

**ANGUS COUNCIL**

**SCRUTINY AND AUDIT COMMITTEE – 16 JUNE 2020**

**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 the update on progress with the 2020/21 Internal Audit Plan;
- (iv) Note management's progress in implementing internal audit and counter fraud recommendations;
- (v) Note the information provided by Audit Scotland to summarise the response of national scrutiny bodies in light of the covid-19 pandemic: and
- (vi) Note information relating to the Committee's remit item 9 regarding training provided to councillors on the Code of Conduct and Good Governance.

**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**.

The Covid-19 pandemic has had a significant impact on the work of the Internal Audit team, primarily due to:

- Two members of the team (one from internal audit and one from counter fraud) have been redeployed to the Council Emergency Centre since 24 March 2020;
- A number of the remaining items from the 2019/20 plan agreed by this committee in March 2019 (report 71/19 refers) and the one remaining item from the 2018/19 Internal Audit Plan agreed by this Committee in April 2018 (Report 134/18 refers) involve service areas that have been directly involved in delivering the Council's response to the Covid-19 pandemic.

As a result we have been unable to finalise a number of projects. We have also been involved in additional work to provide advice and review new arrangements put in place to deal with the pandemic. Work to plan audits from the 2020/21 plan agreed in March 2020 (Report 71/20 refers) has been started and projects will be brought forward if practical to replace those that need to be delayed. A review of the 2020/21 Internal Audit plan, considering revised risk assessments in view of the covid-19 pandemic, will be brought to the August meeting of the committee.

Ad-hoc requests for advice are dealt with as they arise. The time spent on these, and slower response times from some services than previously experienced, have delayed completion of several audits throughout the year. We have therefore moved some audits to the 2020/21 plan, as agreed in Report 71/20.

#### 4. **SCRUTINY BODIES IN SCOTLAND RESPONSES TO THE COVID-19 OUTBREAK**

Audit Scotland has published on its website a summary of responses to the Covid-19 outbreak from scrutiny bodies in Scotland. The website notes that "All scrutiny bodies have altered their scrutiny programmes and where possible are providing support for the bodies they inspect." The summary as at 11 May 2020 is reproduced at **Appendix 2**. It covers the following scrutiny bodies:

- Audit Scotland/The Accounts Commission
- Care Inspectorate
- Education Scotland
- Healthcare Improvement Scotland
- Her Majesty's Fire Service Inspectorate
- Her Majesty's Inspectorate of Constabulary in Scotland
- Her Majesty's Inspectorate of Prisons for Scotland
- Her Majesty's Inspectorate of Prosecution in Scotland, and
- Scottish Housing Regulator

#### 5. **COMMITTEE REMIT ITEM 9**

This information is provided in relation to the committee's remit item 9 "To promote and maintain high standards of conduct by councillors, co-opted members and employees, and advise on the adoption or revision of codes of conduct."

Two training sessions have been delivered to elected members covering the Code of Conduct (June 2019) and Good Governance (Aug 2019). In addition, training was provided for all Conveners and Vice Conveners in October 2019 and covered the Role/Powers/Duties of a Convener as defined in Standing Orders and the Guidance within the Code of Conduct. This session was well received and it is the intention to deliver a similar training session to all other elected members in the near future.

#### 6. **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.

**REPORT AUTHOR:** Cathie Wyllie, Service Leader – Internal Audit  
**EMAIL DETAILS:** ChiefExec@angus.gov.uk

**List of Appendices:**

- Appendix 1 Internal audit update report
- Appendix 2 Summary of responses to the Coronavirus (Covid-19) outbreak from scrutiny bodies in Scotland

# Angus Council Internal Audit



## Update Report

Scrutiny & Audit Committee

16 June 2020

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

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## Introduction

This report presents the progress of Internal Audit activity within the Council up to the 8 June 2020 and provides an update on:

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

## Audit Plan Progress Report

Definitions for control assurance assessments are shown on page 22.

### 2018/19 Internal Audit Plan – Progress update

The table below summarises progress on the one item outstanding from the 2018/19 plan. This project was delayed due to unavailability of key staff in the relevant service, and also a request to delay the audit work to accommodate service workload. A revised timetable was agreed and the work has progressed. The auditor originally assigned to this audit has been redeployed to work in the Council's Covid 19 Emergency Centre and the work was temporarily put on hold, however the audit has now been reallocated to another auditor who will progress the work to completion.

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>Legislative and other compliance</b>					
Procurement Reform (Scotland) Act 2014	April 2019	In Progress			<i>Aug. 2020</i>

## 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 June 2020.

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.

Undertaking the 2019/20 plan has been delayed for a number of reasons, including the delays in finalising the previous year's work plan which impacted significantly on our ability to begin the 2019/20 work. The key reasons for that delay were:

- the time spent on other work exceeding planned contingency time,
- involvement of staff with LEAN projects
- Availability of service staff to engage with auditors.




