ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 24 SEPTEMBER 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.

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. This is achieved through this report providing the Scrutiny & Audit Committee with information and assurance about council internal control systems, governance and risk management.

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 complete a small number of items from the 2018/19 Internal Audit Plan agreed by this Committee in April 2018 (Report 134/18 refers) We are also progressing the 2019/20 plan agreed by this committee in March 2019 (report 71/19 refers). Ad hoc requests for advice are being dealt with as they arise.

5.   **FINANCIAL IMPLICATIONS**

There are no financial implications arising directly from this report.

NOTE: The following 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

24 September 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 31 August 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.

Audit Plan Progress Report

2018/19 Internal Audit Plan – Progress update

The table below summarises progress on items previously reported as outstanding as at the 20 August 2019 (Report 262/19 refers). Definitions for control assurance assessments are shown on page 16.

We planned to report these items in full in the August 2019 committee. There have been delays to completion due to unavailability of staff in the relevant services, and also a request to delay the audit work to accommodate service workload.

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	Draft report issued			*19 Nov. 2019*
Legislative and other compliance					
Procurement Reform (Scotland) Act 2014	April 2019	In Progress			*19 Nov. 2019*

2019/20 Internal Audit Plan – Progress update

The 2019/20 internal audit plan was approved at the March meeting of the Scrutiny & Audit Committee (Report 71/19 refers). The table below summarises progress as at the 31 August 2019. Definitions for control assurance assessments are shown on page 13.

Scott Moncrieff was appointed in February 2019 to provide IT audit support to the Internal Audit team. Their input concentrated initially on completion of the 2018/19 planned work. At a meeting on 2 August 2019 the 2019/20 planned work was reviewed and agreed as the correct focus for this year's plan.

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)
Risk Management	Jan./Feb. 2020				*21 April 2020*
GDPR compliance	Jan./Feb. 2020				*21 April 2020*
Tay Cities Deal (Joint work with other Tay Cities councils)	TBC				*TBC*
Corporate planning, performance management and public reporting	March 2020				*16 June 2020*
Community planning partnership Governance, LOIPs	Dec. 2019/Jan. 2020				*21April 2020*
Annual Assurance re IJB	April/May 2020				*16 June 2020*
Financial Governance					
Payroll/Resourcelink processes – Leavers and establishment changes	Feb./March 2020				*16 June 2020*
Review of expense claims	Oct. 2019	Planning			*21 Jan. 2020*
Review of Voluntary Severance scheme	July 2019	Complete	Substantial		24 Sept 2019
Data Analysis: Payroll & Accounts payable	On-going	Update included in this report (page 10)			24 Sept 2019

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / *(target in italics)*
Review of Budget Monitoring & Budget Management (Integra Budget Module)	September	In progress			*19 Nov. 2019*
Review of Cash Handling arrangements: Cash receipts	July/Aug. 2019	Draft report under review			*19 Nov. 2019*
Review of Cash Handling arrangements: Petty Cash	June/July 2019	Complete	Substantial		20 August 2019
Car Parking Income & Contract Management	Aug./Sept. 2019	In progress			*19 Nov. 2019*
Pupil Equity Fund	Nov. 2019				*21 Jan. 2020*
Comfort funds	March 2020				*16 June 2020*
Income management systems	Late Oct./Nov. 2019				21 Jan. 2020
IT Governance					
Eclipse post implementation Review (Children & Families)	TBC				TBC
IT resilience & disaster recovery	TBC				TBC
IT user access Administration (Housing Northgate)	TBC				TBC
Internal Controls					
Business continuity planning and disaster recovery	Nov./Dec. 2019				*3 March 2020*
Licensing system	February 2020				*16 June 2020*

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Adults with Incapacity – Interim Procedures	TBC	Fieldwork suspended temporarily in July 2019 at the request of the service and in consultation with the CSWO; interim findings reported to service.			*TBC*
Procurement – exemptions from Tendering process	Nov. 2019				*3 March 2020*
Absence Management	Sept. 2019	In progress			*21 Jan. 2020*
Automated New Start/Recruitment Process	Jan. 2020				*21 April 2020*
Asset Management					
Stocks and IT Hardware Inventories	Jan. 2020				*3 March 2020*
Review of Roads and Building Maintenance	Nov. 2019				*21 Jan. 2020*
Housing Improvements – Capital Grants	Feb./March 2020				*21 April 2020*
Legislative and other compliance					
LEADER – Rural Funding	Sept./Oct. 2019				*21 January 2020*
Carbon Reduction	Jan. 2020				*21 April 2020*
Community participation requests & Participative budgeting	Feb. 2020				*21 Apr. 2020*
Housing – National Regulatory Framework	Dec. 2019				*3 March 2020*
Identification of new legislation	TBC				*TBC*
Private water supplies legislation	TBC				*TBC*

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Other					
PSIAS compliance External review	Late 2019				*TBC*
Review of the Role of the Head of Internal Audit self-assessment	July 2019	In progress	N/A	N/A	*19 November 2019*
Review of Accounts Commission Fraud and Irregularities Update 2018/19	July/August 2019	In progress	N/A	N/A	*19 November 2019*

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Consultancy and Advice					
Finance Service capacity review	Oct./Nov. 2020	Planned			TBC
Business support review	Feb./ March 2020				*16 June 2020*
Support for change programme and other specific projects if required.	As required				*As required*

Some of the dates shown above are provisional and require to be agreed with the relevant services. This will be finalised during September 2019.

