

ANGUS COUNCIL

SCRUTINY & AUDIT COMMITTEE – 3 MARCH 2020

ANNUAL INTERNAL AUDIT PLAN 2020-21

REPORT BY CATHIE WYLLIE - SERVICE LEADER (INTERNAL AUDIT)

ABSTRACT

This report submits the Audit Manager's Annual Internal Audit Plan for 2020-21 for approval.

1. RECOMMENDATIONS

It is recommended that the Scrutiny & Audit Committee:-

- (i) Note that a risk-based approach methodology has been utilised to develop the proposed Internal Audit Plan for 2020-21.
- (ii) Consider and approve the proposed 2020-21 internal audit plan.

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

The proposals set out in this report will contribute to the achievement of the corporate priorities set out in the Angus Local Outcomes Improvement Plan and the Council Plan. This is achieved through delivery of this audit plan providing the Scrutiny & Audit Committee with information and assurance about council internal control systems, governance and risk management.

3. BACKGROUND

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

This report presents, at Appendix 1, the outcomes of the annual planning exercise and the Service Leader's proposed 2020-21 Internal Audit Plan, for approval.

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

4. PROPOSALS

The 2020-21 Internal Audit Plan sets out the proposed activity to be performed by the Council's Internal Audit team in order to allow the Service Leader - Internal Audit to provide an Annual Internal Audit Opinion in June 2021. The Scrutiny & Audit Committee members are asked to consider and approve the plan.

5. FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report. Delivery of the internal audit plan can be achieved from the audit resources which have been budgeted for in financial year 2020-21.

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 - 2020-21 Internal Audit Plan

Angus Council Internal Audit



Annual Internal Audit Plan 2020-21

March 2020

Cathie Wyllie
Audit Manager
Chief Executive's Unit

Contents Page

Introduction.....	3
2020-21 Audit Plan – Detailed Outputs.....	12
2020-21 Outputs to Scrutiny & Audit Committee.....	19
Conclusion	19
Annex 1 – Summary of Corporate Risk Register (as at 21 Jan. 2020)....	20

Introduction

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

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

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

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

An External Quality Assessment (EQA) performed in late 2014 by CIPFA confirmed that Internal Audit was fully compliant with the requirements of the PSIAS. An annual self-assessment is undertaken to confirm continuing compliance with the Standards. An external quality assessment is planned for February/March 2020 through the peer review arrangements in SLACIAG (Scottish Local Authorities Chief Internal Auditor Group).

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

Our Internal Audit plan will be delivered in accordance with the Internal Audit Charter that was approved by the Scrutiny & Audit Committee in August 2019. This sets out the role, professional requirements, independence and overall responsibilities of Internal Audit.

The Council’s internal audit service is delivered by an in-house team complemented by approximately 30 days additional IT audit input from a contractor, Scott-Moncrieff Chartered Accountants. The original contract was awarded for 2 years to 31 March 2020. The contract allows for extension without further procurement activity and this extension will be exercised.

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

In discharging the internal audit role, the Service Leader is required to set a risk based audit plan sufficient to provide the required assurances to members and officers in relation to corporate governance, risk management and internal controls. These assurances will be provided throughout the year. We will present the results of individual audit reviews through Internal Audit Update reports to each Scrutiny & Audit Committee. The activity related to the Counter Fraud Team will be reported bi-annually. In June 2021 the Annual Internal Audit Report will present an overall summary of the effectiveness of governance, risk and the internal control environment as well as an opinion on the corporate governance of the Council.

The Planning Approach

The audit planning process for developing a risk based audit plan is well established within the Council. In considering the 2020/21 plan the Audit Team has further strengthened the consideration and mapping of other assurance providers.

