ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 19 NOVEMBER 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.
(iv)   agree to the postponement of the "Identification of new legislation" and "Private water supplies legislation" until the 2020/21 audit plan.

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

19 November 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 8 November 2019 and provides an update on:

- Progress with the 2018/19 Internal Audit Plan;
- Progress with the 2019/20 Internal Audit Plan, including a request to postpone two audits,
- Progress with implementing internal audit recommendations, and
- Notes postponement of 2 audits until 2020/21.

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 24 September 2019 (Report 309/19 refers). Definitions for control assurance assessments are shown on page 19.

We planned to report these items in full in the August 2019 committee. There have been delays to completion due to unavailability of key 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	Complete	Substantial		19 Nov. 2019
Legislative and other compliance					
Procurement Reform (Scotland) Act 2014	April 2019	In Progress			*21 Jan. 2020*

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 8 November 2019. Definitions for control assurance assessments are shown on page 19.

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. Timing of work is currently being discussed.

Service Directors have asked that the following audits be postponed until 2020/21 and the committee is asked to approve this delay.

- Identification of new legislation
- Private water supplies legislation

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	Feb./March 2020				*21 April 2020*
GDPR compliance	March 2020				*16 June 2020*
Tay Cities Deal (Joint work with other Tay Cities councils)	TBC				*TBC*
Corporate planning, performance management and public reporting	April 2020				*16 June 2020*
Community planning partnership Governance, LOIPs	Feb. 2020				*21 April 2020*
Annual Assurance re IJB	April/May 2020				*16 June 2020*
Financial Governance					
Payroll/Resourcelink processes – Leavers and establishment changes	March/Apr. 2020				*16 June 2020*
Review of expense claims	Nov./Dec. 2019	In progress – awaiting info. from service			*21 Jan. 2020*

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Review of Voluntary Severance scheme	July 2019	Complete	Substantial		24 Sept 2019
Data Analysis: Payroll & Accounts payable	On-going	In progress			*3 March 2020*
Review of Budget Monitoring & Budget Management (Integra Budget Module)	Sept./Oct. 2019	Fieldwork in progress			*21 Jan. 2019*
Review of Cash Handling arrangements: Cash receipts	Aug./Sept. 2019	Draft report issued – awaiting final feedback			*21 Jan. 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 – awaiting info. from service			*21 Jan. 2020*
Pupil Equity Fund	Jan. 2020				*21 April 2020*
Comfort funds	April 2020				*16 June 2020*
Income management systems	Dec. 2019/ Jan. 2020				*21 April 2020*
IT Governance					
Eclipse post implementation Review (Children & Families)	February 2020	Planned			*21 April 2020*
IT resilience & disaster recovery	Dec. 2019	Planned			*3 March 2020*
IT user access Administration (Housing Northgate)	Jan. 2020	Planned			*21 April 2020*
Internal Controls					
Business continuity planning and disaster recovery	Dec. 2019	Planned			*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	Jan. 2020				*21 April 2020*
Absence Management	Sept. 2019	Draft report in progress			*21 Jan. 2020*
Automated New Start/Recruitment Process	Feb. 2020				*21 April 2020*
Asset Management					
Stocks and IT Hardware Inventories	Jan. 2020				*21 April 2020*
Review of Roads/Building Maintenance	Dec. 2019 / Jan. 2020	Planned			*3 March 2020*
Housing Improvements – Capital Grants	March/Apr. 2020				*16 June 2020*
Legislative and other compliance					
LEADER – Rural Funding	Sept./Oct. 2019	Complete	Substantial		19 November 2019
Carbon Reduction	Jan. 2020				*21 April 2020*
Community participation requests & Participative budgeting	Mar. 2020				*16 June 2020*
Housing – National Regulatory Framework	Dec. 2019	Planned			*3 March 2020*
Identification of new legislation	Postponed until 2020/21				
Private water supplies legislation	Postponed until 2020/21				

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	Complete	N/A	N/A	19 November 2019 Report 387/19
Review of Accounts Commission Fraud and Irregularities Update 2018/19	July/August 2019	In progress – awaiting info. from services	N/A	N/A	*21 January 2020*

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. - Dec. 2020	In progress			*21 January 2020*
Business support review	March 2020				*16 June 2020*
Support for change programme and other specific projects if required.	As required				*As required*

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, the report on the first Angus Alive audit for 2019/20 has been drafted. Work is also in progress on the 2019/20 audits for the IJB. 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: -

- Contract Specification Process
- LEADER – Rural Funding

Contract Specification Process

Introduction

As part of the 2018/19 annual plan, Internal Audit has completed an audit to provide assurance that there are appropriate procedures and processes in place for the development of contract specifications across the Council, including the approach to maximising value for money / best value.