These issues continued to affect the 2019/20 plan delivery during the year, with longer response times at all audit stages from some services increasing in significance as the year has progressed. As a result of this we have reviewed the 2019/20 plan and moved a number of items into the 2020/21 plan (Report 70/20 refers). The decision about which audits to move took risk into consideration. I do not consider that this will prevent me from being able to provide the annual assurances I am required to make in June 2020.

Members are advised that there has been further slippage in the 2019/20 plan due to current circumstances resulting from Covid-19, as some staff have been redeployed, and others may yet be redeployed to assist with critical services and the Council Emergency Centre. We have also taken the decision to put work involving critical services, or those that have closed facilities, e.g. schools, on hold.



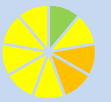



Work to scope audits in the 2020/21 plan has been brought forward to enable the team to continue to work productively from home despite other work having to be put on hold. Additional work related to Covid-19 has also been requested. This has involved providing advice and reviewing documents related to development of new services and their related controls. Some of this work is undertaken as ad hoc requests, and two audit projects have been added to the 2019/20 plan. These are:




- Use of delegated powers
- Food Fund emergency cash




## Progress with 2019/20 Internal Audit Plan

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>Corporate Governance</b>					
Corporate Governance annual review – 2018-19	June 2019	Complete	N/A	N/A	18 June 2019 (report 196/19)
Risk Management	Moved to 2020/21 plan				
GDPR compliance	April 2020	On hold			<i>TBC</i>
Tay Cities Deal (Joint work with other Tay Cities councils)	Moved to 2020/21 plan				
Corporate planning, performance management and public reporting	Moved to 2020/21 plan				
Community planning partnership Governance, LOIPs	Moved to 2020/21 plan				
Annual Assurance re IJB	June 2020				<i>TBC</i>
Covid-19 governance – Use of delegated powers	New project May 2020				<i>Aug. 2020</i>
<b>Financial Governance</b>					
Payroll/Resourcelink processes – Leavers and establishment changes	May 2020	In progress – required for External Audit to place reliance on			<i>Aug. 2020</i>
Review of expense claims	Dec. 2019/ Jan. 2020	Complete	Substantial		21 April 2020
Review of Voluntary Severance scheme	July 2019	Complete	Substantial		24 Sept 2019
Payroll continuous auditing April 2019 to Aug. 2019	On-going	Complete to Sept. 2019	Substantial		24 Sept. 2019



Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Payroll continuous auditing Sept. 2019 to March 2020	On-going	Delayed			<i>Sept. 2020</i>
Creditors continuous auditing April 2019 to March 2020	On-going	Complete	Comprehensive		16 June 2020
Review of Budget Monitoring & Budget Management (Integra Budget Module)	Sept./Oct. 2019	Complete	Comprehensive		3 March 2020
Review of Cash Handling arrangements: • Cash receipts	Aug./Sept. 2019	Complete	Substantial		21 Jan. 2020
• Progress Towards Cashless Council	Aug./Sept. 2019	Complete	Limited		21 Jan. 2020
Review of Cash Handling arrangements: Petty Cash	June/July 2019	Complete	Substantial		20 August 2019
Car Parking Income & Contract Management	Feb. 2020	In progress but on hold			<i>TBC</i>
Pupil Equity Fund	March 2020	In progress but on hold			<i>TBC</i>
Comfort funds	Moved to 2020/21 plan				
Income management systems	Moved to 2020/21 plan				
<b>IT Governance</b>					
Eclipse post implementation Review (Children & Families)	Feb. 2020	Draft report issued			<i>Aug 2020</i>
IT resilience & disaster recovery	Jan. 2020	Draft report issued			<i>Aug. 2020</i>
IT user access Administration (Housing Northgate)	Jan. 2020	Draft report issued	Limited		16 June 2020
<b>Internal Controls</b>					

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Business continuity planning and disaster recovery	Jan. 2020	In progress but on hold			<i>TBC</i>
Licensing system	February 2020	Complete	Substantial		16 June 2020
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.			<i>TBC</i>
Procurement – exemptions from Tendering process	March 2020	In progress, but delayed			<i>TBC</i>
Absence Management	Sept. 2019	Complete	Substantial		21 Jan. 2020
Automated New Start/Recruitment Process	Mar./April 2020	Planned but on hold			<i>TBC</i>
<b>Asset Management</b>					
Stocks and Inventories	Feb. 2020	Complete	Substantial		16 June 2020
Review of Roads/Building Maintenance	June 2020 Split into two audits and take the Roads Maintenance element into the 2020/21 plan	Building Maint. Planned but delayed			<i>TBC</i>

