ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 18 JUNE 2019

INTERNAL AUDIT ACTIVITY UPDATE

REPORT BY CATHIE WYLLIE – SERVICE LEADER (INTERNAL AUDIT)

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,
(ii)   note the update on progress with the 2019/20 Internal Audit Plan,
(iii)   note management's progress in implementing internal audit recommendations: and
(iv)   note the availability of the following documents on the Elected Members' Sharepoint site, and further work being undertaken :
  • Safeguarding Public Money: are you getting it right?
  • The Role of the Head of Internal Audit

2.   ALIGNMENT TO THE ANGUS LOCAL OUTCOMES IMPROVEMENT PLAN (LOIP) AND COUNCIL PLAN

The contents of this report contribute to the achievement of the corporate priorities set out in the Angus Local Outcomes Improvement Plan and the Council Plan.

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. A small number of 2018/19 projects are in progress but have not been completed in time for reporting in June 2019; these will be reported to the

next meeting. There are no significant issues identified to date in that work. Work has started on a few projects from the 2019/20 plan agreed in March 2019 (Report xx refers).

5.   PROPOSALS

The attached report provides Scrutiny and Audit Committee members with an update on progress with the 2018/19 and 2019/20 Internal Audit Plans. The Committee is asked to note:
- this report;
- the progress made in implementing internal audit recommendations;
- the availability of the following documents on the Elected members Sharepoint site, and further work being undertaken :
  - o   Safeguarding Public Money: are you getting it right?
  - o   The Role of the Head of Internal Audit

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

4 June 2019

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

Contents Page

Introduction

This report presents the progress of Internal Audit activity within the Council up to the 16 May 2019 and provides an update on:

- Progress with the 2018/19 Internal Audit Plan;
- Progress with the 2019/20 Internal Audit Plan, and
- Progress with implementing internal audit recommendations.

It also notes that two documents have been placed on the Elected Members' Sharepoint site and details further work being undertaken.

- Safeguarding Public Money: are you getting it right?
- The Role of the Head of Internal Audit

Audit Plan Progress Report

2018/19 Internal Audit Plan – Progress update

The table below summarises progress as at the 10 June 2019. Definitions for control assurance assessments are shown on page 27.

Timings for some audits were revised during the year to accommodate operational requirements in services, to allow audit staff with LEAN training to be involved in the corporate review of mobile phones and due to reactive investigation and complaint work that was not planned.

The contract for IT audit was awarded to Scott-Moncrieff Chartered Accountants in February 2019 and IT audit work for the period to March 2019 has been undertaken since then.

At 10 June 2019 the 2018/19 plan is complete with the exception of four reviews that are in progress but not complete:

- Two audits relating to procurement will be reported in August 2019. The Contract Specification and the review of Procurement Reform (Scotland) Act 2014
- Carbon Reduction/climate change targets 2020. The draft report issued in April 2019 is under discussion, further audit evidence is being collated, and the findings will be reported to the next meeting.
- Revised governance arrangements will be reported to CLT as an interim report, with further reporting to be agreed thereafter. The interim position is noted below.

In addition On-line payments/"Cashless Council" has been carried forward to the 2019/20 plan and merged with other planned work on cash.

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Corporate Governance					
Corporate Governance annual review – 2017-18	June 2018	Complete	N/A	N/A	19 June 2018 (report 204/18)
New Management Structure - revised Governance Arrangements	April 2019	Interim reporting	N/A	N/A	**18 June 2019**
	May/June 2019	Final Report	Blank	Blank	**TBC**
General Data Protection Regulations (GDPR) Readiness	June 2018	Complete	Substantial	(pie chart)	21 August 2018
Risk management	Jan./Feb. 2019	Complete	N/A Consultancy	N/A	23 April 2019
Council Governance & Oversight of Arrangements with Angus Alive	April/May 2019	Complete	Substantial	N/A	**18 June 2019**
Council oversight of IJB	March/April 2019	Complete	Substantial	N/A	**18 June 2019**
Financial Governance					
Schools' Funds – Governance (follow-up)	Feb. 2019	Complete	Limited	(pie chart)	**18 June 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	Complete	N/A Consultancy	N/A	**18 June 2019**
Review of Voluntary Severance scheme	June 2018	Complete	Substantial	(pie chart)	25 September 2018

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / *(target in italics)*
On-line payments/ "Cashless Council"	April/May 2019	C/F to 2019/20 plan	N/A	N/A	**18 June 2019**
Financial Governance (cont.)					
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.	Will be carried forward to 2019/20 plan	N/A	N/A	N/A	Agreed 23 April 2019
BACS system	Aug. 2018	Complete	Substantial		20 November 2018
Data Analysis – Payroll & Accounts Payable	Continuous Auditing	Complete	Payroll - Comprehensive Accounts payable - Comprehensive	N/A	**18 June 2019**
IT Governance					
Carefirst Social Work system Focus changed. This project included in 3 project review of project management procedures	See Project Management	Complete	N/A Consultancy project	N/A	22 January 2019
Phase 2 to be undertaken as part of 2019/20 Audit Plan to review operation of system.	Postponed until 2019/20 Audit Plan				*2019/20*
IT User Access Administration – Integra (follow-up)	March 2019	Complete	N/A	N/A	**18 June 2019**
IT User Access Administration - Resourcelink	April 2019	Complete	Limited		**18 June 2019 (Report 200/19)**