Background & Scope

A contract specification is critical when undertaking a procurement exercise, as it provides detailed information to potential suppliers about the Council's requirements. It describes in detail what type of service/commodity the Council wishes to purchase in order to meet its needs or the needs of service users. The service specification will subsequently form part of the contract between the Council and the supplier, and will be used as a point of reference for monitoring contractor performance.

Wherever possible, specifications should be outcome-based, focussing on the results the Council wants the supplier to achieve, instead of prescribing in detail how the service should be delivered. This allows the supplier greater flexibility to propose innovative solutions and deliver better value for money.

During the audit needs assessment carried out prior to preparing the internal audit plan for 2018/19, concerns about the process for drawing up specifications for Council contracts were raised by a number of managers we spoke to. The concerns raised related to:

- reliance on the knowledge & experience of one officer to draw up an entire specification, rather than using a working group to ensure the needs/views of all relevant parties are considered;

- lack of challenge regarding the requirements included in a specification e.g. challenging the need to remove costs at/prior to specification development, or specifying particular brands of materials/products (often expensive) rather than specifying the requirements of that material/product;

- services do not always follow standard procedures or best practice in drawing up specifications.

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

- The Council has adequate guidance in place for the preparation of contract specifications, in line with the best practice detailed in the Scottish Government's Procurement Journey, and this guidance is accessible to all relevant staff;
- Officers responsible for preparation of contract specifications are at an appropriately senior level and are adequately qualified/trained;
- The needs of all relevant stakeholders, including suppliers and service users, are taken into account in developing specifications, either through inclusion in a working group, or by appropriate consultation/engagement. This includes involvement of ICT officers in developing specifications for procurement of ICT systems/software;
- Identification of business need and development of the specification are separate functions, carried out by separate officers, to allow for objective challenge of need and the application of demand management techniques;
- Contract specifications focus on outputs required without being prescriptive regarding the method used to provide them, allowing scope for suppliers to propose innovative solutions which optimise value for money;
- Contract specifications include required service levels/key performance indicators and a process to allow contractor performance to be measured and monitored on an ongoing basis;
- Contract specifications are prepared on a whole life cost basis, covering (where relevant) acquisition, operation, maintenance and disposal costs;
- Sustainability considerations (economic, social & environmental) are embedded in the specification development process.

We interviewed relevant staff to establish procedures and reviewed these and a sample of corresponding contract specifications for compliance with best practice. We used an internally generated risk and control matrix based on the control objectives to document the work performed.

A sample of contracts were taken from the services named above, with a value of £13 million against the total value of Procurement for Angus Council for financial year 2017-18 of £108 million.
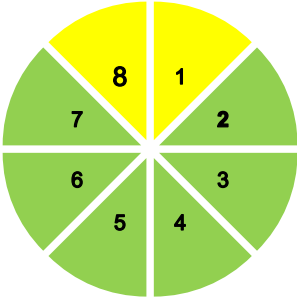
Conclusion

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

The audit did not identify evidence to substantiate the concerns raised during the audit needs assessment process and noted at page 10 above.

Overall assessment of Key Controls

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

## Control assessment

- 1. The Council has adequate guidance in place for the preparation of contract specifications, in line with the best practice detailed in the Scottish Government's Procurement Journey, and this guidance is accessible to all relevant staff
- 2. Officers responsible for preparation of contract specifications are at an appropriately senior level and are adequately qualified/trained.
- 3. The needs of all relevant stakeholders, including suppliers and service users, are taken into account in developing specifications, either through inclusion in a working group, or by appropriate consultation/engagement. This includes involvement of ICT
- 4. Identification of business need and development of the specification are separate functions, carried out by separate officers, to allow for objective challenge of need and the application of demand management techniques.
- 5. Contract specifications focus on outputs required without being prescriptive regarding the method used to provide them, allowing scope for suppliers to propose innovative solutions which optimise value for money.
- 6. Contract specifications include required service levels/key performance indicators and a process to allow contractor performance to be measured and monitored on an ongoing basis.
- 7. Contract specifications are prepared on a whole life cost basis, covering (where relevant) acquisition, operation, maintenance and disposal costs
- 8. Sustainability considerations (economic, social & environmental) are embedded in the specification development process.

