ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 26 JANUARY 2021

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.   RECOMMENDATION

It is recommended that the Scrutiny and Audit Committee:

(i)   Note the update on progress with the planned Internal Audit work; and
(ii)   Note management's progress in implementing internal audit and counter fraud recommendations.

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

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

3.   BACKGROUND

Introduction

Annual internal audit plans are 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 planned work.

Due to the impact of Covid-19 on the ability to complete planned internal audit work and the change in risk assessments a revised plan was agreed at the September Scrutiny and Audit committee meeting (Report 229/20 refers).

During December one member of the Internal Audit team has been working half time in the Council Emergency Centre (CEC). A more permanent solution to the resourcing of CEC is under consideration. Given the needs of the CEC this arrangement has been extended into January 2021 and we are exploring sourcing additional audit support.

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. SMART internal control actions are also agreed following Counter Fraud investigations.

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**.

Ad-hoc requests for advice are dealt with as they arise.

4. 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

Angus Council Internal Audit

Update Report

Scrutiny & Audit Committee

26 January 2021

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 from June 2020 to 15 January 2021 and provides an update on progress with:

- planned audit work, including new audits drawn from the audit pool; and
- implementing internal audit and counter fraud recommendations

Audit Plans Progress Report

At the end of June 2020, we had outstanding items from the 2018/19 and 2019/20 audit plans, as well as an agreed plan for 2020/21, and additional Covid-19 related work identified after March 2020.

Outstanding planned work in August 2020 was reviewed in light of changing and new risks, and a revised plan was presented to and agreed by the September 2020 Scrutiny and Audit Committee meeting (Report 229/20). The table below notes all work that is started or in progress.

The following new audit has been drawn from the agreed pool since the last activity report was made:

- Council tax

All audit work involving Procurement staff is on hold to allow the procurement team to deal with Covid-19 related procurement activity.

Definitions for control assurance assessments are shown on at the end of this report.

Progress with Internal Audit Work post June 2020

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / *(target in italics)*
Corporate Governance					
Corporate Governance annual review – 2019-20	June 2020	Complete	N/A	N/A	16 June 2020 (Report 164/20)
Annual Assurance re IJB	March 2021	Outcomes from relevant audits and Annual Report 164/20 shared with IJB auditor. Assurance re council oversight of IJB on hold			*April 2021*
Gifts & Hospitality Register and Register of Interests	July/August 2020	Complete	Comprehensive	(green pie chart)	Dec. 2020
Covid-19 governance – Use of delegated powers	New project May 2020	Complete	Comprehensive	(green pie chart)	Aug. 2020
Financial Governance					
Payroll/Resourcelink processes – Leavers and establishment changes	May 2020	Complete	Substantial	(green/yellow pie chart)	Sept. 2020
Car Parking Income & Contract Management	Feb. 2020	Removed from plan December 2020	N/A	N/A	Dec 2020
Pupil Equity Fund	March 2020	In progress			*Mar. 2021*
Comfort funds (Care Homes, Day Care Centres)	TBC	In progress but on hold			*Before June 2021*
Data matching bank accounts used in Covid-19 support payments (New Covid-19 related risk area)	August 2020	Complete	N/A	N/A	**Jan. 2021**
Payroll continuous auditing April – June 2020 July – Sept 2020	On-going	 Complete Complete	 Comprehensive Comprehensive	 N/A N/A	 Aug. 2020 Dec 2020

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Creditors continuous auditing April – June 2020 July – Sept. 2020	On-going	Complete Complete	Comprehensive	N/A	Aug. 2020 Dec 2020
Petty Cash	Nov. 2020	Complete	Comprehensive		Jan. 2021
Council tax	December 2020	In Progress			*April 2021*

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
IT Governance					
Eclipse post implementation Review (Children & Families) (19/20 plan)	Feb. 2020	Complete	Substantial		Aug 2020
IT resilience & disaster recovery (19/20 plan)	Jan. 2020	Complete	Substantial		Aug. 2020
IT Interfaces	Feb. 2021	Planned			*June 2021*
IT Security Controls in Response to Covid-19	Feb./Mar. 2021	Planned			*June 2021*
Internal Controls					
Business continuity planning and disaster recovery	Jan. 2020	Complete	Substantial	N/A	Sept 2020
Procurement – Exemptions from Tendering process	March 2020	In progress, but on hold			*June 2021*
Automated New Start/Recruitment Process	Mar./April 2020	Planned but on hold			*June 2021*
Personal Protective Equipment (PPE)	Nov. 2020	In progress			*March. 2021*