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

- Consultations with Council Members (incl. Scrutiny & Audit Committee)
- Consultations with the Council Leadership Team members and service leaders and managers in some support services
- Knowledge base within Internal Audit
- Council plans and policy documents
- Corporate risk registers
- External inspection reports
- Internal service, efficiency reviews etc.
- Liaison with external auditors
- Any matters arising from the work of the Scrutiny & Audit Committee

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

- **The Risk Assessment Model**

- Once the auditable areas are identified they are separately risk assessed with reference to corporate importance and sensitivity of the area and the control and inherent risk. This then allows the elements of the audit universe to be classified into Critical, High, Medium or Low risk. There are also a number of 'core' areas which are reviewed every year, regardless of the risk classification.
- Each of the risk assessed areas within the "universe" is then allocated to a "headline area" as follows:
 - Corporate Governance
 - Financial Governance
 - Information Technology Governance
 - Internal Controls
 - Asset Management
 - Legislative and other compliance
- The headline areas are subject to a high level risk assessment model which looks at the relative risk and relative risk maturity of the headline areas to work out a broad allocation of the available audit days. This is not considered a rigid calculation but more a guide to the balance of the plan which can be amended to reflect specific needs and drivers.
- The high level risk assessment takes into consideration the local risks contained within the corporate risk register as well as known risks at a national level.

- **The Audit Plan**

- The final step in the development of the annual plan is to identify the individual audits from the audit universe which will sit below each of the headline areas and form the plan for the year. This choice is determined by a number of factors including:
 - The assessed risk from the audit universe
 - The time lapse since last audit
 - Review of Corporate Risk Register
 - Known problems or issues arising in previous audits/inspections, etc.
 - Reviews being undertaken by other assurance providers (e.g. External Audit)
 - Special or specific management requests
 - Items postponed from the 2019/20 plan.
- In addition, a portion of the plan has been reserved for contingency activity. Contingency resource will be available to fulfil reviews at the request of the Scrutiny & Audit Committee and management. This can relate to specific assignments where the objectives are set jointly by Internal Audit and by the Committee/Management or can be advisory or project assurance roles.

The 2020-21 Internal Audit Plan

The 2020-21 Internal Audit Plan has been developed on the basis of the above model.

Issues identified by Council Members have been included in the assessment and plan.

In November 2019 the Scrutiny and Audit Committee agreed to postpone the following items to the 2020/21 plan (Report 383/19 refers)

- Identification of new legislation, and
- Private Water Supplies legislation

Since the review of the identification of new legislation was included in the 2019/20 plan, the way that this is dealt with has changed with new central arrangements currently being put in place to replace de-centralised responsibility in services. This reduces the risk of new legislation not being identified early enough and planned for effectively. This has therefore not been included in the work for 2020/21.

Progress with implementing the 2019/20 plan was delayed for a number of reasons. The one issue still impacting on our ability to complete work is longer response times at all audit stages from some services.

As a result of this we have reviewed the 2019/20 plan and propose to move the following items into the 2020/21 plan. The decision about which audits to move took risk into consideration and is discussed in more detail in the progress Report 70/20 to the March 2020 Scrutiny & Audit Committee.

- Risk Management
- Tay Cities Deal - joint work with other Tay Cities Councils
- Corporate planning, performance management and public reporting
- Community planning, partnership governance & LOIPs
- Comfort Funds
- Income management system
- Roads maintenance
- Community Participation Requests & Participative Budgeting

The internal audit team has a dedicated internal resource comprising three auditors, one Team Leader and the Service Leader (4.35 FTE). The plan prepared below for 2020-21 also reflects 30 days for specialist support for IT audit, which will be supplied by the contractor.

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

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

The Counter Fraud Team comprises the Service Leader, one Team Leader, one Counter Fraud Officer and one Governance and Scrutiny Officer (2.55 FTE). An additional temporary full time Counter Fraud Officer took up post in May 2019 (Funding ends May 2021). This provides 3.55 FTE resource in the counter fraud team. The team will continue to carry out data matching exercises to identify fraud and error; publicise, promote and enforce the Counter-Fraud and Corruption Strategy and framework; continue to develop joint working arrangements with colleagues across the Council; undertake investigations of allegations of fraud; and liaise with other local authorities to identify areas of best practice.