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / *(target in italics)*
Internal Controls					
Contract specification process	March/April 2019	In Progress			*20 August 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	N/A	N/A	N/A	*2019/20*
School transport	July 2018	Complete	Comprehensive		20 November 2018
Nursery/Early years expansion	July 2018	Complete	Substantial		20 November 2018
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)	Feb./March 2019	Complete	Substantial		23 April 2019
Section 75 agreements	Oct. 2018	Complete	Substantial		22 January 2019

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Legislative and other compliance					
LEADER	October 2018	Complete	Substantial		22 January 2019
Carbon Reduction / Climate Change Targets 2020	Feb. 2019	Draft report issued – further audit work underway			*20 August 2019*
IR35 (off payroll working rules)	Jan./Feb. 2019	Complete	Substantial		***18 June 2019***
Procurement Reform (Scotland) Act 2014	April. 2019	In Progress			*20 August 2019*
EESHH 2020 housing standards compliance	Jan. 2019	Complete	Comprehensive		**18 June 2019**
Environmental Health, Consumer Protection and Food Safety Enforcement	Dec./Jan. 2018	Complete	Limited		23 April 2019
Corporate Health & Safety	April 2019	Complete	N/A	N/A	**18 June 2019**
Interreg (European Funding) • Initial testing • Payroll testing	Jan. 2019 March 2019	Complete Complete	N/A N/A	N/A N/A	5 March 2019 23 April 2019
Chief Executive Reports					
Lochside Leisure Centre	Oct 2018	Complete	N/A	N/A	20 November 2018

2019/20 Internal Audit Plan – Progress update

The table below summarises progress as at the 10 June 2019 for all projects which have started. The next progress report will include the full table of agreed work for 2019/20. Definitions for control assurance assessments are shown on page 27.

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 2019	Complete	N/A	N/A	18 June 2019 (report 196/19)
Financial Governance					
Review of cash handling arrangements and progress with On-line payments/ "Cashless Council"	June 2019	In Progress			*24 September 2019*
Data Analysis – Payroll & Accounts Payable	Continuous Auditing – on-going	Planning			*20 August 2019*
Internal Controls					
Adults with Incapacity – Interim Procedures	May/June 2019	Planning			*20 August 2019*

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 final audit for 2018/19 for Angus Alive has recently been completed. The report on our main IJB audit assignment for 2018/19 has also been completed. 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: -

2018/19 plan

- New management structure revised governance arrangements
- Council Governance and oversight of arrangements with Angus Alive
- Council oversight of IJB
- School Funds Governance (follow-up)
- Change programme governance
- Data analysis payroll and accounts payable
- IT user access administration - Integra (follow-up)
- IR35 (off-payroll working rules)
- EESHH 2020 housing standards compliance
- Corporate Health & Safety

New Management Structure

The 2018/19 the Internal Audit Plan included work on governance in light of the new Council management structure which was implemented on 1 April 2018 (report 418/17 refers). The Council's management structure was further streamlined with effect from 1 April 2019, with two Strategic Director posts deleted on the appointment of a new Depute Chief Executive (report 379/18).

The overall objective of the agreed work is to consider the procedures and processes in place regarding the governance of the Council's various internal working groups and forums, particularly in light of recent changes to the Council's management structure.

The scope of the review is to:

- Identify and map the Council's key internal working groups and forums;

- Review their terms of reference, interdependencies and reporting lines;

- Consider whether working arrangements and governance of these groups are appropriate and in line with best practice.

At 17 May we had identified 130 groups. The information that we have gathered so far about these groups varies in detail. Where sufficient information was available we have mapped the groups and their interdependencies. This will be provided to CLT for further consideration and to identify how best to conclude the information gathering to allow all of the audit objectives to be addressed. Once this has been completed a further report will be made to this committee.

Council governance and oversight of arrangements with Angus Alive

This review was included in the 2018/19 plan to enable assurances that are required at the year-end relating to governance.

During 2018/19 there have been improvements in the Council's approach and activity to oversee and manage the contractual arrangements with Angus Alive. The key driver for this has been the appointment of the Senior Practitioner – Strategic Commissioning, and his liaison and monitoring roles. Work has been undertaken to review support provided by the Council to Angus Alive and update the related service specifications. A review of the services contracted by the Council is also underway. These actions will aid governance arrangements going forward as the framework within which services are supplied will be clear. The scrutiny role of the Council was also strengthened in 2018, with Angus Alive's annual report now being taken to the Scrutiny & Audit committee.

Although there are further improvements to the governance arrangements planned, and a number of areas currently under review relating to the relationship between the Council and Angus Alive, the level of assurance that can be given to the Council's governance arrangements relating to Angus Alive is **Substantial Assurance**.

Council oversight of IJB

This review was included in the 2018/19 plan to consider the adequacy of Council governance arrangements regarding the IJB. Our overall assessment is that the arrangements in place, and further planned improvements, provide **Substantial Assurance** that the council has appropriate oversight of the IJB. No recommendations have been made as further changes are already under consideration.

