

**ANGUS COUNCIL**

**SCRUTINY & AUDIT COMMITTEE – 5 March 2019**

**ANNUAL INTERNAL AUDIT PLAN 2019-20**

**REPORT BY MARGO WILLIAMSON, CHIEF EXECUTIVE**

**ABSTRACT**

This report submits the Audit Manager's Annual Internal Audit Plan for 2019-20 for approval.

**1. RECOMMENDATIONS**

It is recommended that the Scrutiny and Audit Committee:-

- (i) note that a risk-based approach methodology has been utilised to develop the proposed Internal Audit Plan for 2019-20.
- (ii) consider and approves the proposed 2019-20 internal audit plan.

**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**

In terms of the Public Sector Internal Audit Standards (PSIAS), the Service Leader – Internal Audit is required to set a risk based audit plan sufficient to provide the required assurances to members and officers in relation to corporate governance, risk management and internal controls.

This report presents, at Appendix 1, the outcomes of the annual planning exercise and the Service Leader's proposed 2019-20 Internal Audit Plan, for approval.

Best practice requires that the annual audit plan is developed using a risk based approach in consultation with audit stakeholders. Appendix 1 explains the well-established process which is utilised within internal audit from consultation on the audit universe, calculation of available audit days, through identification of auditable areas to risk assessment and the final proposed plan.

**4. PROPOSALS**

The 2019-20 Internal Audit Plan sets out the proposed activity to be performed by the Council's Internal Audit team in order to allow the Service Leader -Internal Audit to provide an Annual Internal Audit Opinion in June 2020. The Scrutiny & Audit Committee members are asked to consider and approve the plan.

**5. FINANCIAL IMPLICATIONS**

There are no financial implications arising directly from this report. Delivery of the internal audit plan can be achieved from the audit resources which have been budgeted for in financial year 2019-20.

**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 - 2019-20 Internal Audit Plan

# Angus Council Internal Audit



## Annual Internal Audit Plan 2019-20

March 2019

Cathie Wyllie  
Audit Manager  
Chief Executive's Unit

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# Introduction

Internal audit is defined in the Public Sector Internal Audit Standards (PSIAS) as:

“An independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

Management are responsible for establishing the risk, governance and internal control processes and systems as well as their on-going monitoring. Management are also responsible for managing fraud risks and ensuring that internal control systems are designed to guard against fraud and misappropriation. Internal audit is not a substitute for these management responsibilities. Rather it is the review function which will challenge current practices and recommend best practice and improvements to lead to a strengthening of the control environment and therefore assist the council in achieving its objectives.

Professional practice in relation to the provision of internal audit service is defined by PSIAS issued by the relevant authorities (CIPFA for local government). These standards are exacting in relation to the organisation’s governance of internal audit and internal audit’s own arrangements and practices. The Standards were last updated in March 2017.

An External Quality Assessment (EQA) performed in late 2014 by CIPFA confirmed that Internal Audit was fully compliant with the requirements of the PSIAS. An annual self-assessment is undertaken to confirm continuing compliance with the Standards. An external quality assessment will be carried out during 2019/20 through the peer review arrangements in SLACIAG (Scottish Local Authorities Chief Internal Auditor Group).

Due to the continuing changes within the council, the plan should be considered to be flexible and will be periodically reviewed and amended as required to reflect any new requirement or significant change to Council risks. Any amendments will be brought to the Scrutiny & Audit Committee for approval.

Our Internal Audit plan will be delivered in accordance with the Internal Audit Charter that was approved by the Scrutiny & Audit Committee in August 2018. This sets out the role, professional requirements, independence and overall responsibilities of Internal Audit.

The Council’s internal audit service is delivered by an in-house team complemented by approximately 30 days additional IT audit input from a contractor. The previous contract ended in April 2018. Procurement for a new contract has recently concluded, with the contract awarded to Scott-Moncrieff Chartered Accountants.

The authority, access rights and reporting arrangements for the Internal Audit function are also contained within the Internal Audit Charter which is reviewed annually.

