

Angus Council Internal Audit



Update Report

Scrutiny & Audit Committee

22 June 2017

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Introduction

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

- Progress with the 2016/17 Internal Audit Plan;
- Progress with the 2017/18 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 May 2017. The 2016/17 plan is now complete. The Health & Social Care Integration report will be reported to the S&A committee after it has been reported to the IJB.

Audits	Planned	In course (fieldwork + review)	Draft report	S&A committee date / (target in italics)
Corporate Governance				
Agile Working	Jan 2017			22 Jun 2017
Review of Corporate Culture	Oct 2016			22 Jun 2017
Health & Social Care Integration	Sep 2016		May 2016	<i>Report to IJB June 2017</i>
Financial Governance				
Corporate Budgeting and Financial Accounting	Jul 2016			22 Jun 2017
Internal Controls				
Development of CAATs (Computer Audit Assisted Techniques)	Jul 2016			22 Jun 2017
Legislative and other compliance				
Carbon Reduction	Jan 17			22 Jun2017

Audits	Planned	In course (fieldwork + review)	Draft report	S&A committee date / (<i>target in italics</i>)
Interreg (European Funding)	Jan 17			22 Jun 2017

2017/18 Internal Audit Plan – Progress update

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

Audits	Planned	In course (fieldwork + review)	Draft report	S&A committee date / (<i>target in italics</i>)
Corporate Governance				
Corporate Governance annual review – 2016-17	Jun 2017			22 June 2017 in report 215/17
General Data Protection Regulations (GDPR) Readiness – Phase 1	Jun 2017			22 June 2017
General Data Protection Regulations (GDPR) Readiness – Phase 2	2018			6 March 2018
Public Accountability				
Performance Information				
Financial Governance				
Schools' Funds – Governance (primary schools)	Aug 2017	In course		22 August 2017
Recharging of Central Administration Costs				
Payroll				
Accounts Payable				
IT Governance				
IT User Access Administration				

Audits	Planned	In course (fieldwork + review)	Draft report	S&A committee date / (<i>target in italics</i>)
Internal Controls				
Contractual Arrangements				21 November 2017
Property Repairs Work Allocation				
Service Level Agreements				
Asset Management				
Stocks (2016-17 year-end)	Jun 2017			22 June 2017
Community Asset Transfer				17 January 2018
Fixed Asset Register				
Legislative and other compliance				
LEADER - European Maritime Fisheries Fund (Rural Funding)				21 November 2017
Carbon Reduction	Jan 2018			24 April 2018
Interreg (European Funding)	Oct 2017			21 November 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 for 2016/17:

- Agile Working
- Review of Corporate Culture

- Corporate Budgeting and Financial Accounting
- Development of CAATs (Computer Assisted Audit Techniques)
- Carbon Reduction
- Interreg (European Grant Funding)

The following reviews are summarised in this paper for 2017/18:

- GDPR readiness (Phase1)
- Year end stocktake at 31 March 2017

Agile Working

Priority	No.	Priority	No.	Priority	No.
Level 1	0	Level 2	6	Level 3	0

The Agile Working and Estates Review forms part of the Transformational Change project identified in the Council's 2014-17 Plan.

The Angus Agile Working and Estates Review strategy was agreed by the Policy & Resources Committee in February 2015. It aims to create a sustainable property estate, improve service delivery and the Council's organisational effectiveness, through the successful adoption of agile working practices and workplace design, phased in to a programme of locations.

The strategy is for a period of 6 years running until 2020-21 and includes around £7m of investment in order to produce projected net recurring savings of around £8m p.a., with a projected payback period of just over three years. It sets out some key principles for agile working and the approach being taken to achieve workplace change. The strategic objectives of Angus Agile are:

- Enabling rationalisation of the Council's property estate;
- Increasing employee satisfaction and morale by promoting a good work-life balance;
- Improving services to customers by increasing productivity and performance;
- Significantly improve the utilisation of existing accommodation through more efficient and effective use of office spaces.

The Council commissioned support from Hub East Central Scotland (Hubco) to identify how changes to its estate may be planned and implemented to achieve an estate solution that meets services' needs.

Conclusion

During the audit we noted two good practice areas – the reporting of Agile issues each month to the Executive Management Team and to the Agile Working/Accommodation Programme Board; and that appropriate procurement routes have been followed for all works and furniture.

Six areas were identified where further work is required to improve and assist in the effective control of the Agile project:

- The Agile Working/Accommodation Programme Board do not scrutinise current year programme expenditure against budget every month, in order to review progress and identify potential issues and ensure these are proactively managed to minimise cost overspends;
- The Back Office Issues Log is not monitored;
- Committee reports regarding changes to the list of properties deemed surplus to Council needs, whether by transfer to the Housing Revenue Account or elsewhere, do not consider the impact upon the Agile disposal proceeds;
- Lack of full compliance with the TA Programme Methodology relating to change management;
- Risk registers on Covalent had not been updated since September 2016;
- Total Agile Programme spend against budget is not reported as part of the Capital Monitoring report to the Policy & Resources Committee.

Review of Corporate Culture

As part of the 2016/17 annual plan, Internal Audit undertook a review of organisational culture at Angus Council.

We conducted interviews with staff across the council including, council leadership, staff at various levels of responsibility and from a cross section of different service areas. We employed direct interviews, workshop sessions and electronic survey applications to gather opinions. We used available data to validate findings and a wide selection of information from various surveys and reviews already completed for a range of different stakeholders. This included collecting both qualitative and quantitative information to assist our analysis. We sought to ensure that the numbers contributing to the work were a reasonable and representative sample.