There have been significant improvements in the governance arrangements during 2018/19, including the appointment of a Council officer with a specific remit in relation to oversight of the IJB, and the development of Terms of Reference for the Angus Council and Angus Health & Social Care Partnership Liaison Group "responsible for overseeing the governance and partnership arrangements between the two organisations".

School Funds Governance (follow-up)

Introduction

As part of the 2018/19 annual plan, Internal Audit has completed an audit of the governance and administration of School Funds within the Schools & Learning Directorate. This audit follows up on previous audits of school funds. Audit 16-03 was carried out in a sample of secondary schools and audit 17-04 was carried out in a sample of primary schools.

The audit tested that appropriate controls are in place to ensure effective management of School Funds within the Angus school estate, with consideration given to the findings in previous audit reports of School Funds.

Background & Scope

All Angus Schools operate individual school funds for the purpose of controlling monies raised in relation to school related activities. The normal sources of income are donations, fund raising activities and parent council donations.

These funds are administered and spent for the benefit of the school pupils and do not come within the budget of, or under the direct administration of the Schools & Learning Directorate. School staff, under the leadership of the Head Teacher, act as custodians of the funds and, as they do so as employees of the Council, it necessarily follows that the Schools & Learning Directorate is ultimately responsible for the safekeeping of monies in the charge of its employees, and may be called upon to make good, on behalf of its employees, any losses which may occur. Monies received for a specific purpose must only be spent on this purpose, with any non-specific funds received/raised being used for the benefit of current and future pupils of the school.

We used a combination of meetings with relevant staff and an internally generated risk and control matrix and audit programme based on the identified risks as the basis for our audit work.

The Council has eight secondary schools and fifty primary schools in Angus. We took a sample of ten schools, being seven primary schools and three secondary schools. The sample covered each geographical area in Angus and included small, medium and large primary schools.

Conclusion

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

Overall assessment of Key Controls

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

Control assessment

- 1. There is adequate guidance to assist staff in the management of school funds.
- 2. There is a management committee with a Terms of Reference to provide governance of the fund.
- 3. Appropriate banking arrangements are established.
- 4. All income and expenditure is adequately recorded and authorised.
- 5. Cash handling arrangements are appropriate.
- 6. There is appropriate training and support for fund managers and administrators.
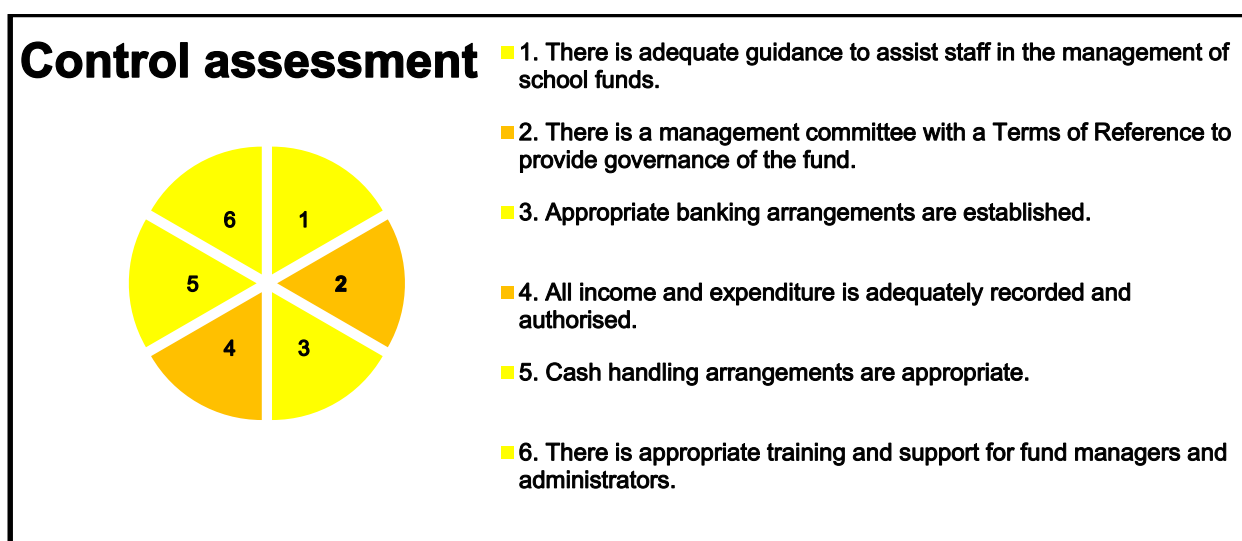
Audit Recommendations summarised by Type & Priority

Table Improvement Actions by type and priority

There are two priority 1, eight category 2 and two category 3 control operation improvement actions.

