread in a number of places.

Getting the balance right about what should be recorded when is important, and needs to consider available resources and risk; however all decision making needs to be able to demonstrate appropriate standards of probity and propriety in relation to best value. Recommendation 1 would create a framework for this type of decision making to be set within. Recommendations 2 and 3 would provide evidence to demonstrate the probity and propriety behind decision making and how Best Value has been achieved.

### **Recommendations**

Covered under Objective 1

# 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 28 actions in progress at 8 November 2018 (excludes actions for Angus Alive and IJB). The CLT receives and reviews regular detailed reports on the outstanding level 1 & 2 recommendations.

- There are no actions overdue at 8 November 2018.
- Table 1 separately identifies recommendations which would have been overdue but have had the **original completion date extended** at the request of the Directorate.
- Table 2 details all other recommendations which are **currently in progress** (not yet reached due date).

**Table 1 – Recommendations in Progress (as at 8 November 2018)  
(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	2017/18	1	5	1	-	7
<b>Grand Total</b>		<b>6</b>	<b>8</b>	<b>1</b>	<b>-</b>	<b>15</b>

**Table 2 – Recommendations in Progress (as at 8 November 2018)**

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Grand Total
Chief Executive	-	-	-	-	-	-
People	2017/18	-	-	-	-	-
Place	2017/18 2018/19	- -	5 3	3 2	- -	8 5
<b>Grand Total</b>		<b>-</b>	<b>8</b>	<b>5</b>	<b>-</b>	<b>13</b>

# 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. <b>Very high risk exposure.</b>
2	Recommendation concerning absence or non-compliance with key control which creates significant risks within the organisation. Substantial weakness identified. Prompt management action required. <b>High risk exposure.</b>
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. <b>Moderate risk exposure.</b>
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. <b>Limited risk exposure.</b>