ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 5 MARCH 2019

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 review undertaken as part of the annual audit plan. Each 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. The focus of some items within the plan has been revised to take account of changing circumstances and ensure internal audit work remains effective. There has been some slippage in the plan, but it is expected the audit team will catch this up in time for the annual report in June 2019. IT audit delivery is dependent on the IT contractor, the contract for which was let to Scott Moncrieff on 15 February 2019.

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 progress made in implementing internal audit recommendations.

6.   **FINANCIAL IMPLICATIONS**

There are no financial implications arising directly from this report.

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

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List of Appendices:
Appendix 1 - Internal Audit Activity Update Report

Angus Council Internal Audit

Update Report

Scrutiny & Audit Committee

5 March 2019

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 25 February 2019 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 25 February 2019. Definitions for control assurance assessments are shown on page 15.

Timings for some audits have been revised since the last progress report. This is to accommodate operational requirements in services, or the result of audit staff with LEAN training being involved in the corporate review of mobile phones and reactive investigation work that was not planned.

It should be noted that timings for IT Governance audits were dependent upon completion of the new tender for specialist IT audit support. The tender was advertised in December 2018. No responses were received and the tender has been re-advertised in January 2019, with a closing date of 8 February 2019. The tender process has now been completed, bids evaluated, and the contract has been awarded to Scott-Moncrieff Chartered Accountants.

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	March 2019	Planning			*18 June 2019*
General Data Protection Regulations (GDPR) Readiness	June 2018	Complete	Substantial		21 August 2018
Risk management	Jan./Feb. 2019	In Progress			*23 April 2019*
Council Governance & Oversight of Arrangements with Angus Alive	April 2019	Planning			*18 June 2019*
Council oversight of IJB	Feb./March 2019	In Progress			*23 April 2019*

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)	Feb. 2019	In Progress			*23 April 2019*
Savings targets/Income generation Removed as work on budgets provides assurance on savings and OD/ZBB and other work is looking at Income Generation	Removed from plan	N/A	N/A	N/A	Removal approved 22/1/19
Change programme / Agile Savings Focus changed to review governance of the change programme. Agile savings will not be reviewed.	Jan. 2019	In Progress			*23 April 2019*
Review of Voluntary Severance scheme	June 2018	Complete	Substantial		25 September 2018
On-line payments/ "Cashless Council"	Feb./March 2019				*18 June 2019*
On-line school payments – now split in to two phases. Phase 1 included in 3 project review of project management procedures.	See project management below	Complete	N/A Consultancy project	Blank	22 Jan. 2019
Phase 2 to be undertaken during 2019 to review operation of system.	TBC				*TBC*
BACS system	Aug. 2018	Complete	Substantial		20 November 2018
Data Analysis – Payroll & Accounts Payable	Continuous Auditing	On-going. Last reported Nov. 2018	Payroll - Comprehensive Accounts payable - Substantial		*18 June 2019*

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / *(target in italics)*
IT Governance					
Carefirst Social Work system Focus changed. This project included in 3 project review of project management procedures Phase 2 to be undertaken as part of 2019/20 Audit Plan to review operation of system.	See Project Management Postponed until 2019/20 Audit Plan	Complete	N/A Consultancy project		22 January 2019 *2019/20*
IT User Access Administration – Integra (follow-up)	Feb./March 2019				*18 June 2019*
IT User Access Administration - Resourcelink	Feb. 2019				*18 June 2019*
Internal Controls					
Contract specification process	Feb./March 2019				*18 June 2019*
Change Management/Project Management procedures – now 2 separate audits. Change Management covered by Change Programme above. Project management procedures	Oct/Nov./ Dec. 2018	Complete	N/A – Consultancy project		22 January 2019
Business continuity planning and disaster recovery	Postponed until 2019/20 Audit Plan				*2019/20*
School transport	July 2018	Complete	Comprehensive		20 November 2018
Nursery/Early years expansion	July 2018	Complete	Substantial		20 November 2018