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Housing Improvements – Capital Grants	July/Aug. 2020	Delayed			<i>TBC</i>
<b>Legislative and other compliance</b>					
LEADER – Rural Funding	Sept./Oct. 2019	Complete	Substantial		19 November 2019
Carbon Reduction	Jan. 2020	Complete	Comprehensive		3 March 2020
Community participation requests & Participative budgeting	Moved to 2020/21 plan				
Housing – National Regulatory Framework	Dec. 2019	Complete	Comprehensive		3 March 2020
Identification of new legislation	Agreed Nov 2019 to postpone until 2020/21				
Private water supplies legislation	Agreed Nov 2019 to postpone until 2020/21				

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>Other</b>					
PSIAS compliance External review	March 2020	Self-evaluation complete, but external review postponed			<i>TBC</i>
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

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Review of Accounts Commission Fraud and Irregularities Update 2018/19	July/August 2019 Jan 2020	Complete	N/A	N/A	16 June 2020 Report 160/20

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>Consultancy and Advice</b>					
Finance Service capacity review	Oct. - Dec. 2020 Jan 2020	In progress			TBC
Business support review	April 2020	On hold			TBC
Covid -19 Food Fund Emergency cash	New project May 2020	Draft Memo Issued	N/A	N/A	Aug. 2020
Support for change programme and other specific projects if required.	As required				As required

### Progress with 2020/21 Internal Audit Plan

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>Corporate Governance</b>					
Corporate Governance annual review – 2019-20	June 2020	Complete	N/A	N/A	16 June 2020 (Report 164/20)
<b>Other projects</b>					
Gifts & Hospitality register and register of interests	TBC	Planning in progress			TBC
Private Water Supplies Legislation	TBC	Planning in progress			TBC
Comfort funds	TBC	Planning in progress			TBC
Review of Roads maintenance	TBC	Planning in progress			TBC

## 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. Reports on two Angus Alive audits for 2019/20 have been issued. Work is also nearing completion on the 2019/20 audits for the IJB, with one draft report issued, and the other currently being finalised. Reports for both bodies are presented to their respective audit committees throughout the year.

A whistleblowing disclosure from a council employee in AHSCP was investigated by a third party, assisted by staff in the Internal Audit team. The report is currently being considered by AHSCP management.

## 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: -

- Stock & Inventory
- User Access (Housing Northgate)
- Licensing
- Data Analysis/Continuous Auditing: Payroll & Accounts Payable

## Stock & Inventory

### Introduction

As part of the 2019/20 annual plan, Internal Audit has completed a review of compliance with stock-taking procedures in two locations, as well as following up on the recommendations for the 2018/19 audit report (internal audit report 18-02 refers).

It was also agreed that a review of the new arrangements for IT Hardware Inventories introduced in 2018/19 would be performed. However, during 2019 an investigation was carried out by the Counter Fraud team into discrepancies with IT Hardware Inventories, and a significant number of recommendations were made to improve internal controls. An internal audit review of this area would therefore be more beneficial in future years once these recommendations have been actioned and has therefore been excluded from this piece of work.

The purpose of this audit is to provide assurance that the two locations visited are following the guidance per Financial Regulations Section 24, Stores, Inventories and Assets – Custody and Control and the recommendation/actions detailed in the 18-02 audit report have been implemented.

This report records the findings of the audit performed at the Burgh Yard – Arbroath only as the Covid-19 emergency has resulted in work on the Community Alarm stock take review being suspended in the meantime.

## Background & Scope

Historically, an annual review of stock-takes within services was undertaken by Internal Audit at the end of each financial year. Prior to the 2018/19 financial year it was agreed by Internal and External Audit that this review of year-end stock-takes would be replaced by ad-hoc exercises during the year to provide assurance that stock records are complete and accurate. This approach is in line with Annual Accounts Guidance, which states that year end stock-takes and the corresponding submission of stock valuations to Finance are no longer required.

We visited two locations to review their stock take compliance, which were chosen because they recorded high values of stock, and these are:

- Burgh Yard, Cairnie Loan, Arbroath – Fertilisers, Tools & Equipment, Protective Clothing etc. (stock value at 31 March 2017 was £41,176)
- Andrew Smyth Gardens, Forfar - Community Alarm stock (stock value at 31 March 2017 was £67,423)

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

- Staff at the selected locations are complying with corporate stock take and inventory requirements.

We used a combination of meetings with relevant staff and an internally generated risk and control matrix based on the identified control objective to document the work performed. The action plan for report 18-02 was used to record updates on the recommendations and actions of report 18-02.

