Angus Council Internal Audit

Update Report

Scrutiny & Audit Committee

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Introduction

This report presents the progress of internal audit activity within the council up to end of January 2017 and provides an update on:

- Progress with the 2016/17 Internal Audit Plan;
- Progress with implementing internal audit recommendations;

Audit Plan Progress Report

2016/17 Internal Audit Plan – Progress update

The table below summarises progress as at end of February 2017.

Audits	Planned	In course (fieldwork + review)	Draft report	S&A committee date / *(target in italics)*
Corporate Governance				
Corporate Governance annual review – 2015-16				**21 Jun 2016**
Risk Management	**Aug 2016**			**7 Mar 2017**
Agile Working	**Jan 2017**			*22 Jun 2017*
Review of Corporate Culture	**Oct 2016**			*22 Jun 2017*
Health & Social Care Integration	**Sep 2016**			*To be scheduled by Lead Auditor*
Information Governance – Information Management	**Aug 2016**			**24 Jan 2017**
Strategic and Operational Planning	**Jul 2016**			**27 Sep 2016**
Culture & Leisure Trust - Monitoring	**Nov 2016**			**24 Jan 2017**
Financial Governance				
Schools' Funds - Governance	**May 2016**			**23 August 2016**

Audits	Planned	In course (fieldwork + review)	Draft report	S&A committee date / (target in italics)
Corporate Budgeting and Financial Accounting	Jul 2016			22 Jun 2017
NNDR (National Non- Domestic Rates)	Sep 2016			24 Jan 2017
Payments Processing – Service Redesign	Jul 2016			24 Jan 2017
IT Governance				
IT Change Management	Aug 2016			24 Jan 2017
IT System Development	Nov 2016			7 Mar 2017
IT User Access Management	Jul 2016			27 Sep 2016
Internal Controls				
Absence Management	Sep 2016			7 Mar 2017
Staff Development and Appraisal	Aug 2016			24 Jan 2017
Development of CAATs (Computer Audit Assisted Techniques)	Jul 2016			22 Jun 2017
Asset Management				
Stocks (year end)	Mar 2016			21 Jun 16
IT Asset Management	Jun 2016			23 Aug 16
Fleet Management	Aug 2016			22 Nov 2016
Legislative and other compliance				
LEADER - European Maritime Fisheries Fund (Rural Funding)	Aug 16			22 Nov 2016
Carbon Reduction	Jan 17			22 Jun2017
Interreg (European Funding)	Jan 17			22 Jun 2017

Transforming Angus Programme Boards

Staff continue to attend meetings of the Agile Working Board.

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. Discharge 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.

The following reviews are summarised in this paper:
- IT Systems Development
- Risk Management
- Absence Management

IT Systems Development

Priority	No.	Priority	No.	Priority	No.
Level 1	-	Level 2	2	Level 3	-

IT systems development is the process for managing new software products and replacing systems with newer revised and upgraded IT applications. Systems development processes aim to ensure that developments are evaluated, tested and implemented in a controlled manner and to ensure that all changes to systems are agreed, authorised and implemented to maintain the integrity of the systems.

As the council does not develop applications in-house, the audit concentrated on externally provided upgrades, patch management and release management form part of the software development lifecycle. One of the main application changes that happened over the last year was the upgrade to the latest NGA ResourceLink payroll application provided by Northgate Arinso. The audit recommendations were principally based on the findings from the audit of this area together with discussions with the Head of IT.

The audit reviewed the arrangements in place against the following control objectives:
- Successful testing is carried out;
- There is appropriate authorisation before upgrades go live;
- There is an appropriate level of training and support for users; and
- There is an internal lessons-learned review undertaken.

The payroll application (ResourceLink) upgrade process is largely driven by the Northgate Arinso (NGA) systems support agreement. The process is carried out jointly with NGA and the local payroll team. NGA are provided with network access to perform specific technical tasks. The payroll team is responsible for scheduling the work and ensuring the application continues to function in a way

that is fit for purpose. This approach is commensurate with council operations across the organisation.