Asset Management					
Review of Building Maintenance	June 2020	Building Maintenance planned but delayed			*April 2021*
Review of Roads Maintenance	TBC	Planning in progress			*June 2021*
Legislative and other compliance					
Procurement Reform (Scotland) Act 2014 (B/F from 2018/19 plan)	2018/19 plan April 2019	Draft report issued			*Mar. 2021*
Private Water Supplies Legislation	TBC	Planning in progress			*June 2021*
LEADER	Aug 2020	Complete	Comprehensive		Dec 2020

Audits	**Planned**	**WIP status**	**Overall control assurance**	**Control assessment by objective**	**S&A committee date / (target in italics)**
Other					
PSIAS Compliance - External Review	March 2020	Complete	General compliance with PSIAS (equivalent of Substantial)		*Jan 2021 R11/21*
Review of Audit Scotland's publications on Fraud and Irregularity 2018/19 was covered in Report 160/20, with two areas for further work:					
Children & learning	July	Complete			Aug. 2020
Use of council vehicles	TBC	On hold			*June 2021*
2019/20 issues	October	In progress			*April 2021*

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 Jan 2020	In progress, on hold			*TBC*
Review of changes to policies and procedures due to Covid-19 response April to July 2020	April to July Consultancy work	July 2020 review complete	N/A	N/A	Aug. 2020
Covid -19 Food Fund Emergency cash	New project May 2020	Complete	N/A	N/A	Sept. 2020
Audit Scotland Update on Covid-19 Guide for Audit and Risk Committees	Sept/Oct 2020	Complete	N/A	N/A	Dec 2020 Report 306/20

Angus Alive and Angus Health & Social Care IJB

Angus Council's Internal Audit staff are committed to work on the audit plans for both ANGUSalive and Angus Health & Social Care IJB. The 2020/21 Audit Plan for the IJB was agreed, and our main piece of work from this was planned. Changes to the planned work were agreed in December 2020 and planning is underway for the revised work. Discussions on the 2020/21 audit plan for ANGUSalive have been delayed due to the Covid-19 crisis.

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: -

- Data matching bank accounts used in Covid-19 support payments (new Covid-19 related risk area)
- Petty cash

Data Matching Bank Accounts used in Covid-19 Support Payments

Background
As part of the response to the Covid-19 pandemic the Council has been responsible for paying a number of grants to local businesses. Systems to pay these followed Scottish Government guidance. The nature of the crisis and the means of payment created a system with high inherent risk, which could only be mitigated partially by testing prior to award and payment.

The main grant was the Business Support Grant. In total Angus Council paid over £21Million in grants to 1,959 recipients. At 11 August 2020 we had identified 23 applications that appeared to be fraudulent, with only two of those being successful in receiving payment.
Information about the bank account numbers used nationwide to make potentially fraudulent applications for this type of grant has been received from a number of sources and is being collated through the Counter Fraud team. The sources include other councils and NAFN, a UK Government data & intelligence service.

The NAFN COVID-19 Business Grant Fraud Update 4 July 2020 noted "In some instances we have been able to freeze bank accounts allowing members recovering monies through their own bank provider." The update goes on to stress the importance of identifying all fraudulent activity and asks that the bank account numbers provided in the bulletin should be checked against payments made and pending. A small number of pending payments will have been checked within the Council; however, the majority of payments will not have been checked as the information was not available at the time of the payments.

At the time of planning this work there had been some discussion about the bank accounts being matched in NFI work, but the scope had not been finalised. The data is now planned to be uploaded in January 2021. This should allow additional checking with grants paid by neighbouring councils.

Scope and objective
The scope of this work was to collate the identified potentially fraudulent bank account numbers from the various sources of information received in the Council, remove duplicate numbers, and match the list to the payment details for Business Support Grants, Hardship and Bed and Breakfast Payments paid by the Council. This audit covers the period in which these grant payments were made with applications for these grants now closed.

This was to provide some assurance regarding the level of fraud the Council may have been subject to during this process and allow any payments identified to suspicious bank accounts to be further investigated and reported to Police Scotland for further investigation. It was decided to consider the feasibility of recovery after the match results were known.

Work Carried Out
To get the information required we contacted Finance (Revenues, Benefits & Welfare Rights), who administered the Business Support Grants, and Economic Development, who managed the Newly Employed Hardship and B&B Hardship Funds. These grants were administered through the 'Firmsteps' digital system.

We also obtained information, including bank accounts, used in known fraudulent Business Support Grant applications covering all Scottish Local Authorities. We used the latest list from the Scottish Local Authority Investigators Group (received 19 October 2020).

We used the data analytics program IDEA to match the two databases on bank account numbers to produce a list of applicants that were on both databases and which therefore had received potentially fraudulent grant payments from Angus Council.