In discharging the internal audit role, the Service Leader is required to set a risk based audit plan sufficient to provide the required assurances to members and officers in relation to corporate governance, risk management and internal controls. These assurances will be provided throughout the year. We will present the results of individual audit reviews through Internal Audit Update reports to each Scrutiny & Audit Committee. The activity related to the Counter Fraud Team will be reported bi-annually. In June 2020 the Annual Internal Audit Report will present an overall summary of the effectiveness of governance, risk and the internal control environment as well as an opinion on the corporate governance of the Council.

## The Planning Approach

The audit planning process for developing a risk based audit plan is well established within the Council. In considering the 2019/20 plan the Audit Team has strengthened the consideration and mapping of other assurance providers

The process involves determining the potentially auditable areas of the Council and updating these each year. The auditable areas are identified from a number of sources including:

- Consultations with Council Members (incl. Scrutiny & Audit Committee)
- Consultations with the Council Management Team (incl. the Head of Finance and Legal)
- Knowledge base within Internal Audit
- Council plans and policy documents
- Corporate and departmental risk registers
- External inspection reports
- Internal service, efficiency reviews etc.
- Liaison with external auditors
- Any matters arising from the work of the Scrutiny & Audit Committee

This then establishes the audit universe for the upcoming year from which the specific individual areas of audit will be chosen, based on the risk assessment methodology discussed below.

## The Risk Assessment Model

Once the auditable areas are identified they are separately risk assessed in accordance with the model which considers aspects of corporate importance and sensitivity of the area and the control and inherent risk. This then allows the elements of the audit universe to be classified into Critical, High, Medium or Low risk. There are also a number of 'core' areas which are reviewed every year, regardless of the risk classification.

Each of the risk assessed areas within the "universe" is then allocated to a "headline area" as follows:

- Corporate Governance
- Financial Governance
- Information Technology Governance
- Internal Controls
- Asset Management
- Legislative and other compliance

The headline areas are subject to a high level risk assessment model which looks at the relative risk and relative risk maturity of the headline areas to work out a broad allocation of the available audit days. This is not considered a rigid calculation but more a guide to the balance of the plan which can be amended to reflect specific needs and drivers.

The high level risk assessment takes into consideration the local risks contained within the corporate risk register as well as known risks at a national level.

## The Audit Plan

The final step in the development of the annual plan is to identify the individual audits from the audit universe which will sit below each of the headline areas and form the plan for the year. This choice is determined by a number of factors including:

- The assessed risk from the audit universe
- The time lapse since last audit
- Review of Corporate Risk Register
- Known problems or issues arising in previous audits/inspections, etc.
- Reviews being undertaken by other assurance providers (e.g. External Audit)
- Special or specific management requests
- Items postponed from the 2018/19 plan.

In addition, a portion of the plan has been reserved for contingency activity. Contingency resource will be available to fulfil reviews at the request of the Scrutiny & Audit Committee and management. This can relate to specific assignments where the objectives are set jointly by Internal Audit and by the Committee/Management or can be advisory or project assurance roles.

## The 2019-20 Internal Audit Plan

The 2019-20 Internal Audit Plan has been developed on the basis of the above model.

Issues identified by Council Members have been included in the assessment and some have been included in the plan. Issues not included in the plan have been discussed with other officers to identify alternative action where applicable.

The internal audit team has a dedicated internal resource comprising three auditors, one Team Leader and the Service Leader (4.35 FTE). The plan prepared below for 2019-20 also reflects 30 days for specialist support for IT audit, which will be supplied by the contractor.

The total number of productive days available from the Internal Audit team has taken into consideration the following:

- Maximum number of available days
- Professional development for staff
- Annual leave, plus contingency for sickness absence
- Internal administration activities

The Counter Fraud Team comprises the Service Leader, one Team Leader, one Counter Fraud Officer and one Governance and Scrutiny Officer (2.55 FTE). An additional temporary full time Counter Fraud post has been approved for two years and we anticipate this being filled from 1 April 2019. This provides 3.55 FTE resource in the counter fraud team. The team will continue to carry out data matching exercises to identify fraud and error; publicise, promote and enforce the Counter-Fraud and Corruption Strategy and framework; continue to develop joint working arrangements with colleagues across the Council; undertake investigations of allegations of fraud; and liaise with other local authorities to identify areas of best practice.