Key Findings

Good Practice:

We have identified the following areas of good practice:

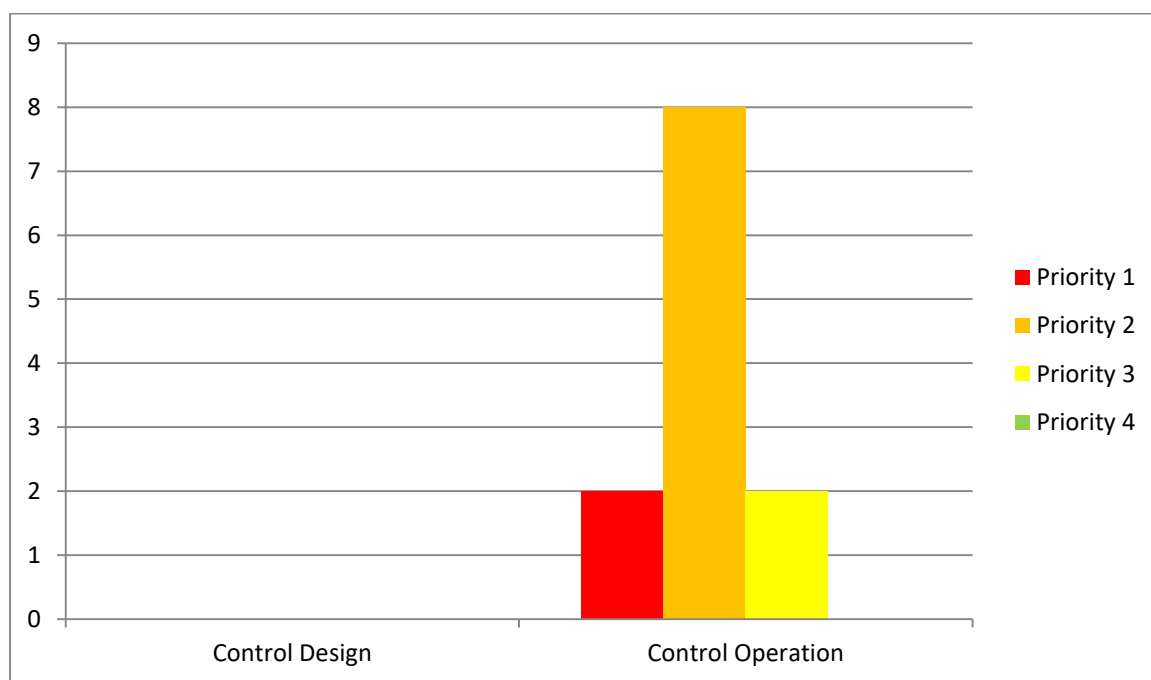- There is a new on-line training module on the Always Learning Brightwave portal for the administration of school funds
- A report of those who have completed the online training module, including the date of completion, is available
- The school fund sample constitution (available on the Education intranet) covers everything needed for a constitution and can be personalised for each school
- St Margaret's Primary and Tannadice Primary Head Teachers report the balance on the school fund at every Parents' Group meeting with this being a standing item on the agenda. These Parents' Groups issue the minutes of these meetings to all parents.

Planned Improvements/Changes:

Cluster Administrators plan to make it compulsory for school fund administrators to complete the school fund training module. They will send out an annual reminder to school staff to complete the school fund training module, request the report on who has completed it and follow up on those who have not.

Areas Identified for Improvement:

This audit has much of the same issues with similar recommendations as have been made previously. There are some schools in the audit sample with good practice but there are still schools that are not adhering to school fund guidance, despite the implementation of recommendations from the two previous school fund audit reports. See Appendix 1 for previous recommendations.

We recognise that head teachers have significantly more financial responsibility than previously, and are now directly responsible for three different funding streams – the DSM budget, school fund and Pupil Equity Fund. We also recognise that reductions in administrative staff as a result of budget savings has impacted on the support available to Head Teachers in this respect. However, although improvements have been made in terms of the overall training and guidance available for school funds, issues are still arising in some schools which suggests that the training and guidance is not being followed, and is perhaps not reaching the correct individuals.

The introduction of Primary School Cluster Administrators has added a level of quality control and additional support across primary schools, although it is recognised that these posts are relatively new and these officers are still developing in the role.

Given that this is the third audit on school funds in three years, with similar issues continuing to be found, the assurance level in this area remains "Limited".

We have made twelve recommendations to address high to moderate risk exposure which are:

Priority 1

School should not keep pre-signed cheques.

Schools should be reminded that the school fund is for the benefit of current or future pupils and not for the benefit of staff.

Priority 2

It should be ensured that all schools have a school fund constitution which is completed in line with the standard template, dated and signed.

Schools should report the balance on the school fund at least annually and the school fund annual accounts should be made available to parents / guardians.

Schools must carry out reconciliations between the bank account and the books of account monthly on receipt of the bank statement, with this being signed by the preparer and countersigned by a committee member.

Schools should ensure that their school fund constitution contains the arrangements for the disbursement of funds should the school fund be dissolved.

Secondary School A should close the TSB account named Prize Fund, and transfer this to the school fund.

Staff with responsibility for the upkeep of the school fund electronic package must be given sufficient training to carry this out accurately.

Schools should be advised that the VAT received on Tempest commission should be paid into the Council and school fund administrators should be given guidance on this.

All schools must ensure that their school fund accounts are independently examined annually.

School fund guidance should be in one place on the Education intranet and clearly signposted to make it easier for staff for find.

Schools should not keep large balances in the school fund for significant periods of time unless saving for a specific activity or resource.