Findings
There were no matches for Newly Employed or B&B Hardship funds. This was from 239 applications for Newly Self-Employed Hardship Fund with grants awarded of £316,000 and 14 applications for B&B Hardship funds with grants awarded of £15,000.

There were six cases of payments being made for Business Support Fund Grants to potentially fraudulent bank accounts. Five of these were paid before they were known to the national fraud database, and one was paid four days after being reported to the national fraud database so it was unlikely this would have been available to staff at the time of the payment. Revenues had a robust checking process in place and, as well as checking that applicants were eligible for grants, they used the most up to date list of bank accounts used in potentially fraudulent applications to physically check to the applicant's bank account before making a payment. Of these six cases, there was a total of £75,000 paid to potentially fraudulent bank accounts with almost £20,000 recovered. This was out of a total of 1,959 Business Support Grant payments with a value of over £21 million.
We recognise that staff processing grants were working with tight timescales and guidance that changed frequently whilst dealing with changed working processes to allow home working.

Business Grants	No of Instances	Percentage of Instances compared to total of successful applications	Value	Percentage of Value compared to total paid	Money Recovered
Applicants intercepted by Revenues	19	0.9%	£385,000	1.8%	n/a
Fraudulent claims identified by Revenues staff, confirmed by this data match, and reported to Police Scotland	4	0.2%	£55,000	0.2%	£19,700
Fraudulent claims identified by this data match, and subsequently reported to Police Scotland	2	0.1%	£20,000	0.1%	Ongoing
Additional fraudulent local claims identified and reported to Police Scotland but not to SLAIG (so not in data match)	2	0.1%	£17,500	0.1%	Ongoing
Total reported to Police Scotland	27 (including 19 intercepted and not paid)	1.4% (0.4% for 8 grants paid out)	£92,500	0.4%	

Business Grants	No of Instances	Percentage of Instances compared to total of successful applications	Value	Percentage of Value compared to total paid	Money Recovered
Total Unrecovered	6	0.3%	£72,800	0.3%	Ongoing
Total Business Support Grants Paid	1959	100	£21million	100	

Conclusion
We found no instances of potential fraud in B&B and Newly Employed Hardship Funds.

19 potential Business Support Grant frauds were prevented by the Revenues processing team. A further 8 potentially fraudulent payments of £72,800 after partial recovery have been identified. This is 0.3% from the number of applications paid out and 0.3% of the value of payments made. These 27 potentially fraudulent claims are the subject of live investigation by Police Scotland.

It is acknowledged that fraud is best prevented at entry point, but the urgency of the scheme and the demand for it meant that the Scottish Government stated that they would not hold councils liable for fraud providing they had followed the guidance and applied reasonable diligence prior to making payments. The findings of our audit are that the guidance was followed and that a good level of diligence was applied.

Petty Cash

Background & Scope

As part of the 2020/21 annual plan, Internal Audit has completed a review of petty cash to ensure that it is held securely, is still required or has been paid back into the Council's bank account, and that staff are following the guidance issued during the Covid-19 pandemic.

An internal audit review of petty cash was completed in 2019/20, report 19-02 refers. Since the review two guidance notes have been issued on petty cash handling. The Covid-19 pandemic has resulted in new Covid-related working arrangements with staff working from home rather than in an office environment. The need for petty cash will have changed due to the changes in working practices.

The petty cash and floats allocated to services was £30,265 per Integra at the end of March 2020, of which £5,340 was Adult Services, £8,820 Schools and £200 floats. Due to the lockdown the annual returns confirming year end petty cash balances did not require to be completed. The balances were those carried forward with additions and repayments completed within the year 2019/20.

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

- Staff have been given guidance on how to use petty cash during the new working environments.
- Petty cash is held securely and allocated to a responsible person.
- Petty cash is being used in line with petty cash guidance.
- Petty cash not required has been paid back into the Council's bank account.

The audit did not include a review of petty cash allocated to Adult Services, Schools and floats. Services which have recently had queries/issues regarding petty cash, and subsequently received advice from Internal Audit, will have their petty cash procedures reviewed as part of next year's audit plan.