Audit Recommendations summarised by Type & Priority

Improvement Actions by type and priority
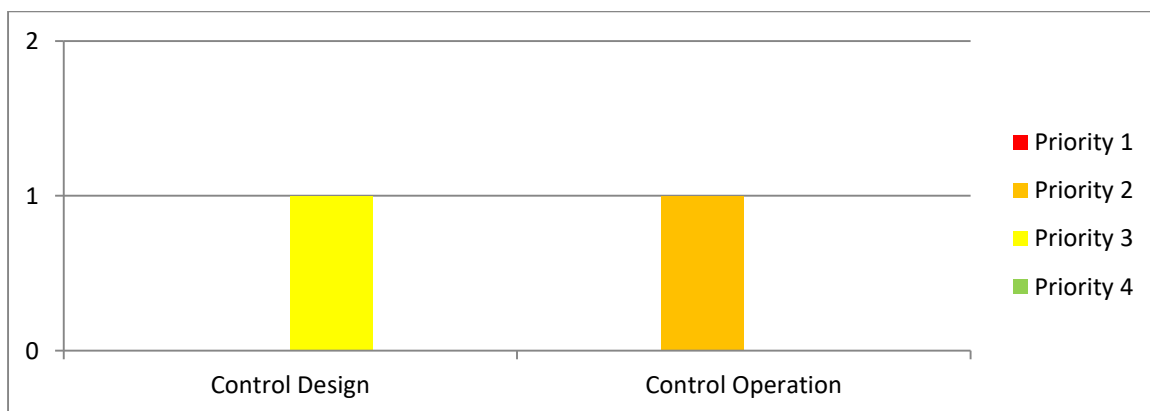
There is one priority 2 control operation recommendation and one priority 3 design control recommendation in this report.

Key Findings

Good Practice:

We have identified the following area of good practice:

- Procurement of IT equipment over the whole council is carried out by the IT division.
- The Roads division use a system of review and authorisation for contracts, in that an officer writes the specification, the line manager reviews it and then a senior member of staff authorises it.
- Housing Assets have carried out a life cycle costing exercise and revised specifications to reduce maintenance.

Planned Improvements/Changes:

- We were not informed of any improvements or changes throughout the audit.

Areas Identified for Improvement:

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

Level 2

- The Angus Corporate Procurement Group should consider what action could be taken to improve sustainability practices, and, if appropriate, produce an action plan to the Council Leadership Team (CLT) which will, when implemented by Services, achieve the required improvements.

Level 3

- The Procurement Guidance relating to contract specifications on the corporate intranet should be reviewed; outdated and unnecessary documents and links should be updated or deleted.

LEADER

Introduction

LEADER (Liaison Entre Actions de Développement de l'Economie Rurale) is a European Rural Development programme funded from European and Scottish Government money and is part of the Scottish Rural Development Programme, (SRDP) aimed at promoting economic and community development within rural Angus areas.

As part of the Service Level Agreement (SLA) between the Scottish Government Agriculture, Food and Rural Communities Directorate (SGAFRC) and Angus Council, acting as Accountable Body for Angus Local Action Group (LAG), there is a requirement that the Council submits an annual confirmation certificate and report. This has to include a summary of work undertaken by the Council's Internal Audit function and details findings in determining whether compliance with the requirements of the SLA has been achieved.

Background & Scope

The LEADER rural development programme funding awarded to Angus Council was increased during the year to £2,798,980.99. Additional funding of £48,794.99 was received in August 2019 as part of the Co-operation reallocation process. The programme was launched in February 2016, and will run until all funds are fully committed or up to the point the UK leaves the EU whichever comes first.