We found the processes are weakest in two specific areas. Firstly, the process relies heavily on local knowledge of a specific individual within the payroll team who is solely responsible for undertaking all of the work. Secondly, that the approach taken is not generally supported by robust testing arrangements. While it appears that the current approach does not usually result in system interruption/availability issues, there has been at least one occasion where an unknown fault resulted in no payslips being produced when the system went live. On the face of it, this confirms our view that the process is not well supported by the testing and release management processes and there is a risk that failures could recur in future.

We did note however that a new IT change management process is being established across the council and that this new process will encourage a new level of governance over these and similar changes in future. However our view is that the application testing and release processes need to be further supported with additional guidance and expertise across the council. From our discussion with other staff we confirmed findings in this specific area are likely to be the case across all similar IT upgrade activities in the council. Accordingly it is recommended that the issue is addressed on a corporate basis.

It is important that user acceptance testing is carried out and that the implementations of new versions of applications are fully risk assessed and well managed. Preliminary discussions with staff in the Resources Directorate indicate that it may be possible to provide a central resource to assist local managers and teams in the performance of these tasks. This will however require further discussion and approval at a senior executive level. We made two, level-2, recommendations in support of this approach which in practice will mean (1) local managers know what is expected of them in terms of processes and records, and (2) the IT change management process reflects the main governance steps.

Risk Management

Priority	No.	Priority	No.	Priority	No.
Level 1	-	Level 2	2	Level 3	-

The council's risk management strategy is to embed a culture where risk management is facilitative and one that supports the transformation agenda. Angus Council has two main risk management guidance documents: "Risk Management Strategy" and "Risk Management Process – Guidance". These documents were recently updated (May 2016). There is also a guidance document with specific information for risks within council projects and programmes.

We selected a sample of projects for review:
- Brechin Community Campus
- Channel Shift
- Roads Division – Bridge Contract
- Arbroath Academy Curtain Walling
- ACROP vehicle workshop and accommodation

- Garage sites – Forfar, Brechin and Monifieth
- Western Cemetery Mortuary Chapel remedial works
- Various landward properties Angus South PV panels
- New Build Damacre Centre, Brechin - Housing

We found that corporately a risk strategy had been properly established together with corresponding staff guidance. . We reviewed a broad sample of services and functions and found that the controls in place for project risk management are generally operating as expected with the exception of a small number of issues.

We noted a few instances where certain local project risk register entries were missing and where some documentation had not been completed. Two level-2 recommendations have been made to strengthen the control environment and ensure compliance with the corporate process. These include recommendations to ensure the Channel Shift risk register is reviewed and updated as a standing agenda item for Channel Shift project meetings. Also, the Roads division should complete all project risk records to confirm that risks have been adequately assessed together with notes on mitigating actions and progress monitoring.

Absence Management

Priority	No.	Priority	No.	Priority	No.
Level 1	-	**Level 2**	-	**Level 3**	2

The audit was carried out to ensure that service areas were carrying out their responsibilities for the management of sickness absence. On this occasion the audit sampling was contained to that of the Communities Directorate. The audit reviewed the following key control objectives:
- Absence records are maintained.
- Managers conduct staged interviews with staff.
- Appropriate records of employee contacts are maintained.
- Referrals are carried out as required.
- Appropriate action is taken following an absence review.

We found that in respect of Communities staff all aspects were adequately managed. We did find a few clerical errors and these were brought to the attention of the appropriate staff. We did not view these as evidence of a significant absence or breakdown in control. We were therefore satisfied that the directorate staff complied with corporate arrangements.