Angus Alive and Angus Health & Social Care IJB

Angus Council's Internal Audit staff are committed to work on the audit plans for both Angus Alive and Angus Health & Social Care IJB during 2019/20. Plans for both have been agreed, and work has commenced on the first Angus Alive audit for 2019/20. 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: -

Continuous Auditing – Payroll & Accounts Payable

As part of the 2019/20 annual plan, Internal Audit carries out interrogation of Payroll and Accounts Payable (Creditors) information as part of the Continuous Auditing Programme. We used the data analysis software, CaseWare IDEA (Interactive Data Extraction Analysis) and Microsoft BI to analyse the data.

We identified a number of instances within Resourcelink records of duplicate NI numbers and more than one payment to the same bank account. All items were explained satisfactorily.

We tested a sample of items where records on the payroll masterfile had not resulted in a BACS payment. All items in the sample were for minor contracts, various supply arrangements and invigilators, all of whom would not necessarily work every month.

We carried out an exercise to match creditors from Integra to staff names on the Payroll system, and investigated instances of staff who were receiving payments as creditors. Most of our queries have been resolved satisfactorily, however a number are still being followed up and will be reported at a later date if necessary.

We searched on the Resourcelink system to highlight employees living out with the usual DD, PH and AB postcodes for Angus and the surrounding area, as unusual addresses might be an indicator of "ghost" employees on the system. This highlighted 23 employees whose address was considered to be out with a reasonable commuting distance of Angus and the surrounding area. Further investigation confirmed that all 23 are genuine employees, 10 had addresses which required to be updated on Resourcelink (this has since been done), 5 related to employees on short-term/supply contracts, and the others either stayed locally during the week or managed their workload and travelling through agile working.

We also interrogated the information from Resourcelink to highlight any employees over 70 and under 16, again to identify possible "ghost" employees. There were 17 instances in this category, all of these being over 70. These were all satisfactory, in the main being supply teachers and invigilators.

Review of Voluntary Severance Scheme

Introduction

As part of the 2019/20 annual plan, Internal Audit has completed a review of Early Retirals and Voluntary Redundancies (ERVR)/ Exit Packages granted by Angus Council in 2018/19.

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

The factual accuracy of this report has been confirmed with Judith Lynch, Manager HR, and Steven Mill, Service Lead (Finance).

The co-operation and assistance given by all members of staff in the course of the audit is gratefully acknowledged.

Background & Scope

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

The Local Authority Accounts (Scotland) Regulations 2014 ("The 2014 Regulations") require local authorities to prepare a remuneration report as part of the annual statutory accounts. In accordance with this the remuneration report is required to set out the number and cost of exit packages agreed rising in bands of £20,000 up to £100,000 and bands of £50,000 thereafter. As this is a requirement, External Audit would normally examine exit packages as part of their work at the final accounts audit stage. Internal Audit agreed to undertake this audit to provide assurance to the Council and External Audit.

External Audit requested that all 13 exit packages valued at £50,000 and above were examined, with External Audit reviewing the 7 exit packages valued at £100,000 and above. Internal Audit also reviewed a further sample of 5 exit packages valued at below £50,000.