The Council's participation in the National Fraud Initiative (NFI) continues to be an integral part of the corporate approach to the prevention and detection of fraud and errors. Work began in February 2019 on the latest National Fraud data matches provided to the Council. Update reports will be submitted to this committee, together with a summary of the local outcomes.

The Audit Plan continues to include work carried out in relation to:

- Angus Alive. Internal Audit will agree with the Angus Alive Board a specific plan for Angus Alive. The output from these audits will be prepared for the Angus Alive Board.
- Angus Health and Social Care Partnership on behalf of the IJB internal auditor. Reports are presented in the IJB auditor's name to the IJB.



The overall Internal Audit and Counter Fraud resource and allocation is included in the table below:

Areas	Audit Days
<b>Productive days available from:</b>	
Internal Audit team	757
Counter Fraud Team	724
IT audit contractor	30
<b>Total available days</b>	<b>1511</b>
<b>Allocated as follows</b>	
Audit plan (see 2019-20 Detailed Outputs below)	537
Counter Fraud Team	724
Angus Alive	50
Angus Health and Social Care Partnership (note 1)	30
Admin, management and planning	170
<b>Total allocated days</b>	<b>1,511</b>

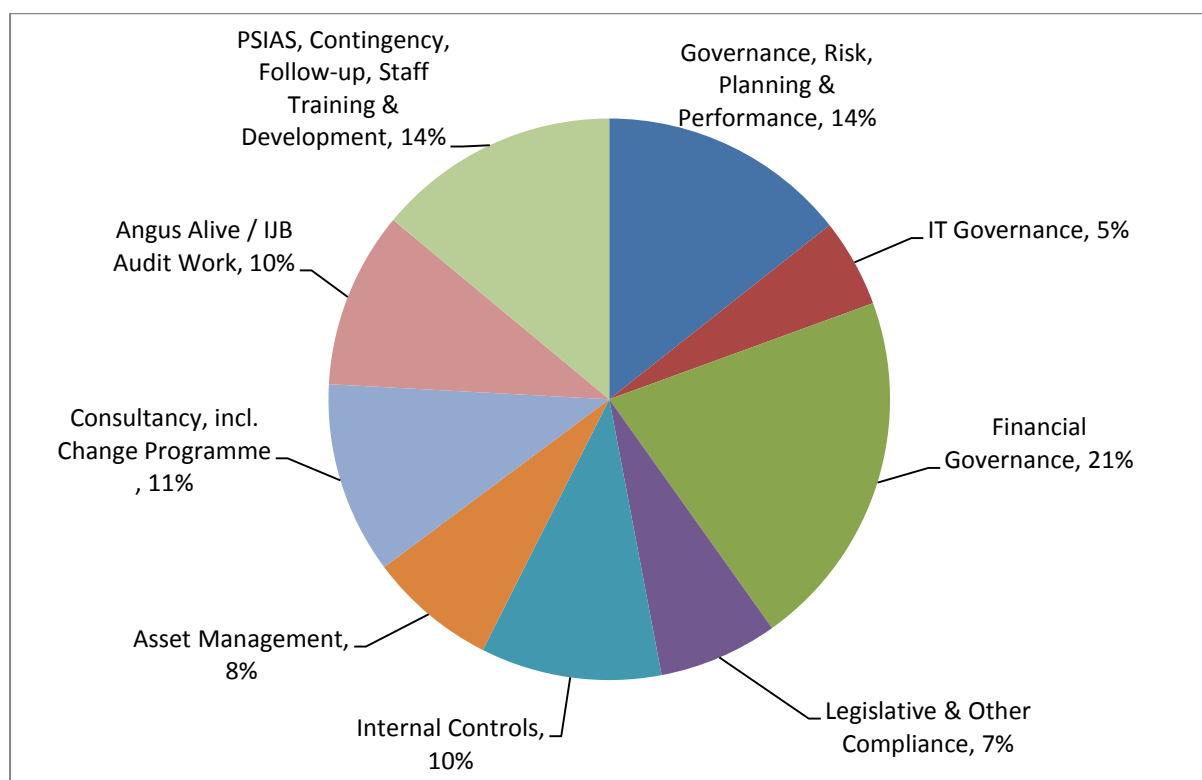
Note 1 - members should note this time is only part of the internal audit time for the IJB. We provide assistance to the appointed IJB auditor, who is Tony Gaskin, from FTF Audit and Management Services. He agrees the audit plan with the IJB. The other Tayside council internal auditors have a similar arrangement and we work together to look at issues across Tayside when appropriate.