## Conclusion

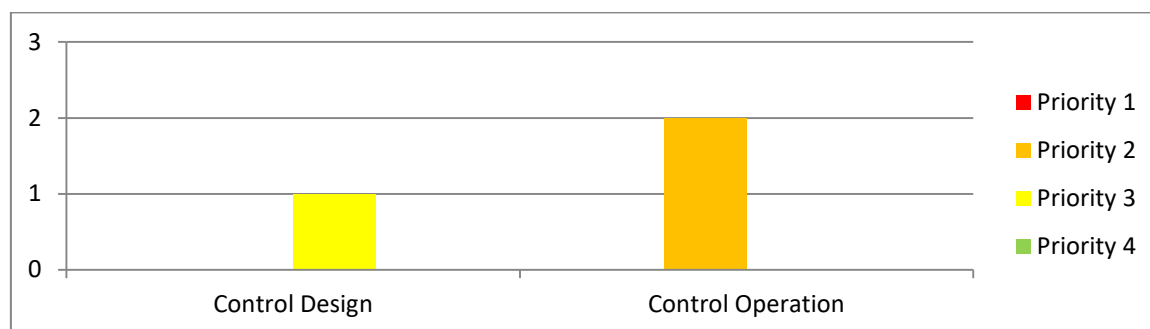
The overall level of assurance given for this report is '**Substantial Assurance**'. The actions from the previous stock audit 18-02 have been implemented, with 10 of the initial 11 actions now closed. The remaining action is related to the Financial Regulations, section 24.1 and will be updated in due course.

## Overall assessment of Key Controls

The audit reviewed and assessed the controls in place to manage the following Key Control Objective "Staff are complying with stock take arrangements", and our overall assessment is that the control has been achieved, with no major weakness but scope for improvement (Control assessment - Yellow).

## Audit Recommendations summarised by Type & Priority

Table 1 Improvement Actions by type and priority



There are three recommendations in this report, two regarding operational controls, both Priority 2, and one regarding design control, which is Priority 3.

## Key Findings

### Good Practice:

We have identified the following area of good practice:

Stock of fertilizers and chemicals are held securely with the appropriate level of stock held for operational needs.

### Planned Improvements/Changes:

The layout of stock is in the process of being rearranged to be in a logical manner and the stock sheets will reflect the new layout for PPE and Tools.

### Areas Identified for Improvement:

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

#### Level 2

- The stock records should be updated at least weekly to ensure the movements in stock are accurately recorded.
- At least once a year a full stock take should be performed at the Burgh Yard, Arbroath. The person performing the stock take should be different to the member of staff who is responsible for the daily stock, and obsolete stock should be recorded separately and disposed of in line with Financial Regulations 24.3. Stock counts should be reconciled with the actual stock records immediately after the count and discrepancies investigated.

#### Level 3

- A formula should be used on the Excel stock record for totalling the current stock level, in order to reduce the risk of manual calculation error. Once the formula has been input the field should be locked to prevent amendment.

# Northgate (Housing) User Access Management

## Introduction

As part of the 2019/20 audit plan, Internal Audit has completed an audit of the processes relating to the Northgate User Access Management within the Council.

The audit sought to provide assurance that appropriate controls are in place to ensure the access to the Northgate housing system is appropriate. Also, the weakness identified as enabling fraudulent activity through the use of enhanced privileges in a reported fraud case was considered as part of the review.

## Background & Scope

The Council is reliant on the Northgate housing system for managing Council housing properties, rent accounts and administration of housing benefits. It is essential that there are adequate controls in place for the system to ensure that only valid users have access and that access management processes ensure that segregation of duties is maintained. A recent payments fraud in another local authority has highlighted the importance of adequate controls in this area.

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

- There are adequate system administration and user procedures;
- There is effective user account management which ensures only authorised users have access;
- User access levels are appropriate and ensure adequate segregation of duties in relation to the administration and operation of the system;
- There are appropriate audit facilities within the system to allow effective and regular monitoring of the application, and
- Angus Council systems have reasonable controls in place in the areas identified as weaknesses that allowed a recently reported payments fraud to be undertaken.

We held interviews with relevant staff and reviewed relevant evidence documents. We used an internally generated risk and control matrix based on the above control objectives to document the work done.