We made two, level-3 recommendations. Firstly, that there is a corporate review of the of the council's sickness absence processes and, in particular, that there is consideration given to reducing the level of paper-based forms. We would welcome an approach that utilises electronic completion and transfer of forms or otherwise a process that supports direct electronic input to the payroll (Resourcelink) system. The present manual paper-handling approach is slower and more prone to risk of loss in the transfers between locations. We understand that this is being considered as part of the larger digitisation agenda for the council. Secondly, we noted that some Communities staff had undertaken an initiative to review absence trends and have begun a pilot project which involves analysis of time recording records. We recommend that the outcome of the initiative is shared with

the Executive Management Team in due course. In this way best practice or other lessons learned can be shared across the council.

Implementation of internal audit recommendations

Background

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

Summary of Progress

The recommendations classed as outstanding are those where the required action has not been completed by the original completion date. Recommendations have been excluded where an extension to the original completion date has been requested and agreed by Internal Audit.

The figures presented in the table below have been obtained after analysis of both the Internal Audit system (MKI) and the corporate action recording and monitoring system, "Covalent". It is anticipated that it will, in due course, be possible to use a single system for the production of the figures on outstanding recommendations. Work is being carried out on the configuration of the Covalent system to provide improved management information and to bring greater efficiency to the follow-up process.

The information presented below reflects the position at 24 Feb 2017. The EMT is now receiving and reviewing detailed quarterly reports on the outstanding level1 recommendations.

- Table 1 below shows progress with implementing internal audit recommendations across each Directorate.

- Table 2 details outstanding recommendations by Directorate, year and grade.

- Table 3 details outstanding grade 1 recommendations by audit and provides an audit update per Covalent.

Members are asked to note the position in implementing internal audit recommendations.

Table 1 – Outstanding recommendations per Covalent.
(excl. recommendations related to Angus Alive and the Angus Health and Social Care Partnership)

	Chief Executive	Communities	Children and Learning	Resources	
Total overdue	**-**	**-**	**3**	**25**	**28**

Table 2 - Outstanding recommendations by Directorate, year and grade.

Directorate	Year	Level 1	Level 2	Level 3	Grand Total
Chief Executive	2014/15	-	-	-	-
					-
Communities	2015/16	-	-	-	-
	2016/17	-	-	-	-
					-
Children and Learning	2016/17	3	-	-	**3**
					3
Resources	2013/14	-	3	-	**3**
	2014/15	-	3	1	**4**
	2015/16	5	8	1	**14**
	2016/17	2	2	-	**4**
					25
Grand Total		10	16	2	**28**

Table 3 - Outstanding Grade 1 recommendations

Action Code & Title	Description	Due Date	Original Due Date	Latest note available on Covalent	Assigned To
IADDR_0005 We will devise a procedure to ensure there is documentary evidence of all write offs. (Resources)	15–24 Rec 5 As part of the review of sundry bad debts, sufficient documentation or records of actions is maintained to before a decision is made to write off debts.	31–Oct–2016	31–Oct–2016	Work has started on this and will be completed by the middle of January 2017. (99% complete)	Revenues Officer
IAGSF_0001 We will draft schools fund guidance. (Children and Learning)	16–03 Rec 1 Children and Learning Directorate to update the School Fund guidance to ensure there is clarity over what constitutes activities that can be administered and recorded through School Fund.	31–Oct–2016	31–Oct–2016	Feedback from the Service Manager Financial Services is that the VAT position is alright, however, we have requested advice from the external VAT consultants. Awaiting feedback from schools on draft procedures. (99% complete)	Senior Finance Officer
IAGSF_0004 We will review school fund guidance annually and make available on intranet. (Children and Learning)	16–03 Rec 4 Guidance on the administration of School Funds should be updated and reviewed to ensure it remains current and relevant. It should be provided to all school fund administrators and made available on the Children and Learning Intranet site.	14–Nov–2016	14–Nov–2016	This is currently in progress. Guidance has been updated, not yet been put onto the intranet. Requested extension to completion date to 31st March 2017. (0% complete)	Accountant
IAGSF_0006 We will create a model constitution as an appendix to refreshed guidance and share with Head Teachers (Children and Learning)	16–03 Rec 6 A model School Fund constitution should be put in place which includes the requirements related to: maintenance of records; management committee meetings; structure of the School Fund committee. This should include senior pupils as well as school staff, the	31–Oct–2016	31–Oct–2016	This is incorporated with action number IAGSF_0004 – it is currently being progressed – request deadline to be extended to 31st March 2017. (0% complete)	Accountant