The current resource availability is sufficient to allow production of the Annual Internal Audit Opinion and provide the required assurances to Scrutiny & Audit Committee Members as well as the Head of Corporate Finance & Legal in his role as Section 95 Officer.

The initial allocation of the available days in delivering the audit plan is shown below:

Headline Area	Audit days 2018-19
Governance, Risk, Planning & Performance	113
Financial Governance	163
IT Governance	40
Internal controls	82
Asset Management	58
Legislative & Other Compliance	54
Angus Alive and IJB work	80
Consultancy	87
Staff and Team Development/PSIAS/Contingency/Follow-up	110
<b>Sub-total:</b>	<b>787</b>
<b>Fraud Prevention and Detection - Counter Fraud Team</b>	<b>724</b>
<b>Total</b>	<b>1511</b>

The diagram below illustrates the percentage allocation of audit days (excluding the Counter Fraud Team) for 2019-20:



We believe that this allocation is appropriately aligned to risk profile and will address the assurance needs of the Council in 2019-20. It should be noted that cyclical systems work that would normally be performed has been delayed to accommodate work in higher risk areas arising from change and consultancy work designed to support delivery of change. We anticipate this requirement will reduce in future and is acceptable as a temporary shift in the use of resources within the team.

At this stage, the days per headline area are an estimate and will be firmed up once more detailed scoping work has been carried out. The outputs detailed in the '2019-20 Audit Plan – Detailed Outputs' section below include all the outputs which will be provided.

With the exception of the time provided by the IT audit contractor all audit work will be conducted by the Internal Audit team under the guidance and direction of the Service Leader and Team Leader. Where any team member has a perceived or actual conflict of interest in relation to an Internal Audit assignment or investigation, they will not be permitted to have any involvement in that piece of work. In addition, Internal Audit staff who are involved in consultancy work will not be permitted to be involved in any internal audit work that is directly related to that work.

## 2019-20 Audit Plan – Detailed Outputs

The table below sets out the individual audits to be conducted during the 2019-20 financial year and the output that will be generated from each piece of work. We have included, where relevant, a link to those risks contained within the Corporate Risk Register (CRR ref.) as at February 2019 (see Annex 1). This allows Members and management to identify where Internal Audit can provide assurance on the effectiveness of the controls implemented to mitigate risks. A number of projects and areas due for cyclical review were considered for inclusion in the current plan but were excluded on a risk assessed basis due to the available resources. These may be included, following discussion with management and the Scrutiny & Audit Committee, if for any reason a project is postponed.

Audits	Output	Commentary	CRR ref.
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Corporate Governance			
Corporate Governance annual review 2018/19	Annual Report	Oversight of corporate governance arrangements & progress with implementation of action plan.	N/A
Risk Management	Report	Review of risk management arrangements at corporate and departmental level, including risk appetite, escalation procedures and monitoring and review arrangements.	All
GDPR compliance.	Report	Review of compliance with GDPR in specific services. Also review role of Information Officer in services, compare & contrast with a view to identifying examples of good practice.	7
Tay Cities Deal	Report	Review in conjunction with partner Councils. Focus to be agreed.	1

Audits	Output	Commentary	CRR ref.
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Corporate Governance Cont'd			
Corporate Planning, Performance Management and Public Reporting	Report	Review processes for Corporate Planning, Performance Management Framework and Public Reporting, including a review of progress with "How Good is Our Council?" and also the use of Pentana as a performance management tool.	4
Community Planning, Partnership Governance, LOIPs	Report	Review Community Planning Partnership process & public sector reform/community engagement. Child Poverty Action Policy to be reviewed as a specific example – reflective piece of work on how this was developed. Also review partnership working & collaboration in general (including protocol, partnership governance, etc.)	N/A
Council oversight of IJB	Annual assurance	Overview of Council governance & oversight to inform assurance arrangements and planning for IJB audit.	15
Duty to deliver Best Value	N/A – will be covered in reporting of other work	Audit Scotland reports for other Councils will be reviewed to inform scoping of 2019/20 internal audit work	All