LEADER grants awarded, claims paid and administration and animation expenditure incurred from information supplied to 15 October 2019 is per the table below:

Grants Awarded, Claims Paid and Administration & Animation Expenditure

	Number			Value		
	Period to 15/10/2018	Year to 15/10/19	Total	Period to 15/10/2018	Year to 15/10/19	Total
GRANTS						
Grants Awarded	34	18	52	£1,788,091	£339,907	**£2,127,998**
Grant Claims Paid	61	83	144	£532,228	£793,244	**£1,325,472**
Note the total value for this period takes into consideration projects revoked and underspent of £15,769. To date there have been 3 projects revoked.						
ADMINISTRATION AND ANIMATION CLAIMS						
				Period to 30/09/2018	Period to 30/09/2019	Total
Claims Submitted and received				£363,558	£88,443	**£452,001**
Claims Submitted not received					£33,316	**£33,316**

Note the Administration and Animation Claim for the period 1 to 30 September 2019 is currently being calculated and will be submitted by 31 October 2019.

The overall objective of the audit assignment is to confirm that for the year 16 October 2018 to 15 October 2019 Angus Council has undertaken the delegated function as specified in the SLA between Scottish Government and LAG.

The specific Control Objectives of the audit are to ensure that:

- The Council as Accountable Body for Angus Local Action Group is complying with the terms of the Service Level Agreement.

- Supporting evidence is held for claims paid in respect of grants awarded.

- Claims for reimbursement of eligible LAG expenditure are processed in line with procedures.

The previous year's review (16 October 2017 to 15 October 2018) highlighted five areas where improvements could be made in respect of reviewing users to the LARCs system, signing of Assessor's forms, introducing a staff checklist, fast track applications are reported to LAG members and perform reconciliations of drawdowns to the Council's bank account. These were reviewed during the current audit.

We held discussions with key staff to ensure processes and procedures are in place to comply with the SLA and are appropriate. This included a review of project files, information held on LARCs, funding paid and payments claimed.

Conclusion

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

Overall assessment of Key Controls

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

Overall Assessment of Key Controls
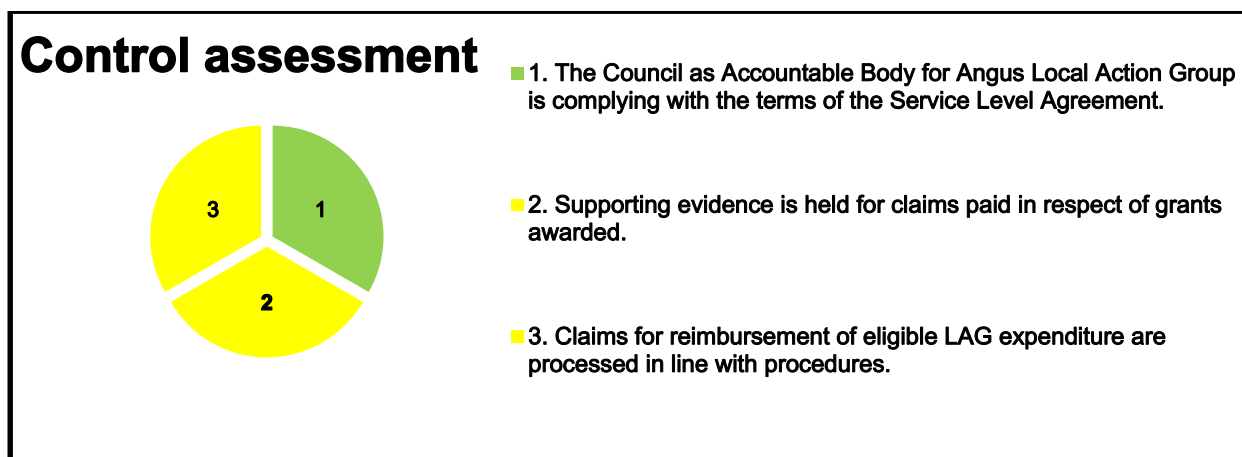
Control assessment

- 1. The Council as Accountable Body for Angus Local Action Group is complying with the terms of the Service Level Agreement.

- 2. Supporting evidence is held for claims paid in respect of grants awarded.

- 3. Claims for reimbursement of eligible LAG expenditure are processed in line with procedures.