Change Programme Governance

Introduction

The Change Programme is a key element of the arrangements in place to deliver the net spending reductions needed to meet the Council's medium term budget strategy.

Project Management and Governance definitions

The Scottish Government website includes these definitions for project management and project governance:

> "**Project Management** is the discipline of planning, organising, securing, managing, leading, and controlling resources to achieve specific goals…. …
>
> **Governance** ensure(s) there are effective reporting arrangements from the programme or project into the higher-level corporate environment."

Planned audit consultancy work

The audit plan for 2018/19 included a review of change management at the Council level. It was agreed that this would be reviewed though consideration of the governance arrangements for the operation of the Change Board and oversight of the Change Programme. Project management was reviewed previously and reported in Internal Audit report 18-13.

Scope and Methodology

We facilitated a self-assessment review of the Change Programme management and operation of the Change Board using relevant elements of the Scottish Government Gateway 0 checklist tailored to suit the Council's requirements and confirmed evidence was available to support the self-assessment. The review covered the following questions, taken from the Scottish Government's Gateway 0 documentation:

- Why do we have to deliver this programme and does it have to be done now?
- Is there a good strategic fit:
  - With other programmes planned or underway?
  - With wider organisational and public sector strategies?
- Who are the main stakeholders, and do we have their support?
- Do we understand the scope and what will constitute success?
- Are there realistic plans for achieving and evaluating the desired outcomes, and how will we monitor progress?
- Have we identified the main programme risks, including the track record of the organisation and made effective arrangements for managing them?
- Are we confident that we have the right skills, leadership and capability to achieve success?

- Are appropriate management controls in place?

- Has provision been made for the financial and other resources required?

- Have we engaged adequately with the market to identify delivery options?

The self-assessment identified current arrangements and considered whether these could be improved on, identifying the long-term goal and how this should be achieved. The self-assessment was undertaken by the Service Leader Governance & Change and the Manager - Change.

The completed, verified checklist will be discussed by the Change Board with a SMART action plan to address improvements identified from the review.

Data analysis

As part of the 2018/19 annual plan, Internal Audit has carried out interrogation of Payroll and Creditors/Accounts Payable information using the data analysis software, CaseWare IDEA (Interactive Data Extraction Analysis) as part of our continuous auditing programme.

Payroll

The overall level of assurance given as a result of our testing for the financial year is **Comprehensive Assurance.**

The full financial year of Payroll payments from 1 April 2018 to 31 March 2019 has been analysed. There are payrolls for monthly paid employees, Councillors, Teachers, Teacher supply and Angus Alive staff. The tests conducted for Payroll were:
- No National Insurance Number
- Duplicate National Insurance Numbers
- Duplicate bank accounts
- High Value Payments

All instances highlighted by the tests were explained to our satisfaction.

Creditors/Accounts Payable

The level of assurance given as a result of the testing on authorisation is **Comprehensive Assurance.**

The full financial year 2018/19 of payments to suppliers has been analysed. There were 56,054 payments in total made to suppliers in the financial year 1 April 2018 to 31 March 2019, with 17,867 payments for the period 1 April to 31 July 2018 and 38,187 made in the period 1 August 2018 to 31 March 2019.

In the period April to July 2018 there were instances of four employees having both registered and authorised invoices, with satisfactory explanations from three employees for these. One employee had been sharing a log-in with another member of staff. These members of staff were advised that this was not acceptable and log-ins should never be shared.

In the period August 2018 to March 2019 there were eighteen employees having both registered and authorised invoices. This increase appears to be due primarily to a decrease in clerical / administrative staff resulting in there being only one person in the office at times. There were satisfactory explanations for the majority of these. For example, one person had prepared paperwork for a cheque to be issued to herself (for petty cash for the office) and

then registered and authorised the payment. This person was the only clerical/admin in the office at the time. The paperwork for this had been authorised by the service lead of the section, which is an appropriate alternative control.

Two new employees had both registered and authorised invoices as no-one had told them not to do both parts. This was identified by the service prior to the audit and did not recur.

IT user access follow-up - Integra

Introduction

As part of our 2018-19 Internal Audit work, we conducted a detailed review of progress by management in completing agreed actions relating to our 2017/18 review of Integra user Access (Report 133/18 refers).

Results of follow-up work

Management agreed a total of nine actions to address the eight recommendations contained within the original report. Three actions were not yet due for completion and these were not included in our review.

In conducting our follow-up assessment, we reviewed evidence provided by management to determine whether we could agree that the agreed action had been completed. Good progress has been made with the actions. Of the six actions reviewed, we agreed that five, including two Grade 1 actions, were closed. One action is partially complete, awaiting action by a third party supplier to upgrade the system. It is expected this will be provided by the end of June 2019.

IR35 (off payroll working rules)

Introduction

As part of the 2018/19 annual plan, Internal Audit has completed a review of Angus Council's compliance with the Intermediaries Legislation (IR35) in relation to the new guidance which came into effect on 6 April 2017 in the aim to tackle disguised employment.

The audit sought to provide assurance that appropriate controls and processes are in place to ensure that Angus Council are complying with the legislation and have completed a retrospective review of any potential off-payroll working which was taking place at the date the new legislation came into effect.