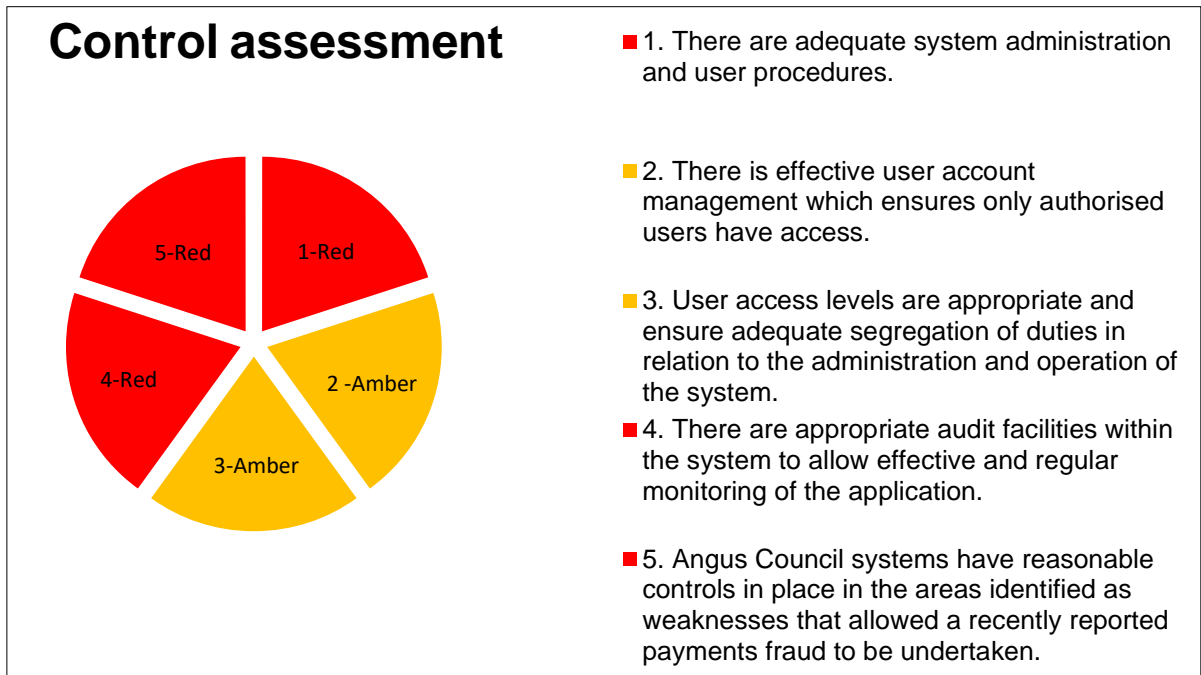
## Conclusion

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

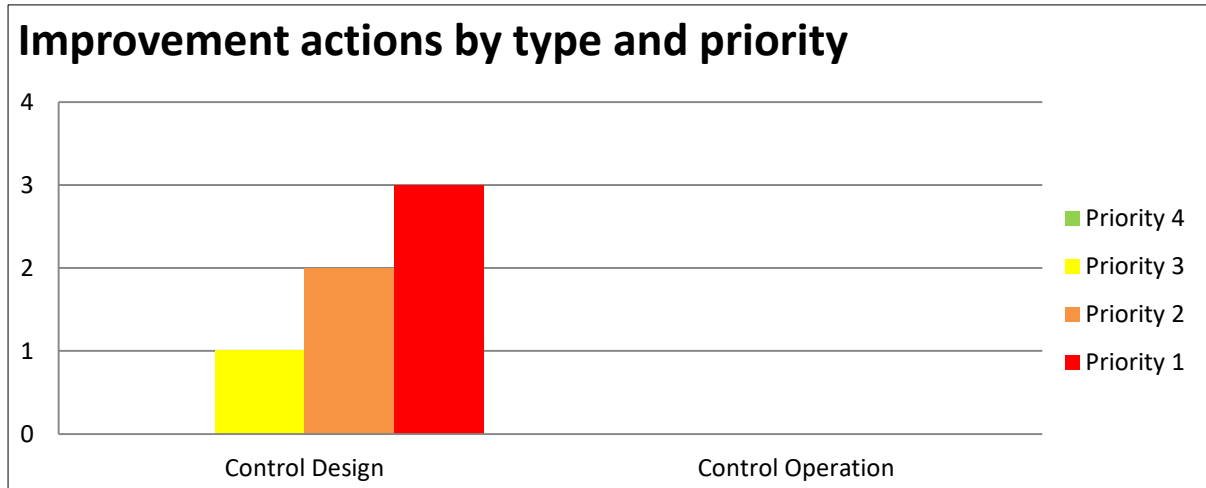


## Overall assessment of Key Controls

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



## Audit Recommendations summarised by Type & Priority



There are six recommendations in this report; all of which are six design control recommendations (three priority 1, one priority 2 and two priority 3);

## Key Findings

### Good Practice:

We have identified the following areas of good practice:

- Appropriate requirements for accessing the system. Council Staff must enter their user ID and password to access Northgate, and external users must go through the Angus Gateway where they need to enter a one-time passcode with a Vasco token. Once they pass the Angus Gateway, they need to enter their user ID and password.

- The system has a limit of 3 unsuccessful logon attempts, where the system locks after 3 failed attempts. Upon lockout, users must contact the System Administrator to have their accounts reactivated and to have their password reset.

### **Areas Identified for Improvement:**

During the audit we identified a number of areas for improvement, and have made the following recommendations:

We have made 6 recommendations to address high, moderate and limited risk exposure, including: three Priority 1, two Priority 2 and one Priority 3 recommendations to address high risk exposures area.

#### **Priority 1**

- The most significant weakness identified during the course of our review relates to the lack of effective contingency planning for administration of the system. There is over-reliance on the Service Development Officer who was previously the System Administrator, and who continued carrying out these tasks in the absence of any replacement resource being identified. This Officer went on maternity leave earlier than expected. Prior to that there has been insufficient training/knowledge transfer and documentation of key tasks to support another Service Development Officer who has assumed the system administrator role.
- There is a need to undertake a full review of user access privileges within the system. Although the model for access is based on using user profiles, the effectiveness of this for the system has been eroded. Our audit testing identified several examples where users with the same user profile had different access privileges. This should not be the case and increases the risk of segregation of duties not being maintained.
- We identified significant weaknesses in relation to management and control of privileged access to the system. We identified that there were 12 users who had access to two user profiles (SYS\_ADMIN and SYS\_ADMIN\_ASST) which provide system administrator-equivalent access permissions. This is excessive and there was no supporting documentation which justified these permissions, especially where there is only one member of staff who is actively involved in system administration activities.