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)	Jan. 2019	Complete	Comprehensive		5 March 2019
Property Repairs Work Allocation (Schedule of Rates)	Dec. 2018/ Jan. 2019	Draft Report in Progress			*23 April 2019*
Section 75 agreements	Oct. 2018	Complete	Substantial		22 January 2019
Legislative and other compliance					
LEADER	October 2018	Complete	Substantial		22 January 2019
Carbon Reduction / Climate Change Targets 2020	Feb. 2019	In Progress			*23 April 2019*
IR35 (off payroll working rules)	Jan./Feb. 2019	In Progress			*23 April 2019*
Procurement Reform (Scotland) Act 2014	April. 2019				*18 June 2019*
EESHH 2020 housing standards compliance	Jan. 2019	In Progress			*23 April 2019*
Environmental Health, Consumer Protection and Food Safety Enforcement	Dec./Jan. 2018	Draft report under review			*23 April 2019*
Corporate Health & Safety	Feb. 2019	Planning			*18 June 2019*
Interreg (European Funding) • Initial testing	Jan. 2019	Complete	N/A	N/A	5 March 2019
• Payroll testing	TBC				*23 April 2019*

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Chief Executive Reports					
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 has been completed and the draft report has been issued for agreement. The report on our main IJB audit assignment for 2018/19 is currently being finalised. Reports for both bodies are presented to their 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.

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

- Interreg.
- MEB Contract Management

A number of other reports were planned to be reported to this committee. Primarily due to the involvement of two members of the team in a review of mobile phones these have been delayed. The table above shows the state of progress of each outstanding review and when we anticipate reporting. At this stage we still anticipate the work will be complete for reporting in the annual report.

Interreg Like! Building a Local Digital Innovation Culture

Claims for Interreg funding are made periodically by the council and require to be certified by an external Fist Level Controller. The Council's FLC for this project is a Director from Grant Thornton, who was appointed through a tendering exercise. Internal audit have been involved to provide advice and pre-submission checking of the claim.

In January 2019 we undertook testing on the preparation of the claim which is due to be completed by March 2019. A small number of queries were raised and amendments made to the claim where required. The team responsible for preparing the claim have had on-going difficulty gathering back-up information. This has resulted in delays in claiming funds due and additional staff time to prepare the claim. Action has been identified to resolve the issues and is currently being implemented.

MEB Contract Management

Introduction

As part of the 2018/19 annual plan, Internal Audit has completed a review of contract management arrangements in respect of the MEB Contract for residual waste. The audit sought to provide assurance that there are appropriate controls in place over the management and monitoring of the MEB Contract.

Background & Scope

Angus Council previously used the DERL Energy from Waste plant in Dundee and its own landfill site at Restenneth near Forfar to dispose of its residual waste. In accordance with the Waste (Scotland) Regulations 2012 the Council will no longer be permitted to send biodegradable waste to landfill from 2021, and, as set out in the Zero Waste Plan for Scotland, the Council has been set the target of recycling 60% of household waste by 2020.

The new regulations left the Council with approximately 33,000 tonnes of municipal waste per annum to be disposed of through other means, and the DERL contract was due to expire

in 2020. The Council therefore had to identify a long term, sustainable and affordable disposal route for its residual waste, with thermal treatment deemed to be the only viable large scale disposal route available. Consequently, the Council entered into discussions with Dundee City Council (DCC) to develop a business case to determine the best procurement methodology for securing a contract for the future treatment and disposal of Angus and Dundee City Council's residual waste.

A Special Meeting of Angus Council on 28 September 2017 considered Report 336/17, which included the Final Business Case (FBC) for the Dundee and Angus Residual Waste Management Procurement Project, and agreed that the Strategic Director – Place should progress the project to financial close, the Head of Legal & Democratic Service should enter into a second inter-authority agreement with Dundee City Council to regulate management of the partnership over the term of the contract, and the Strategic Director – Place should report progress of the delivery if the project to the Council as and when required.