Background & Scope

The Intermediaries Legislation (IR35) was introduced in 2000 and aimed to tackle disguised employment.

IR35 requires individuals who work through an intermediary to pay broadly the same tax and NICs (National Insurance Contributions) as any other employees, where they would have been an employee if they were providing their services directly.

The legislation applies to a number of different types of intermediaries but most commonly applies where people provide their services through their own company.

At the Autumn Statement 2016 the government confirmed that it would reform the Intermediaries' Legislation in Chapter 8 Part 2 Income Taxes (Earning and Pensions) Act 2003 (ITEPA 2003) often known as IR35.

The measure introduced off-payroll working in the public sector legislation and applied to payments made on or after 6 April 2017.   If work is completed before 6 April 2017 but payment made on or after 6 April 2017 it will be within the new legislation.

The Intermediaries Legislation ensures that individuals who work through their own company pay employment taxes in a similar way to employees, where they would be employed were it not for the personal service companies (PSC) or other intermediary that they work through.

The new measure, "Off-payroll working in the public sector" moves responsibility for deciding if the off-payroll rules for engagements in the public sector apply from an individual worker's intermediary to the public authority, agency, or third party responsible for deduction and paying associated employment taxes and NIC's to HMRC.

Public sector bodies are required by law to enforce IR35. Failure to comply with this statutory duty will result in the Council becoming liable for the lost income tax and employees and employers NIC's and the Apprenticeship Levy which could result in an additional cost of around 46% of the invoice value of the contractor plus any additional charges and penalties from HMRC.

The audit reviewed the guidance and procedures which have been put in place to ensure that Angus Council is fully complying with the IR35 legislation and sought to provide assurance on the following objectives:

- The Council has clear arrangements for identifying and managing employment relationships in relation to IR35 which has been communicated to all stakeholders;
- Officers responsible for reviewing contracts in relation to employment relationships have been provided with adequate resources and training to enable them to identify employment relationships which require assessment;
- The Council's policies and procedures relating to new employees, suppliers & consultants contain appropriate references to IR35 which mitigate the risk of the Council failing to meet IR35 obligations;
- The Council has template contract pro-formas for different types of relationship which ensure that IR35 guidance has been complied with;
- Responsible Officers have reviewed the employment relationships in place at 6 April 2017 which could be deemed as within the scope of IR35 to ensure the Council is compliant and any retrospective income tax and NI payments have been made;
- The HMRC ESS (HM Revenues and Customs Employee Shareholder Status) tools for assessing employment relationships have been used to correctly determine the status of intermediaries.
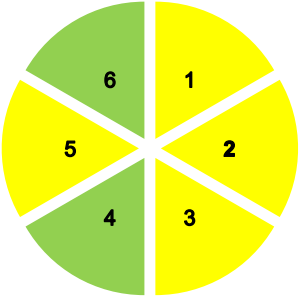
Conclusion

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

There have been nine IR35 assessment made since 2017; eight assessed as self-employed, and one assessed as an employee.

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 clear arrangements for identifying and managing employment relationships in relation to IR35 which has been communicated to all stakeholders.

2. Officers responsible for reviewing contracts in relation to employment relationships have been provided with adequate resources and training to enable them to identify employment relationships which require assessment.

3. The Council's policies and procedures relation to new employees, suppliers & consultants contain appropriate references to IR 35 which mitigate the risk of the Council failing to meet IR35 obligations.

4. The Council has template contract pro-forma for different types of relationship which ensure that IR35 guidance has been complied with.

5. Responsible Officers have reviewed the employment relationships in place at 06 April 2017 which could be deemed as within the scope of IR35 to ensure the Council is compliant and any retrospective income tax and NI payments have been made.

6. The HMRC ESS tools for assessing employment relationship have been used to correctly determine the status of intermediaries.

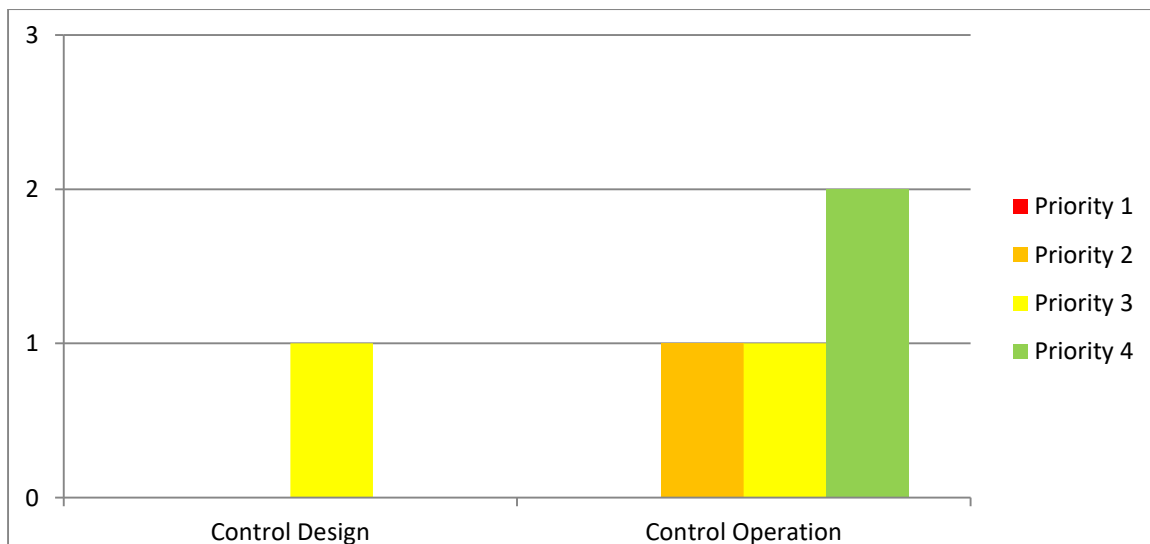## Audit Recommendations summarised by Type & Priority