Conclusion

The overall level of assurance given for this report is **'Substantial Assurance'.**
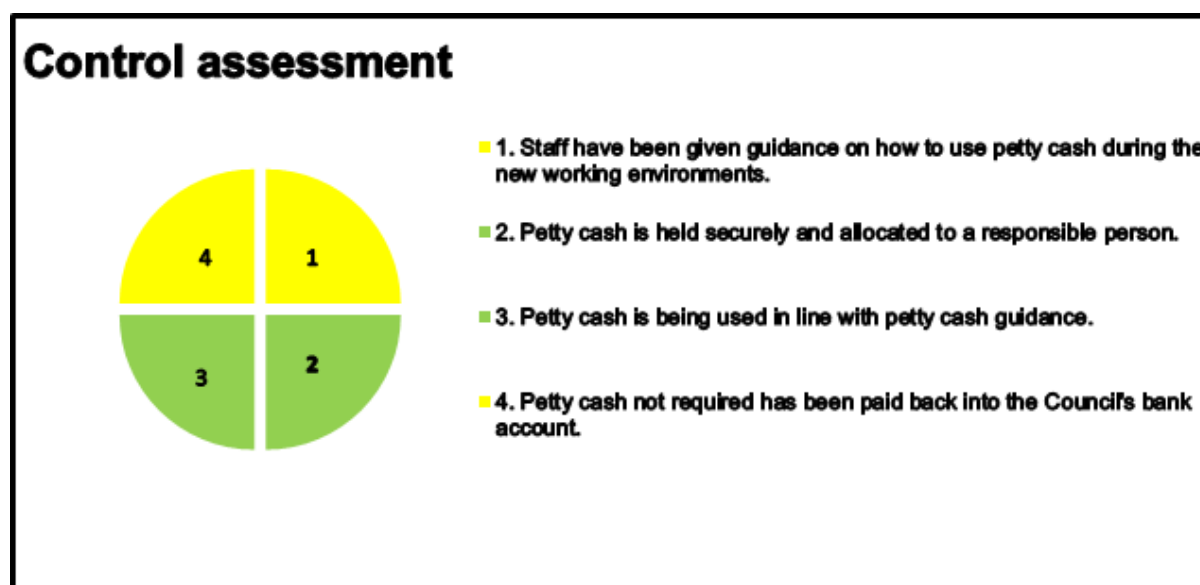
Audit Recommendations summarised by Type & Priority
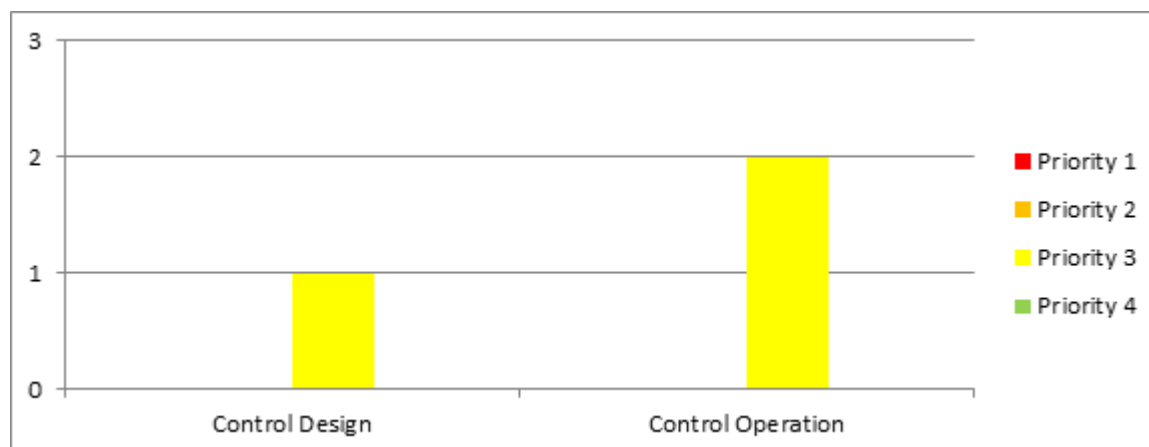
There is one design and two operational control recommendations in this report, all priority 3.

Key Findings

Good Practice:

There is a member of staff at each location who has been allocated overall responsibility for the petty cash.

Planned Improvements/Changes:

- Pentana action IAPC_011 from the 19-02 Petty Cash Procedures, assigned to the Manager – Elections, Commercialisation & Facilities, to review the arrangements for petty cash in the main Council Buildings (Angus House, Bruce House and County Buildings) with a view to centralising this function. The completion date for this action has been extended to 30 June 2021.

- Finance and Payments staff have carried out initial investigation into the option of pre-paid cards as an alternative to petty cash, however this would be prohibitively expensive to roll out across the Council as an alternative to petty cash. A temporary work-around has been made available to services experiencing business interruption to allow staff to be refunded through BACS payment for petty cash purchases their service has authorised them to undertake. This will remain in place for the duration of the Covid-19 restrictions. Further alternatives to petty cash will be identified and assessed by Finance once normal working practices have resumed.