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

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

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

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

Areas	Audit Days	Counter Fraud Days
Productive days available from:		
Internal Audit team	748	
Counter Fraud Team		667
IT audit contractor	30	
Total available days	778	667
Allocated as follows		
Audit plan (see 2020-21 Detailed Outputs below)	434	
Counter Fraud Investigation		631
Angus Alive	50	
Angus Health and Social Care Partnership (note 1)	30	
Admin, management and planning, LEAN support, ad hoc consultancy, training and corporate groups	245	36
Total allocated days	778	667

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

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

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

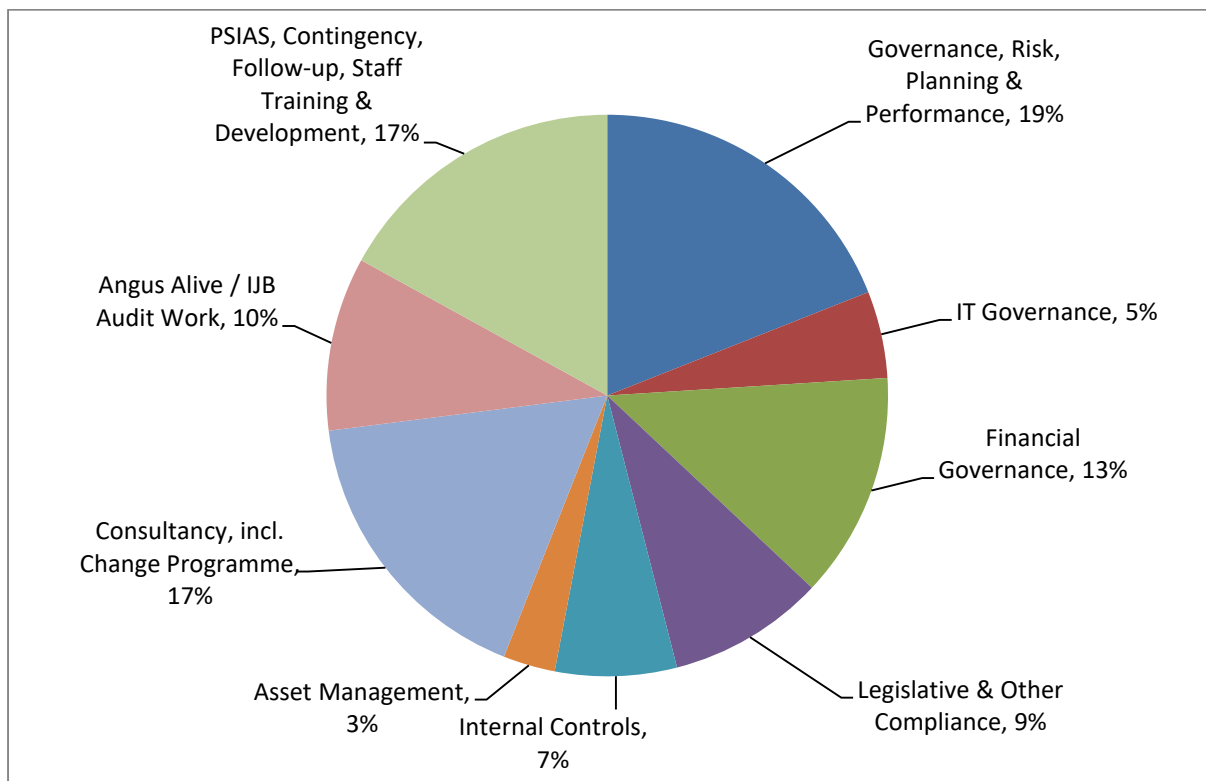
Headline Area	Audit days 2020/21	Audit days 2019/20
Governance, Risk, Planning & Performance (Note 1)	148	113
Financial Governance	99	163
IT Governance	40	40
Internal controls	56	82
Asset Management	20	58
Legislative & Other Compliance	71	54
Angus Alive and IJB work	80	80
Consultancy (additional time allocated for LEAN support)	130	87
Staff and Team Development/PSIAS/Contingency/Follow-up Note 2)	134	110
Sub-total Audit	778	787
Fraud Prevention and Detection - Counter Fraud Team (Note 3)	667	724
Total	1,445	1,511