Table Improvement Actions by type and priority

There are five recommendations in this report, with four regarding operation of controls and one control design. There are no priority 1, one priority 2, two priority 3, and two priority 4 recommendations.

Key Findings

Good Practice:

We have identified the following areas of good practice:

Guidance has been issued to departments for cascading, and is also available on the Intranet.

Areas Identified for Improvement:

Priority 2
- Ensure that there are signed copies of the Contractor's Declaration and that these are retained.

Priority 3
- The Council should raise awareness of the IR35 rules by including this in the annual corporate governance reminder.

- The procurement arrangements for business consultancy FAQ should be updated to link to the current Payroll guidance on carrying out the IR35 assessment to determine the employment status of any consultant.

Priority 4
- A review of all completed assessments should be undertaken to ensure consistency across the council and that Human Resources are comfortable with the status awarded to contractors. Where decisions were taken based on an assessment which HR view as borderline, or the tool results were inconclusive, then ensure that backup for these decisions has been retained.

- Guidance should be enhanced to give examples/scenarios in response to some of the tool kit questions to aid consistency and help managers make an informed decision when completing the tool kit.

Wider learning points
- We relied on officers' representations to confirm the retrospective review at 6 April 2017 had been undertaken where evidence of this review had not been retained. When a review of this type has been undertaken evidence should be retained. We will include this point in our next audit bulletin.

EESHH 2020 housing standards compliance

Introduction

As part of the 2018/19 annual plan, Internal Audit has completed a review of preparation work around Angus Council meeting the EESSH compliance by 31 December 2020.

The audit sought to provide assurance that appropriate controls and processes are in place to ensure that Angus Council can meet the current legislation by 2020 whilst considering future milestones set by EESSH beyond 2020.

Background & Scope

The Energy Efficiency Standard for Social Housing (EESSH) aims to encourage landlords to improve the energy efficiency of social housing in Scotland. This supports the Scottish Government's vision of warm, high quality, affordable, low carbon homes and a housing sector that helps to establish a successful low carbon economy across Scotland.

The EESSH will contribute to reducing greenhouse gas emissions by 42% by 2020, and 80% by 2050, in line with the requirements set out in the Climate Change (Scotland) Act 2009. In June 2017, the Cabinet Secretary for the Environment, Climate Change and Land Reform announced proposals to increase the 2050 target to achieve a 90% reduction in greenhouse gas emissions, with new interim targets of 56% reduction by 2020, at least 66% by 2030 and at least 78% by 2040. A new Climate Change Bill was introduced to Parliament on 23 May 2018 to amend the Climate Change (Scotland) Act 2009 to reflect these new targets. The Bill completed Stage 1 in April 2019.

When EESSH was introduced, a review was proposed by Scottish Government for 2017 to assess progress towards the 2020 target and to consider future milestones beyond 2020. To deliver this, the EESSH Review Group was set up in March 2017. The Review was delivered in two phases, phase 1 of the Review assessed progress towards the 2020 target, and phase 2 is considering milestones beyond 2020. One of the actions agreed by the group was that the guidance for landlords should be consolidated and revised.

A working group has been set up to develop EESSH ratings by applying a set of "reasonable measures" to representative stock types, assuming the dwellings were already compliant with Scottish Housing Quality Standards (SHQS). Minimum Energy Efficiency (EE) ratings have been set depending upon dwelling type and fuel type which should be achieved for meeting the 2020 milestone.

The Scottish Social Housing Charter, issued under section 31 of the Housing (Scotland) Act 2010, sets the standards and outcomes that all social landlords should aim to achieve when performing their housing activities. A revised Charter was approved by the Scottish Parliament and came into effect from 1 April 2017.

Charter Outcome 4 (Quality of Housing) states:

"Social landlords manage their businesses so that tenants' homes, as a minimum, meet the Scottish Housing Quality Standards (SHQS) when they are allocated; are always clean, tidy and in a good state of repair; and also meet the Energy Efficiency Standard for Social Housing (EESSH) by 31 December 2020."