The contract for the Residual Waste disposal was ultimately awarded to MVV Environment Service Limited (MVV). It includes the construction of a new Residual Waste Treatment (RWT) plant, with MVV taking over operation of the existing DERL plant and Material Recovery Facility to deliver interim services during the construction period. MVV incorporated a new company for the contract/facility which is MEB Ltd (MVV Environmental Baldovie Ltd).

The partner councils (Angus Council and Dundee City Council) will pay a gate fee for every tonne of contract waste delivered to the plant, meaning that both Councils will pay for actual capacity utilised, subject to a guaranteed minimum combined tonnage of 60,000 tonnes per annum. Gate fees are fixed from commencement of the contract and subject to indexation at an agreed rate.

The audit reviewed the processes in place in order to gain assurance that the following control objectives were being monitored and managed:

- The Council has adequate arrangements in place for the management and monitoring of the contract;
- Officers responsible for contract monitoring are at an appropriately senior level and have been adequately trained;
- The arrangements for monitoring of the contract are applied properly in practice, and regular monitoring reports are prepared and presented to management;
- Management information is obtained from the contractor on a timely basis and is checked for accuracy;
- Adequate records of contract monitoring information and any issues arising are maintained;
- Contractor performance is measured and monitored against performance standards to ensure contract specifications are met, and appropriate, prompt action is taken as necessary for any contract failures;
- All payments to the contractor are checked for accuracy and paid correctly within agreed payment terms, and in line with the Council's Financial Regulations and Scheme of Delegation;
- The overall spend on the contract is monitored on a regular basis to ensure any potential overspends are identified at the earliest opportunity;
- Contract variations and amendments are managed robustly with standard procedures in place for requesting, approving and administering any variations.
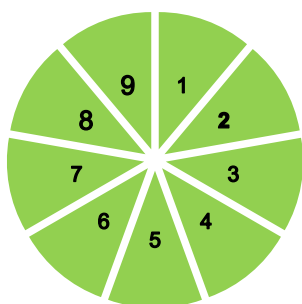
Conclusion

The overall level of assurance given for this report is 'Comprehensive Assurance' and as such no recommendations are being made.

Overall assessment of Key Controls

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

Control assessment

■ 1. The Council has adequate arrangements in place for the management and monitoring of the contract.

■ 2. Officers responsible for contract monitoring are at an appropriately senior level and have been adequately trained.

■ 3. The arrangements for monitoring of the contract are applied properly in practice and regular monitoring reports are prepared and presented to management.

■ 4. Management information is obtained form the contractor on a timely basis and is checked for accuracy.

■ 5. Adequate records of contract monitoring information and any issues arising are maintained.

■ 6. Contractor performance is measured and monitored against performance standards to ensure contract specifications are met, and appropriate, prompt action is taken as necessary for any contract failures.

■ 7. All payments to the contractor are checked for accuracy and paid correctly within agreed payment terms, and in line with the Council's Financial Regulations and Scheme of Delegation.

■ 8. The overall spend on the contract is monitored on a regular basis to ensure any potential overspends are identified at the earliest opportunity.

■ 9. Contract variations and amendments are managed robustly with standard procedures in place for requesting, approving and administering any variations.

Key Findings

Good Practice:

We have identified the following areas of good practice:

- There is a combined invoice and meetings scheduled for the year allowing participants to plan ahead.

- Invoices are checked using stand-alone spreadsheet/calculations ensuring that the invoice totals agreed to the agreed contract prices.

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 33 actions in progress at 25 February 2019 (excludes actions for Angus Alive and IJB). Chief Officers receive and review regular detailed reports on the outstanding recommendations.