Note 1 - The increase here is due to the carry forward work from 2019/20

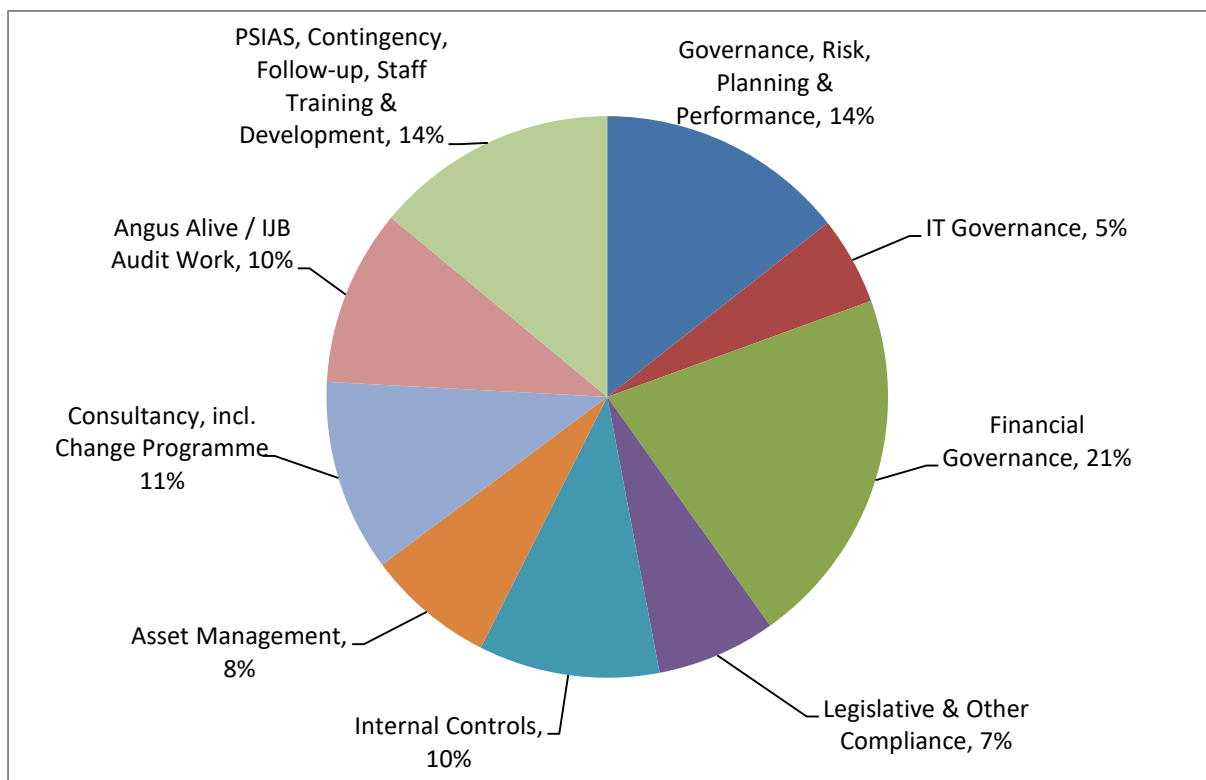
Note 2 - The main increase here is due to external PSIAS review this year.

Note 3 - This figure is slightly lower this year because we have re-visited the indirect time spent. This includes leave, sickness absence, non-direct admin, staff management and planning.

The diagram below illustrates the percentage allocation of audit days (excluding the Counter Fraud Team) for 2020-21:



This is the allocation from the 2019/20 plan



We believe that this allocation is appropriately aligned to risk profile and will address the assurance needs of the Council in 2020-21. In recent years, cyclical systems work that would normally be performed has been delayed to accommodate work in higher risk areas arising from change and consultancy work designed to support delivery of change. This has been accepted as a temporary shift in the use of resources within the team. In 2020/21 we have begun to re-introduce the cyclical work.

At this stage, the days per headline area are an estimate and will be firmed up once more detailed scoping work has been carried out. The outputs detailed in the '2020-21 Audit Plan – Detailed Outputs' section below include all the outputs which will be provided.

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

2020-21 Audit Plan – Detailed Outputs

The table below sets out the individual audits to be conducted during the 2020-21 financial year and the output that will be generated from each piece of work. We have included, where relevant, a link to those risks contained within the Corporate Risk Register (CRR ref.) as at January 2020 (see Annex 1). This allows Members and management to identify where Internal Audit can provide assurance on the effectiveness of the controls implemented to mitigate risks. Although we have included some cyclical reviews, other areas due for cyclical review were excluded on a risk assessed basis due to the available resources. These may be included, following discussion with management and the Scrutiny & Audit Committee, if for any reason a project is postponed.