Audits	Output	Commentary	CRR ref.
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Financial Governance			
Payroll/Resourcelink processes - Leavers and Establishment Changes	Report	Review of processes and controls regarding those leaving the Council's employment, and the recording of establishment changes. External Audit to place reliance on this work.	1
Review of Expense Claims	Report	Review of compliance with guidance and controls regarding claims for reimbursement of expenses (employees and elected Members)	1
Data Analysis - Payroll & Accounts Payable	Report	Data analytics tools will be used to analyse payroll and accounts payable data to identify data trends, anomalous or missing data, etc. This work will exclude current National Fraud Initiative checks to ensure there is no duplication of effort.	1
Review of Voluntary Severance scheme	Report	Review of operation of Voluntary Severance scheme and checking of all payments over £50,000 (with specific focus on 31/03/19 leavers). External Audit to place reliance on this work.	1
Review of Budget Monitoring & Budget Management	Report	Post-implementation review of Integra Budget Module, to include a review of how the new module is being utilised by budget managers, and whether this has improved budget monitoring, management & accountability.	1

Audits	Output	Commentary	CRR ref.
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Financial Governance Cont'd			
Review of Cash Handling Arrangements	Report	Review cash handling procedures & controls in all areas across the Council where cash is still accepted; review will include petty cash arrangements, and re-introduction of random cash counts.	1
Car Parking Income	Report	Review arrangements for reconciliation of payments received from provider of parking machines, and overall contract management procedures.	1
Pupil Equity Fund	Report	Review whether funding provided directly to schools is being used in line with Scottish Govt. National Operational Guidance, and that appropriate checks are being done on any companies employed to provide services using this funding.	1
Comfort Funds	Report	Review the financial management controls & procedures relating to Comfort Funds held by care homes, in order to provide assurance that these funds are being used correctly.	1
Interreg	Report	On-going advice as required	1
Income Management System	Report	Review of income management processes & controls.	1

Audits	Output	Commentary	CRR ref.
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IT Governance			
Eclipse Post-Implementation Review (Children & Families)	Report	Review implementation of upgraded system in Children & Families (project management was reviewed in 2018/19 Plan).	3
IT Resilience & Disaster Recovery	Report	Review of IT resilience and disaster recovery procedures, including system back-up regime.	19
IT User Access Administration	Report	As the administration of user access to IT systems is devolved to local managers we select a core financial system for annual review (Housing Northgate system suggested for 2019/20.)	1, 7

Internal Controls			
Business continuity planning and disaster recovery	Report	Review of BCP arrangements. This is a high risk area, particularly during a period of change. This was deferred from the 2018/19 plan	16
Licensing System	Report	Review of controls within Licensing System, including income recording and licence application/renewal procedures.	1



Audits	Output	Commentary	CRR ref.
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<b>Internal Controls Cont'd</b>			
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Adults with Incapacity	Report	Review interim arrangements which have been put in place to record information on Adults with Incapacity to comply with Office of Public Guardianship (OPG) requirements; ensure these arrangements are operating effectively. Interim measures are in place until Eclipse project is implemented in Adult services.	7, 15, 16
Procurement - Exemptions from Tendering Process	Report	Review contract awards which have been granted exemptions from tendering procedures, to ensure proper procedures and controls have been followed, and value for money is being achieved. Include large IT contracts.	1
Absence Management	Report	Review procedures across the Council for absence management, including services provided on behalf of AHSCP.	1, 4, 6, 20
Automated New Start/Recruitment Process		Review new controls & procedures which have been put in place.	3, 6

<b>Asset Management</b>			
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Stocks & IT Hardware Inventories	Report	Review of stock arrangements in 2 locations & follow up recommendations from 2018/19 audit report. Review new arrangements for IT Hardware Inventories introduced in 2018/19.	1
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Audits	Output	Commentary	CRR ref.
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Asset Management Cont'd			
Review of Roads & Buildings Maintenance	Report	Review of procedures & controls for roads & buildings maintenance, incl. schools. Review will include prioritisation of work, risk assessment processes, budget allocation and health & safety considerations.	1, 20
Housing Improvements - Capital Projects	Report	Review contract management of major housing contracts; and management of slippage in capital programme.	1, 4