#### **Priority 2**

- There is a need to improve processes over user account management for the system. We found processes to be informal with email requests being processed for new starts, changes and leavers. We also noted that processes in relation to management of leavers' access needed to be formalised.
- We identified the need to review audit logs on a regular basis for anomalous / suspicious activity. Records of this monitoring should be maintained, and access to audit logs should be restricted to appropriate staff. We recommend putting in place a defined incident management procedure to follow where any suspicious activity is identified.

#### **Priority 3**

- The current password requirement for the system is not consistent with Council policy. We recognise that this is a system limitation and we have recommended that a request

be made to Northgate to enhance security in future releases so that password security achieves consistency with Council requirements.

### **Wider Learning Points –**

- Avoid over-reliance on key personnel and ensure that there is supporting documentation developed and maintained for all system administration activities to reduce the risks associated with unplanned leave of system administrators.
- An enterprise Security Incident and Event Monitoring solution should be used for business applications to confirm that all privileged access is appropriate and that only authorised changes have been made.
- In addition, the Council should issue guidance on expected controls that should be in place over highly privileged accounts. We have reported on similar issues in previous reports and it would be beneficial for a Council-wide approach to this issue.

## **Licensing**

### **Introduction**

As part of the 2019/20 annual plan, Internal Audit has completed a review of the procedures regarding Licensing payments following a 2018 fraud within the Licensing team.

The purpose of this audit is to provide assurance that the recommendation/actions detailed in the Counter Fraud investigation report, issued to the Scrutiny & Audit Committee on the 23 April 2019, have been implemented and the internal controls have been improved.

### **Background & Scope**

Licensing is the responsibility of local authorities under powers contained in the Civic Government (Scotland) Act 1982, the Licensing (Scotland) Act 2005, and other miscellaneous statutes. The Council is therefore responsible for administering a wide variety of licences, including alcohol licensing, personal licences, taxi/private hire car drivers/operators, public entertainment, gambling and casinos, street traders, dog breeders, etc.

In 2019/20 the budget income from civic, taxi and liquor licensing totals £300,000. As at January 2020 approximately £317,750 has been received and recorded through the financial system Integra.

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

- Recommendations arising from the recent Fraud investigation are being implemented;
- Revised internal controls for recording, processing and banking Licensing payments are operating effectively.

## Conclusion

The overall level of assurance given for this report is '**Substantial Assurance**'. In general actions from the initial fraud investigation report have been implemented, with 10 of the initial 11 actions now closed.

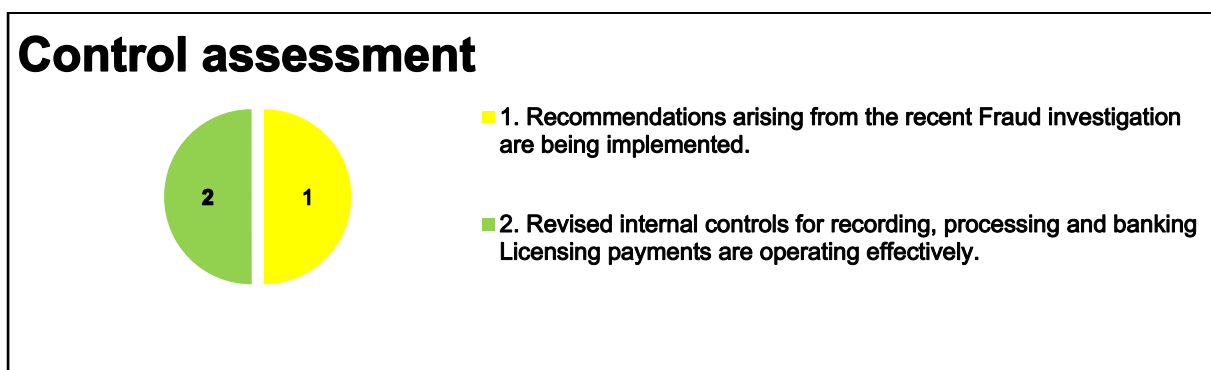
Important reconciliations between license fees expected to be received, actually received and Integra are still outstanding. These actions have been re-assigned from Legal & Democratic staff to the Business Support team leader.

We have also made a new recommendation to ensure that further planned system review is completed and achieves the optimal control environment.