Audits	Output	Commentary	CRR ref.
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Corporate Governance			
Corporate Governance annual review 2019/2020	Annual Report	Oversight of corporate governance arrangements & progress with implementation of action plan.	N/A
Risk Management	Report	Carried forward from 2019/20. Review of risk management arrangements at corporate and departmental level, including risk appetite, escalation procedures and monitoring and review arrangements.	All
Tay Cities Deal	Report	Carried forward from 2019/20. Review in conjunction with partner Councils. Focus to be agreed.	1
Corporate Planning, Performance Management and Public Reporting	Report	Carried forward from 2019/20 plan. Review processes for Corporate Planning, Performance Management Framework and Public Reporting, including a review of progress with “How Good is Our Council?” and also the use of Pentana as a performance management tool.	3

Audits	Output	Commentary	CRR ref.
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Corporate Governance Cont'd			
Community Planning, Partnership Governance, LOIPs	Report	Carried forward from 2019/20 plan. Review Community Planning Partnership process & public sector reform/community engagement. Child Poverty Action Policy to be reviewed as a specific example – reflective piece of work on how this was developed. Also review partnership working & collaboration in general (including protocol, partnership governance, etc.)	4
Council oversight of IJB	Annual assurance	Overview of Council governance & oversight to inform assurance arrangements and planning for IJB audit.	4
Review of GDPR Compliance	Report	Annual cyclical review in services	8
Gifts & Hospitality Register and Register of Interests.	Report	Review of guidance and procedures and operation of registers.	-
Options appraisal	Report	Review of committee reporting to assess agreed improvements to options appraisal.	-

Audits	Output	Commentary	CRR ref.
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Financial Governance			
Data Analysis - Payroll & Accounts Payable	Report	Data analytics tools will be used to analyse payroll and accounts payable data to identify data trends, anomalous or missing data, etc.	1
Comfort Funds	Report	Carried forward from 2019/20 plan. Review the financial management controls & procedures relating to Comfort Funds held by care homes, in order to provide assurance that these funds are being used correctly.	1
Income Management System	Report	Carried forward from 2019/20 plan. Review of income management processes & controls.	1
Council tax billing system	Report	Review of system processing and compliance with legislation.	-
Housing arrears	Report	Review of system policies, procedures and processing.	-

Audits	Output	Commentary	CRR ref.
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IT Governance			
IT User Access Administration	Report	As the administration of user access to IT systems is devolved to local managers we select a core financial system for annual review. 2017/18 Integra Financial ledger 2018/19 Resourcelink Payroll system 2019/20 Northgate Housing (SEEMIS suggested for 2020/21.)	9
i-Pay follow up	Report	In 2018/19 work on this recently installed system identified issues that required resolution. A planned post-implementation review was delayed pending resolution of the issues. This work will consider if the system is working as anticipated and if the identified reconciliation issues have been resolved satisfactorily.	-
IT security, strategy and governance TBC	Report	Scope to be agreed with IT audit contractor. Strategy and system interfaces being considered.	9

Internal Controls			
Protection of vulnerable groups		Cyclical review to ensure compliance with policies and legislation.	7
e-planning system		Cyclical review of this area, covering new system.	8
Programme of random cash counts		Random cash counts to ensure revised procedures are being followed. This will include school funds.	-
Fostering, adoption and kinship allowances		Cyclical review of systems.	-

Audits	Output	Commentary	CRR ref.
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Asset Management			
Review of Roads Maintenance	Report	Carried forward from 2019/20 plan. Review of procedures & controls for roads maintenance. Review will include prioritisation of work, risk assessment processes, budget allocation and health & safety considerations.	-