- There are no **overdue** internal audit recommendations as at 25 February 2019. Following discussion at the previous Scrutiny & Audit meeting overdue actions from 2016/17 were reviewed. Some have now been closed as they are fully implemented. Others have had dates extended to accommodate operational requirements and these are now included in Table 1 below.
- Table 1 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 2 – Recommendations in Progress (as at 25 February 2019)
         (Original Completion Date Extended)

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Not Graded	Grand Total
Chief Executive	2016/17	-	-	-	-	-	-
	2017/18	-	-	-	-	-	-
People	2016/17	2	2	-	-	-	4*
	2017/18	-	-	-	-	-	-
Place	2016/17	-	-	-	-	-	-
	2017/18	1	9	3	-	3	16
Grand Total		**3**	**11**	**3**	**-**	**3**	**20**

* The recommendations from 2016/17 with revised dates, and progress to date are detailed in Appendix 1.

Table 3 – Recommendations in Progress (as at 25 February 2019)

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Not Graded	Grand Total
Chief Executive	-	-	-	-	-	-	-
People	-	-	-	-	-	-	-
Place	2017/18 2018/19	- -	- 5	1 5	- -	- 2	1 12
Grand Total		**-**	**5**	**6**	**-**	**2**	**13**

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.**

Outstanding Recommendations from 2016/17 with Revised Completion Dates

Priority 1

Action Code & Title	Description	Due Date	Original Due Date	Latest Note	Directorate
IAICM_0001 We will develop and implement a corporate change process	16-09 Rec 1 The Service Manager IT should develop and implement a corporate change process. The change management process should include the following key elements: • definition of IT change requirements, • documentation requirements (electronic or otherwise) • risk assessment, • system owner and IT authorisations, • roles and responsibilities, • testing • roll back recovery options • emergency change process • final release approvals The process should be developed in accordance with the proposed development of process maps and the IT service desk change management module.	30-Jun-2019	31-Oct-2017	Due date extended by six months to accommodate further Ivanti and process development. The next step is to review progress early in the new year to inform process development.	People
IAICM_0002 We will produce a report for EMT that highlights the process to be followed and set a start date for compliance	16-09 Rec 2 Directors must ensure that all changes to Council IT systems are carried out in accordance with the new change management process.	20-Dec-2019	30-Nov-2017	Due date extended in line with IAICM_0001.	People

Priority 2

Action Code & Title	Description	Due Date	Original Due Date	Latest Note	Directorate
IAITSD_0001 We will provide access to the corporate change management process and ensure all system upgrades can be managed through the corporate process.	16-19 Rec 1 It is recommended that the Service Manager IT considers how best to support local managers in establishing good practice in relation to upgrades and patch management. This will be assisted through the new IT change management process established by the Service Manager IT. In practice this will mean by following the IT change management process local staff will be advised to: 1. establish their own guidance notes to help them carry out a robust upgrade process and maintain good patch management; 2. ensure there is enough knowledge among teams to eliminate any potential single point of failure; 3. create and maintain user acceptance testing records where applicable and appropriate. These may be added to the change request records on the Service Desk and retained for audit purposes; 4. manage upgrades in accordance with the new IT change management process.	31-Jan-2020	31-Dec-2017	This audit action relates to establishing good practise in application upgrades and patch management. This is being undertaken for applications now managed directly by IT- such as Carefirst/ Eclipse and will be expanded to other key line of business applications as systems administration staff are transferred to IT. Formal change management has been established for infrastructure components and will be extended to business applications during 2019.	People
IAITSD_0002 We will form a new team to manage business applications	16-19 Rec 2 It is recommended that appropriate training in user acceptance testing and release management is provided to staff undertaking these roles. In the first instance, this should be considered in conjunction with the requirements established through the new IT change management process. It will be appropriate to consider establishing a centralised corporate IT resource to advise and guide local managers in good practice and to recommend appropriate user acceptance requirements and standards. (The IT team would not generally be responsible for undertaking the user acceptance testing). The action to meet this recommendation is subject to resources being provided and if accountability for business systems remain devolved then the action will be cancelled.	31-Dec-2019	31-Dec-2017	As part of the IT Business Systems review staff in scope have been identified. Some staff are likely to transfer to IT in early FY 2019, however due to other project priorities (e.g. P2P) this is likely to be phased throughout 2019/ 2020	People