## Overall assessment of Key Controls

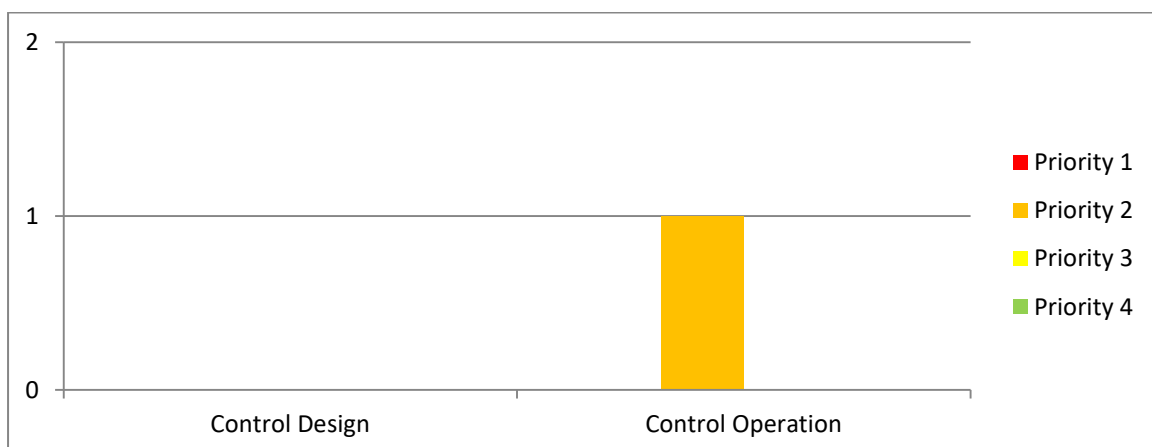
The audit reviewed and assessed the controls in place to manage the following Key Control Objectives:

Overall Assessment of Key Controls



## Audit Recommendations summarised by Type & Priority

Improvement Actions by type and priority



There is one recommendation in this report regarding operational control, priority 2.

## Key Findings

### Good Practice:

We have identified the following area of good practice:

- Checks are performed to ensure the Pay.net Cashup reports agree to the banking return which agrees to the Lodging book.
- Northgate system was modified to ensure the application fee and recording payment boxes can't be manipulated.
- Segregation of duties is performed between staff collecting and recording fees and those who perform the daily banking of fees.

### Planned Improvements/Changes:

- From 1 April 2020 the financial codes for licensing will be streamlined to only four budget headings.
- Northgate will be reconciled against Integra. A financial report generated from Northgate is currently being tested by the Business Support Officer.

### Area Identified for Improvement:

We have made one recommendation to address high risk exposure which is:

#### **Level 2**

- The ongoing review of processes should be completed to ensure robust controls are in place with a 'fit for purpose system'. Procedure notes should be made available for staff to follow.

## Data Analysis/Continuous Auditing

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 extracted from the Council's systems.

We previously reported the results of our data analysis/continuous auditing in September 2019 (Report 309-19), which covered the period from April 2019 to August 2019 for both payroll and creditors. No significant issues were identified at that time. The balance of the year for payroll will be tested, and the results reported, as soon as possible. This has been delayed due to the Covid-19 pandemic. The level of assurance given on our testing of Payroll transactions from April 2019 to August 2019 is **Comprehensive Assurance**.

### **Creditors/Accounts Payable**

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

The full financial year 2019/2020 of payments to suppliers has been analysed. There were 37,097 payments in total made to suppliers in the financial year 1 April 2019 to 31 March 2020.

In the period April to December 2019 there were sixteen instances of an invoice being both registered and authorised by the same employee, involving four employees. The invoices for payments processed by three employees were stamped as having been reviewed and approved for payment. The fourth employee inadvertently authorised an invoice after the initial registration had been rejected from the interface.

In the period January to March 2020 there were four instances of an invoice being both registered and authorised by the same employee. In three cases the employee inadvertently completed both parts of the process, and in general those departments have good processes in place for separation of duties. The other transaction, which amounts to less than £200, is still being investigated.

### **Payroll**

The level of assurance given for the period to September 2019 as a result of the testing on NI numbers and bank details is **Comprehensive Assurance**.

Payroll work was previously reported up to August 2019 (Report 309/19 refers). Work for September has also been completed with no concerns raised with regard to duplicate or missing NI numbers, duplicate bank account numbers and high value payments. Testing on the remainder of the period will be completed and reported to a future committee.

# Implementation of Actions Resulting from Internal Audit Recommendations

## Background

The summary report is presented below in accordance with the agreed reporting schedule.

## Summary of Progress – Internal Audit

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 June 2020 (excludes actions for Angus Alive and IJB). Chief Officers receive and review regular detailed reports on the outstanding audit actions.

- Table 1 identifies actions which would have been overdue but have had the **original completion date extended**.

It should be noted that at the start of the Covid 19 lockdown restrictions, a decision was made to extend the due dates on all actions which were in progress or overdue at that time, due to additional work pressures and priorities faced by services. Due dates were extended to 30 September 2020, but officers were advised to continue with work to complete actions sooner wherever possible.