Legislative and Other Compliance			
LEADER - Rural Funding	Report	Annual review of LEADER programme expenditure - final audit.	8
Carbon Reduction	Report	Annual review of Carbon Reduction return (if required – new arrangements from 2020/21 onwards, audit requirement to be confirmed).	8, 12
Community Participation Requests	Report	Carried forward from 2019/20. 2019/20 plan included work on community participation requests & participative budgeting. This review will be of the community participation requests, considering procedures & resources in place to deal with these new requirements & ensure all legislation/guidance is complied with.	8
Private Water Supplies Legislation	Report	Carried forward from 2019/20. Review procedures in place to comply with legislation.	8
Gas safety compliance	Report	Review of procedures and compliance with legislation.	8
Corporate parenting	Report	Review of policies and procedures for compliance with The Children and Young People (Scotland) Act 2014.	7

Audits	Output	Commentary	CRR ref.
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Other			
Follow-up of previous recommendations	Update reports to each Scrutiny & Audit Committee and CMT	Continuing work to identify progress in implementing agreed audit actions.	-
Staff Training and Team Development	Nil	Ensuring staff have knowledge and expertise to perform reviews in new areas and that Internal Audit meets relevant standards and achieves best practice.	2
Angus Alive - Annual Plan	Reports to AA Finance & Audit sub-committee	Provision of Internal Audit Services to Angus Alive.	N/A
Angus Health and Social Care Partnership (IJB)	Reports to Chief Audit Officer	Provision of Internal Audit Services to AHSCP (IJB).	N/A
PSIAS (Public Sector Internal Audit Standards) Review	Part of Annual Report and external review report	As required. External review of compliance planned February/March 2020. This will be provided through the SLACIAG peer review process.	N/A
Contingency, including input to Lean projects and ad hoc requests for advice	As required		N/A

Consultancy – Advice/Specific			
Participative Budgeting	Report	Carried forward from 2019/20, focus to be revised to review different approaches in localities to date, to inform next steps.	8
Organisational resilience (to be confirmed, or not, by Change Board 25 Feb. 2020)	Report	Facilitated baseline review of and benchmark against the maturity model for organisational resilience using ISO 65001 Organisational Resilience Standard.	2

Audits	Output	Commentary	CRR ref.
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Counter Fraud Team			
Fraud Prevention and Detection	Bi-annual Report by Team Leader – Counter Fraud	<p>The team will</p> <ul style="list-style-type: none"> • Carry out various reviews to proactively detect and prevent fraudulent activity. This work will include the use of data analytics to extend the overall scope of the reviews where possible. • Lead on investigation of NFI match reports. • Investigate allegations of fraud or misappropriation, and • Contribute to controls identification and other fraud prevention initiatives. 	1, 8

2020-21 Outputs to Scrutiny & Audit Committee

The table below lists the outputs expected to be presented to the Angus Council Scrutiny & Audit Committee until June 2021.

Committee Meeting	Output
June 2020	Internal Audit Annual Report 2019-20 Internal Audit Update Report Counter Fraud Report
August 2020	Internal Audit Update Report NFI update (dependent on timing of national NFI reporting)
September 2020	Internal Audit Update Report Approval of Updated Internal Audit Charter
November 2020	Internal Audit Update Report Counter Fraud Report
January 2021	Internal Audit Update Report
March 2021	Internal Audit Update Report Internal Audit Annual Plan 2021-22
April 2021	Internal Audit Update Report
June 2021	Internal Audit Annual Report 2020-21 Internal Audit Update Report Counter Fraud Report

Conclusion

This report has outlined the audit planning and risk assessment process within the council to develop the annual internal audit plan and presents the proposed audit plan for 2020-21. Members are asked to consider and approve this plan, the discharge of which will be reported to the Scrutiny & Audit Committee at each Committee cycle.

Annex 1 – Summary of Corporate Risk Register (as at 21 January 2020)

Risk No.	Description	Current Risk Score	Risk Target	2018/19 Score
1	Financial Sustainability	16	6	16
2	Transforming for the future (previously Change programme and now including Workforce fit for the future and cultural change)	12	6	16
3	Performance Management	9	4	9
4	Partnerships (previously health & Social Care Integration)	12	9	12
5	Information Governance	12	8	12
7	Public Protection	12	8	12
8	Legislation	9	9	9
9	IT Systems Resilience & Cyber Attack (Business Continuity)	16	8	10
10	Health & Safety Compliance	12	6	16
11	EU Exit	16	12	N/A
12	Climate Change	TBA	TBA	N/A

There is no risk no 6 as this previously related to the HSCP