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

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

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

The output is a report to the Depute Chief Executive and a summary of the outcomes to the Scrutiny and Audit Committee.
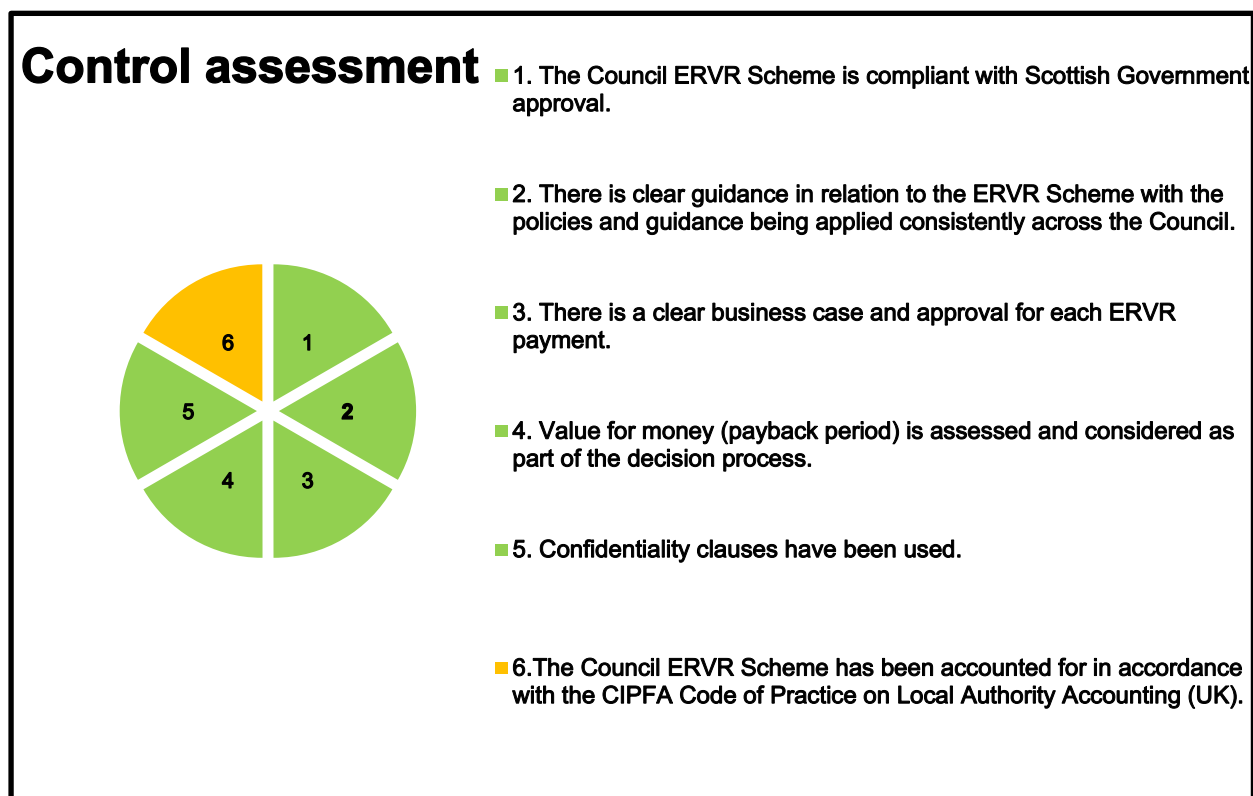
Conclusion

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

Overall assessment of Key Controls

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

Table 2 – Overall Assessment of Key Controls

Control assessment

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

Key Findings

Good Practice:

We have identified the following areas of good practice:

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

Areas Identified for Improvement:

Due to timing, a member of staff whose leaving date was the last working day of the year was not included in the Curtailment Report received from Tayside Pensions Fund via the Actuary. As a result the total Curtailment Costs have been understated and the banding by total costs of each exit package might be wrong.

We have made no recommendations. The weakness noted above is due to the timing of information flow between Tayside Pension Fund and the Actuary, over which Angus Council has no direct control. Audit Scotland has included a recommendation relating to this in their report and we have not duplicated that here.

Impact on Risk Register

The Pentana Risk register (as at July 2018) did not include any risks relevant to this review.

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 43 actions in progress at 31 August 2019 (excludes actions for Angus Alive and IJB). Chief Officers receive and review regular detailed reports on the outstanding recommendations.

- There are no audit actions overdue as at 31 August 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 31 August 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
HR, Digital Enablement & Business Support	2016/17	1	2	-	-	-	3
	2017/18	-	-	-	-	-	-
	2018/19	-	-	-	-	-	-
Schools & Learning	2016/17	-	-	-	-	-	-
	2017/18	-	-	-	-	-	-
	2018/19	-	1	1	-	-	2
Communities	2016/17	-	-	-	-	-	-
	2017/18	-	-	-	-	-	-
	2018/19	-	1	-	-	-	1
Grand Total		**2**	**13**	**6**	**-**	**-**	**21**

Table 2 – Recommendations in Progress (as at 31 August 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	2	-	1	-	-	3
	2019/20	-	-	-	-	-	-
Finance	2018/19	-	1	-	-	-	1
	2019/20	-	6	2	-	-	8
HR, Digital Enablement, IT & Business Support	2018/19	-	1	-	1	-	2
	2019/20	-	-	-	-	-	-
Legal & Democratic	2018/19	-	-	-	-	-	-
	2019/20	-	1	-	-	-	1
Schools & Learning	2018/19	-	-	-	-	-	-
	2019/20	1	-	-	-	-	1
Infrastructure	2018/19	1	-	1	-	1	3
	2019/20	-	-	-	-	-	-
Communities	2018/19	2	3	3	-	-	8
	2019/20	-	1	-	-	-	1
Grand Total		**6**	**13**	**7**	**1**	**1**	**28**

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.**