Legislative and Other Compliance			
LEADER - Rural Funding	Report	Annual review of LEADER programme expenditure.	1, 18
Carbon Reduction	Report	Annual review of Carbon Reduction return	1,4,18
Community Participation Requests & Participative Budgeting	Report	Review procedures & resources in place to deal with these new requirements & ensure all legislation/guidance is complied with.	1, 2, 18
Housing - National Regulatory Framework	Report	Review processes to comply with new regulatory framework & engagement with the Regulator.	18
Identification of New Legislation	Report	Review procedures in services to identify and make arrangements to comply with new legislation.	18
Private Water Supplies Legislation	Report	Review procedures in place to comply with legislation.	16, 18

Audits	Output	Commentary	CRR ref.
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Other			
Follow-up of previous recommendations	Update reports to each Scrutiny & Audit Committee and CMT	Continuing work to identify progress in implementing agreed audit actions.	4
Staff Training and Team Development	Nil	Ensuring staff have knowledge and expertise to perform reviews in new areas and that Internal Audit meets relevant standards and achieves best practice.	6
Angus Alive - Annual Plan	Reports to AA Board	Provision of Internal Audit Services to Angus Alive	N/A
Angus Health and Social Care Partnership (IJB)	Reports to Chief Audit Officer	Provision of Internal Audit Services to AHSCP (IJB)	N/A
PSIAS (Public Sector Internal Audit Standards) Review	Part of Annual Report and external review report	As required. External review of compliance due in 2019. This will be provided through the SLACIAG peer review process.	N/A
Contingency			N/A

Consultancy – Advice/Specific			
Consultancy support for Change Programme & specific Member and/or management projects	Advisory	As determined by requests. Will include staff involvement in LEAN reviews.	N/A
Finance Service Capacity review		Assist with benchmarking review of Finance service capacity & process.	1, 6
Business Support Review	Report	Review of process to identify lessons for future change reviews.	1, 3, 6

Audits	Output	Commentary	CRR ref.
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Counter Fraud Team			
Fraud Prevention and Detection	Bi-annual Report by Team Leader –Counter Fraud	<p>The team will</p> <ul style="list-style-type: none"> <li>• carry out various reviews to proactively detect and prevent fraudulent activity. This work will include the use of data analytics to extend the overall scope of the reviews where possible.</li> <li>• lead on investigation of NFI match reports.</li> <li>• Investigate allegations of fraud or misappropriation, and</li> <li>• contribute to controls identification and other fraud prevention initiatives.</li> </ul>	1

## 2019-20 Outputs to Scrutiny & Audit Committee

The table below lists the outputs expected to be presented to the Angus Council Scrutiny & Audit Committee until June 2020.

Committee Meeting	Output
<b>June 2019</b>	Internal Audit Annual Report 2018-19 Internal Audit Update Report Counter Fraud Report
<b>August 2019</b>	Internal Audit Update Report
<b>September 2019</b>	Internal Audit Update Report Approval of Updated Internal Audit Charter
<b>November 2019</b>	Internal Audit Update Report Counter Fraud Report
<b>January 2020</b>	Internal Audit Update Report
<b>March 2020</b>	Internal Audit Update Report Internal Audit Annual Plan 2020-21
<b>April 2020</b>	Internal Audit Update Report
<b>June 2020</b>	Internal Audit Annual Report 2019-20 Internal Audit Update Report Counter Fraud Report

## Conclusion

This report has outlined the audit planning and risk assessment process within the council to develop the annual internal audit plan and presents the proposed audit plan for 2019-20. Members are asked to consider and approve this plan, the discharge of which will be reported to the Scrutiny & Audit Committee at each Committee cycle.

## Annex 1 – Summary of Corporate Risk Register (as at 5 February 2019)

Risk No.	Description	Current Risk Score	Risk Appetite
1	Securing Financial Sustainability	16	6
2	Cultural Change	8	9
3	Change Programme	16	6
4	Performance Management	9	6
6	Workforce fit for the future	15	12
7	Information Governance	12	8
15	Health and Social Care Integration	12	9
16	Public Protection	12	8
18	Legislative change	9	9
19	IT Systems Business Continuity	10	2
20	Health & Safety Compliance	16	4

Missing numbers relate to risks that are no longer recorded.