Audit Recommendations summarised by Type & Priority

Improvement Actions by type and priority
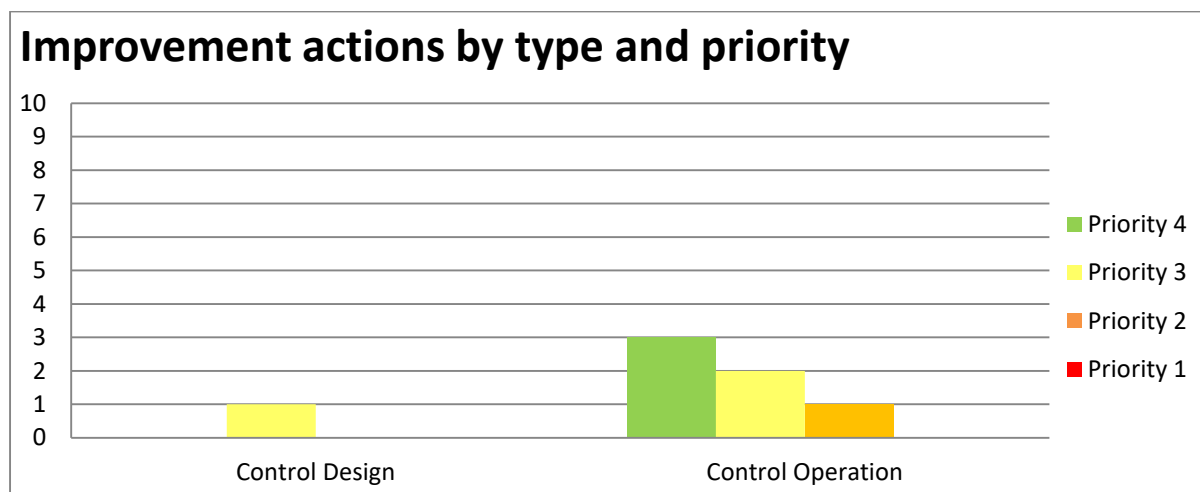
There are 7 recommendations in this report, 1 for control design and 6 regarding operation of controls. There are one priority 2, two priority 3 and three priority 4 recommendations.

Key Findings

Good Practice:

The areas identified in the previous audit reports 17-09 and 18-09 are still relevant including LAG meetings are held regularly and LAG members Register of Interests forms are renewed annually.

Areas Identified for Improvement:

We have made 4 recommendations to address moderate risk exposure which are:

Level 2
- Access to the LEADER files on the Economic Development shared drive should be restricted to LEADER staff and their Managers.

Level 3
- LEADER staff should check that drawdown payments from Scottish Government agree to the amounts posted on Integra. Discrepancies should be investigated.
- The back capture administration cost which is incorrectly detailed on LARCs should be amended prior to the closure of the project. LEADER staff should promptly provide Scottish Government with the required information as requested in January 2019.
- The LEADER information on the LEADER's website should be updated after every LAG meeting to ensure the details are correct.

A number of minor, low risk housekeeping issues were also identified which are being addressed by the LEADER team.

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 45 actions in progress at 8 November 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 which are overdue as at 8 November 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 8 November 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	5	3	-	-	9
	2018/19	-	1	2	-	-	3
HR, Digital Enablement & Business Support	2016/17	-	2	-	-	-	2
	2017/18	-	-	-	-	-	-
	2018/19	-	-	-	-	-	-
Schools & Learning	2016/17	-	-	-	-	-	-
	2017/18	-	-	-	-	-	-
	2018/19	-	2	-	-	-	2
Infrastructure	2016/17	-	-	-	-	-	-
	2017/18	-	-	-	-	-	-
	2018/19	1	-	-	-	-	1
Communities	2016/17	-	-	-	-	-	-
	2017/18	-	-	-	-	-	-
	2018/19	1	1	-	-	-	2
Grand Total		**3**	**12**	**5**	**-**	**-**	**20**

Table 2 – Recommendations in Progress (as at 8 November 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 2019/20	2 -	- 1	1 1	- 3	- -	3 5
Finance	2018/19 2019/20	- -	- 6	- 2	- -	- -	- 8
HR, Digital Enablement, IT & Business Support	2018/19 2019/20	- -	1 -	- -	1 -	- -	2 -
Legal & Democratic	2018/19 2019/20	- -	- 1	- -	- -	- -	- 1
Schools & Learning	2018/19 2019/20	- 1	- -	- -	- -	- -	- 1
Infrastructure	2018/19 2019/20	- -	- -	1 -	- -	1 -	2 -
Communities	2018/19 2019/20	- -	1 1	1 -	- -	- -	2 1
Grand Total		**3**	**11**	**6**	**4**	**1**	**25**

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.**