<u>Areas Identified for Improvement:</u>

We have made 3 recommendations to address medium risk exposure which are:

Level 3

- Guidance should be communicated to all staff on what to do when authorisation checks can't be performed at the time of a petty cash reimbursement claim.

- Journals should be completed for the £300 identified in the audit review to ensure the correct petty cash totals are shown in Integra where it is known petty cash is no longer held in these locations. (Autism Base, Forfar Academy £100 and Family Support Carnoustie/Monifieth £200)

- A corporate reminder should be issued that where services have identified petty cash can be reduced/ no longer required then this should be completed timeously by the responsible officer for that location.

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 audit actions recorded and monitored on the Pentana Performance system.

The information presented below reflects the position of the 50 actions overdue and in progress at 24 December 2020 (excludes actions for Angus Alive and IJB). CLT receive and review regular detailed reports on the outstanding audit actions.

- Table 1 identifies actions which are currently **overdue.**
- Table 2 identifies actions which would have been overdue but have had the **original completion date extended**.
- Table 3 details all other actions which are **currently in progress** (not yet reached due date).

Table 1 – Internal Audit Actions Overdue as at 24 December 2020

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Not Graded	Grand Total
HR, DE, IT & Business Support	2019/20	-	1	2	-	-	3
Grand Total		**-**	**1**	**2**	**-**	**-**	**3**

Table 2 – Internal Audit Actions in progress as at 24 December 2020 (due date extended)

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Not Graded	Grand Total
Infrastructure	2017/18	-	-	-	-	-	-
	2018/19	1	-	-	-	1	2
	2019/20	-	-	-	-	-	-
Communities	2017/18	-	-	-	-	-	-
	2018/19	-	2	-	-	-	2
	2019/20	2	-	-	-	-	2
SPT&PSR	2017/18	-	-	-	-	-	-
	2018/19	1	-	-	-	-	1
	2019/20	-	-	-	-	-	-
Finance	2017/18	-	1	1	-	-	2
	2018/19	-	1	2	-	-	3
	2019/20	-	-	-	-	-	-
HR, DE, IT & Business Support	2017/18	-	-	-	-	-	-
	2018/19	-	-	-	-	-	-
	2019/20	3	9	6	1	-	19
Legal & Democratic	2017/18	-	-	-	-	-	-
	2018/19	-	-	-	-	-	-
	2019/20	-	1	-	-	-	1
Grand Total		**7**	**14**	**9**	**1**	**1**	**32**

The 2017/18 priority 2 action is:

- We will put in place authorisation limits for grant funding for inclusion in the Financial Regulations at its next review. Update - revised due date 31 January 2021, to align with timetable for completion of updated Financial Regulations.

The 2018/19 priority 1 and 2 actions are:

- SPT&PSR - Report 18-20 Level 1. We will finalise and agree the SECAP and put appropriate monitoring procedures in place. Update - this has been delayed until early 2021, due date extended to 31 March 2021.
- Finance - Report 18-02 Level 2. We will produce corporate guidance for services in relation to inventory recording. Update - revised due date 31 January 2021, to align with timetable for completion of updated Financial Regulations.
- Communities – Report 18-05 Level 2. We will update the Communities Risk Register to reflect these risks. Update - awaiting review and establishment of a separate risk register for Environmental Services. This has been delayed due to other more pressing demands over the last 6 months. Due date revised to 31 December 2020.
- Communities – Report 18-14 Level 2. We will identify all current guidance, policies, and procedures relevant to the Environmental protection section and seek to rationalise the content. We will create a single point on the s-drive to store the related documents and ensure easy access.

Table 3 – Internal Audit Actions in Progress as at 24 December 2020 (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	-	1	-	-	-	1
	2020/21	-	-	-	-	-	-
HR, DE, IT & Business Support	2018/19	-	-	-	-	-	-
	2019/20	4	6	2	-	-	12
	2020/21	-	1	-	-	-	1
Communities	2018/19	-	-	-	-	-	-
	2019/20	-	-	1	-	-	1
	2020/21	-	-	-	-	-	-
Grand Total		**4**	**8**	**3**	**-**	**-**	**15**

Summary of Progress – Counter Fraud

Since 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. Counter Fraud recommendations are not assigned a priority.

Table 4 - Actions in progress as at 16 December 2020 (Not yet reached due date)

Directorate	Year review Carried Out	Total
HR, Digital Enablement, IT & Business Support	2019/20	2
Grand Total		**2**

Table 5 Actions overdue as at 16 December 2020

Directorate	Year review Carried Out	Total
HR, Digital Enablement, IT & Business Support	2019/20	2
Communities	2020/21	4
Grand Total		**6**

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.**