- Table 2 details all other actions which are **currently in progress** (not yet reached due date).

**Table 1 – Actions in Progress - as at 8 June 2020  
(Original Due Date Extended)**

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Not Graded	Grand Total
Finance	2017/18	1	5	3	-	-	9
	2018/19	-	1	2	-	-	3
	2019/20	-	-	-	-	-	-
Schools & Learning	2017/18	-	-	-	-	-	-
	2018/19	-	1	-	-	-	1
	2019/20	-	-	-	-	-	-
Infrastructure	2017/18	-	-	-	-	-	-
	2018/19	1	-	-	-	1	2
	2019/20	-	-	-	-	-	-
Communities	2017/18	-	-	-	-	-	-
	2018/19	-	1	1	-	-	2
	2019/20	-	-	-	-	-	-
SPT&PSR	2017/18	-	-	-	-	-	-
	2018/19	1	-	-	-	-	1
	2019/20	-	-	1	1	-	2
HR, Digital Enablement, IT & Business Support	2017/18	-	-	-	-	-	-
	2018/19	-	-	-	-	-	-
	2019/20	1	1	4	-	-	6
Legal & Democratic	2017/18	-	-	-	-	-	-
	2018/19	-	-	-	-	-	-
	2019/20	-	1	-	-	-	1
<b>Grand Total</b>		<b>4</b>	<b>10</b>	<b>11</b>	<b>1</b>	<b>1</b>	<b>27</b>

The 2017/18 Finance actions relate to Report 17/14 Service Level Agreements, where the implementation of these actions has been undertaken in conjunction with a wider review of the use of contracts and grants in engaging with the third sector. These actions are now due for completion by 30 September 2020.

The priority 1 and 2 actions are:

- We will establish a corporate risk register (or registers depending on the position adopted in revised guidance) for grant agreements
- We will issue guidance on the distinction between a 'contract for service' or 'grant funding'
- We will review our monitoring requirements for grant agreements, issue revised guidance to achieve assurance of due return on funding provided balanced with proportionality and efficiency / effectiveness
- We will update Following the Public Pound guidance, Appendix 2 (list of monitoring requirements)
- We will put in place authorisation limits for grant funding for inclusion in the Financial Regulations at its next review / update – this is currently underway.
- We will issue guidance on the process for renewal of grant agreements

The 2018/19 priority 1 and 2 actions are:

- Infrastructure - Report 18-20 Level 1. We will agree a SMART action plan for the Carbon Working Group. Revised due date 30 September 2020.



- SPT&PSR - Report 18-20 Level 1. We will agree a SMART action plan for the Sustainability Working Group. Revised due date 30 September 2020.
- Finance - Report 18-02 level 2. We will produce corporate guidance for services in relation to inventory recording. This was delayed to tie in with the timetable for the new financial regulations. Revised due date 30 September.

**Table 3 – Actions in Progress - as at 8 June 2020  
(Not yet reached due date)**

<b>Directorate</b>	<b>Year Audit Carried Out</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Level 4</b>	<b>Not Graded</b>	<b>Grand Total</b>
Strategic Policy, Transformation & Public Sector Reform	2018/19	1	-	-	-	-	1
	2019/20	-	-	-	-	-	-
HR, Digital Enablement, IT & Business Support	2018/19	-	-	-	-	-	-
	2019/20	-	9	2	2	-	13
Communities	2018/19	-	1	-	-	-	1
	2019/20	-	2	1	-	-	3
<b>Grand Total</b>		<b>1</b>	<b>12</b>	<b>3</b>	<b>2</b>	<b>-</b>	<b>18</b>

## Summary of Progress – Counter Fraud

During 2019 we have been working to include internal control actions resulting from counter fraud reviews in Pentana. This will allow them to be monitored more effectively. This is the first time these have been reported to the committee. Counter Fraud recommendations are not assigned a priority.

**Table 4 Actions in progress as at 8 June 2020 (Not yet reached due date)**

Directorate	Year review Carried Out	Grand Total
HR, Digital Enablement, IT & Business Support	2019/20	4
Children Families & Justice	2019/20	2
<b>Grand Total</b>		<b>6</b>

**Table 5 Actions in progress as at 8 June 2020 (due date extended – original date was March 2020) some evidence has been presented and once reviewed this may close one of these actions.**

Directorate	Year review Carried Out	Grand Total
HR, Digital Enablement, IT & Business Support	2019/20	3
Children, Families & Justice (action assigned to a member of Business Support staff)	2019/20	1*
<b>Grand Total</b>		<b>4</b>

# 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. <b>Very high risk exposure.</b>
2	Recommendation concerning absence or non-compliance with key control which creates significant risks within the organisation. Substantial weakness identified. Prompt management action required. <b>High risk exposure.</b>
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. <b>Moderate risk exposure.</b>
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. <b>Limited risk exposure.</b>