The audit reviewed the plans and procedures which have been put in place to ensure that Angus Council can meet the EESSH requirements by 2020. The audit sought to provide assurance on the following objectives:

- Angus Council housing stock has been assessed to identify where stock does not meet the minimum requirements.
- A detailed programme plan is in place which is on track to achieve the minimum EESSH standards by 31 December 2020.
- Consideration is given to EESSH 2 in an attempt to combine works and reduce tenant disruption.
- Appropriate consultation has taken place with all stakeholders.
- An adequately resourced project team is in place which will monitor and report on progress.
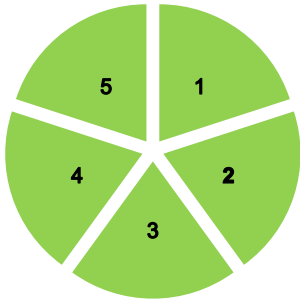
Conclusion

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:

Control assessment

■ 1. Angus Council housing stock has been assessed to identify where stock does not meet the minimum requirements.

■ 2. A detailed programme plan is in place which is on track to achieve the minimum EESSH standards by 31 December 2020.

■ 3. Consideration is given to EESSH 2 in attempt to combine works and reduce tenant disruption.

■ 4. Appropriate consultation has taken place with all stakeholders.

■ 5. An adequately resourced project team is in place which will monitor and report on progress.

Key Findings

Good Practice:

We have identified the following areas of good practice:

- Communication with stakeholders prior to project commencement
- Establishing project group with project monitoring being established early in the process.

Corporate Health & Safety

The Health and Safety at Work etc. Act 1974 is the primary UK Health & Safety legislation. This is supported by a number of other Acts, Statutory Instruments, Codes of Practice and Guidance Notes. The Health &Safety Executive administers the requirements of the Act.

During 2018/19, a new Council Risk, Resilience and Safety team was formed, bringing together all of the relevant functions within the council and strengthening links with internal audit, governance and change. As a result Health & Safety arrangements were reviewed and it was identified that corporate guidance needs to be reviewed and clarity is needed about what is corporate and what is service responsibility.

At April 2019 the Risk, Resilience and Safety team were working to revise arrangements around monitoring, reporting and ownership of Health & Safety. Internal audit provided consultancy input to facilitate a workshop with the Health & Safety team on 15 May 2019 to complete the Health and Safety Executive self-evaluation template to assess progress with this work. Further discussion has taken place during May and an action plan will be prepared during June/July to help take forward the remaining identified changes.

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 37 actions in progress at 30 May 2019 (excludes actions for Angus Alive and IJB). Chief Officers receive and review regular detailed reports on the outstanding recommendations.

- There are no internal audit recommendations which are overdue as at 30 May 2019.
- 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 1 – Recommendations in Progress (as at 30 May 2019)
      (Original Due Date Extended)

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Not Graded	Grand Total
Strategic Policy, Transformation & Public Sector Reform	2016/17	-	-	-	-	-	-
	2017/18	-	1	-	-	-	1
	2018/19	-	-	-	-	-	-
Finance	2016/17	-	-	-	-	-	-
	2017/18	1	7	3	-	-	11
	2018/19	-	1	2	-	-	3
Legal & Democratic	2016/17	-	-	-	-	-	-
	2017/18	-	1	-	-	-	1
	2018/19	-	-	-	-	-	-
HR, Digital Enablement & Business Support	2016/17	2	2	-	-	-	4
	2017/18	-	-	-	-	-	-
	2018/19	-	-	-	-	-	-
Infrastructure	2016/17	-	-	-	-	-	-
	2017/18	-	1	-	-	-	1
	2018/19	-	-	-	-	-	-
Grand Total		**3**	**13**	**5**	**-**	**-**	**21**

Table 2 – Recommendations in Progress (as at 30 May 2019)
    (Not yet reached due date)

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Not Graded	Grand Total
Strategic Policy, Transformation & Public Sector Reform	2018/19	-	-	1	-	-	1
Finance	2018/19	-	1	-	-	-	1
HR, Digital Enablement & Business Support	2018/19	-	1	-	2	-	3
Infrastructure	2018/19	-	1	-	-	1	2
Communities	2018/19	1	3	2	-	-	6
Grand Total		**1**	**6**	**3**	**2**	**1**	**13**

Reports uploaded to Elected Members' Sharepoint

Members are asked to note the availability of the following reports on the Elected Members' Sharepoint site:

- Safeguarding Public Money: are you getting it right?
- The Role of the Head of Internal Audit

Safeguarding Public Money: are you getting it right?

The Accounts Commission expects councillors to use this report, which includes a number of checklists, to ensure that they:

- have a good understanding of the main risks facing their council and how well these risks are being managed;

- are assured that appropriate internal controls are in place and, where weaknesses have been identified, effective action is being taken to address them;

- are kept aware of the outcome of any significant risk occurring; the failure of internal controls; and what remedial actions are being taken.

A further report cross-referencing specific agenda items to relevant areas of the Accounts Commission report will be brought to a future meeting of the committee.

The Role of the Head of Internal Audit.

This Cipfa statement has recently been updated and re-issued. It is intended to be seen as best practice and to be used to support Head of Internal Audit arrangements and drive up audit quality and governance arrangements. Self-assessment against this is currently being undertaken and will be reported to CLT for their consideration and input. The outcome from this review will be reported to a future Scrutiny & Audit Committee meeting.

Definition of Assurance Levels, Control Assessments & Recommendation Priorities

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.

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

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.**