Action Code & Title	Description	Due Date	Original Due Date	Latest note available on Covalent	Assigned To
	independent examination of final accounts at the year-end, arrangements regarding the disbursements of funds on dissolution of the School Fund.				
IAITAM_0001 We will submit a report to EMT detailing the costs and processes required to implement, fund and sustain a rolling replacement programme and actions as outlined in the recommendation. (Resources)	16-04 Rec 1 Senior Management should: (1) Create a rolling replacement programme for IT equipment; (2) Pool the base funding for the replacement programme from existing hardware budgets; (3) Assign ownership of equipment for Agile areas to the responsible building managers; (4) Instruct the creation of a central inventory to ensure the rolling replacement programme delivers vfm and ensures that IT hardware is refreshed in accordance with the Agile toolkit approved by EMT. (5) Periodic review checks should be carried out to ensure the continued accuracy of the central inventory. All discrepancies should be investigated and appropriate action taken.	31-Oct-2016	31-Oct-2016	Preparation work is progressing to establish the most appropriate organisational arrangements. This is also linked to the procurement review programme opportunities identification. (50% complete)	Service Manager (Transforming Angus)
IAITAM_0002 We will develop an IT asset management policy and submit it to EMT. (Resources)	16-04 Rec 2 An IT asset management policy is established by IT and published on the Intranet for council staff to follow. The policy should include sections on asset renewal, purchase, maintenance, disposal and inventory.	31-Dec-2016	31-Dec-2016	Dependent on outcomes of TA procurement review and EMT decisions. All preparation and data gathering complete. (35% complete)	Service Manager – IT
IATABR_0001 We will complete benefits management	15-21 Rec 1 Planned benefits from the current projects within the	31-Oct-2016	31-Oct-2016	Benefits management documents being developed by leads	Service Manager (Transforming

Action Code & Title	Description	Due Date	Original Due Date	Latest note available on Covalent	Assigned To
documentation for all programme/ projects in accordance with the relevant stage of the governance model. (Resources)	Transforming Angus programme should now be recorded and managed through the new governance model framework and proposed toolkit.			with the majority now in place. Final push required to complete. (75% complete)	Angus)
IATABR_0002 We will track proposed benefits from the respective Business cases using the benefits tracking toolkit tailored to meet the needs of each programme/ project. (Resources)	15-21 Rec 2 All projects must ensure an appropriate and consistent process is in place to track and monitor all the benefits identified.	31-Oct-2016	31-Oct-2016	Benefits toolkit for HLH in place and other programmes in development. (25% complete)	Service Manager (Transforming Angus)
IATABR_0004 We will develop benefits progress reporting arrangements for Programme/ Project Boards; and Transforming Angus Programme Board. (Resources)	15-21 Rec 4 The achievement of benefits realisation targets is regularly reported to project boards and an overall position is reported to the Transforming Angus Board. These boards should ensure that where targets are not met that these are addressed and corrective actions are taken.	31-Oct-2016	31-Oct-2016	Improvements to benefits reporting visible including new section in P&R committee report. (50% complete)	Service Manager (Transforming Angus)
IATABR_0005 We will develop benefits progress reporting arrangements for elected members as part of the TA update reports. (Resources)	15-21 Rec 5 Management must take action to identify, manage and report on future projects' benefits realisation in accordance with the programme governance framework and the proposed toolkit approach. It will be important to ensure that the processes are consistently applied across all projects.	31-Oct-2016	31-Oct-2016	New section being developed in TA. Update report for P&R committee. (75% complete)	Service Manager (Transforming Angus)