This review identified a culture where staff are committed to providing good services and work well at local team level, however they feel that there is a disconnect between them and senior management and this, together with uncertainty due to change, is impacting negatively on morale. We have not included an action plan in this report as the issues highlighted need to be taken forward in the context of the change agenda within the Council. We would however expect senior management to identify actions in response to the findings of this review.

Issues identified are similar to those from previous reviews. Satisfaction has increased in some areas since the 2015 Employee Engagement Survey, for example, with support from line managers and communication, but a number of areas still show relatively low levels of satisfaction and in some cases lower satisfaction than in the 2015 survey.

Our analysis of the survey responses has identified the following themes for improvement and/or areas for future focus:

- Communication from Senior Management across the organisation;
- Management and communication of change;
- Involvement of staff in decision making (transparency from Senior Management);
- Using staff feedback to inform improvement activity; and
- The staff appraisal process.

Corporate Budgeting and Financial Accounting

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

The purpose of the audit was to provide assurance that the Council has a robust and efficient budgeting process in place, and that the final accounting process is effectively managed to ensure deadlines are met without undue pressure on staff resources.

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

- Budgets are prepared and agreed efficiently and within an appropriate timescale.
- Budget monitoring statements are prepared and reported on a regular and consistent basis, provide sufficient and appropriate information and are understood by all relevant staff.
- Budget variances are explained and supported by sufficient data and taken in to consideration when preparing future budgets.
- Final accounts are prepared according to an agreed timetable.
- The process for preparing the final accounts is efficient and utilises the reporting capabilities of the accounting software.
- The roles and responsibilities of staff involved with the preparation of the final accounts are defined and understood.
- The expectations of the external auditors are understood and all required information is prepared in advance of the audit.
- The final accounts are prepared in accordance with Audit Scotland's best practice guidance and appropriate Statements of Recommended Practice - to reduce the provision of unnecessary information.

Local Authorities are under increasing pressure to maintain a balanced budget and achieve significant financial savings. To support these objectives it is important that Angus Council has an efficient and robust budgeting process in place. Likewise, the preparation and audit of the Council's final accounts is a critical and resource intensive undertaking. The 2015/16 timetable began on the 26 February and ended on the 26 October with close to 300 items requiring completion.

The audit identified a number of areas where improvements are required.

Conclusion

We have identified the following areas of good practice:

- Priority based budgeting was introduced for the 2016/17 budget. In March 2017 the Projected Outturn for 2016/17, net of carry forwards, is a £2.4m underspend, which amounts to 1% of the Final Budget. This is an improvement on the position in each of the previous five years, and helps address issues raised in this area in the October 2016 Best Value report from the Accounts Commission;
- A five year Financial Plan 2016/21 was approved on 18 February 2016, which also assessed the financial position over 25 years until 2041/42. It is aligned to the Community Plan and Single Outcome Agreement 2013-16;
- A four year Medium Term Financial Strategy 2017/21 was agreed by full Council on 27 October 2016;
- A new more informative style and format of budget monitoring report has recently been developed for the Children & Learning Directorate; and
- Budgeting and final accounts guidance notes are up to date and accessible on the council intranet.

In addition the following changes are planned to improve efficiency, and should address some of the areas identified for which no action points have been raised:

- A Finance Service review is due to be carried out, which aims to provide savings and efficiency requirements for 2018/19;
- The Capita Integra budget module is to be implemented in July 2017, for 2017/18 monitoring; and
- Finance is considering implementing CIPFA's "Technology 1" software to improve the efficiency of the final accounts process.

Finance is considering findings from a review of the 2015/16 accounts undertaken by Scott Moncrieff under the co-sourced internal audit arrangement. The review considered de-cluttering and compliance.

During the audit one area was identified where further work is required to improve and assist budget monitoring and financial management:

Following the successful implementation of the Capita Integra budget module and the Council re-structure, Finance should review the format of budget monitoring reports and the process for producing them. This should include consideration of rolling out the improvements made for the Children & Learning Directorate, ensuring the consistency of reporting, and consider if monitoring can commence earlier in the year than July.

Development of CAATs (Computer Assisted Audit Techniques)

The audit work was originally planned as a means of developing and optimising the use of a data analytics tool (IDEA – Interactive Data Extraction Analysis) that was available within the audit team. During the year however, staff resignations meant that it was not possible to carry out the work as originally planned. Instead we addressed the original plan by training a member of staff in the use of the IDEA tool as a basis for developing the work in 2017/18. After the formal training had been delivered an analytical review of payroll data was carried out.

The analytical review highlighted a number of areas that require further investigation by the corporate payroll team. These have been detailed in a series of lists which will be passed to the payroll team manager in week commencing 22 May. No significant issues have been identified to date.

An audit of accounts payable data together with a follow-up review of payroll data has been agreed as part of the 2017/18 Audit Plan. The longer term aim is to further develop a process of continuous auditing across a range of different data sets that will help capture anomalous and erroneous data entries at the earliest possible stage. In addition, there is also an aim to develop analytical review techniques that will help to sustain improved data governance.

Carbon Reduction

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

No weaknesses were identified. The Carbon Reduction Commitment (CRC) Energy Efficiency Scheme is a mandatory carbon emissions reduction scheme for the UK. It was introduced by the UK Government to help meet legally binding greenhouse gas reduction targets established by the Climate Change Act 2008.

The CRC scheme is currently in Phase 2 which commenced on 1 April 2014 and runs until 31 March 2019. The scheme requires that a periodic review of the internal procedures and a quality check of the data are carried out. This has been carried out by Internal Audit annually since 2012.

In addition to the requirements of the CRC Scheme, a Statutory Order under section 46 of the Climate Change Act came into force on 23 November 2015, requiring “major player” public bodies to annually report on compliance with the climate change duties. The Order sets out the reporting requirements, list of public sector major players involved and the standard climate change reporting form. As a major player, Angus council is required to complete and submit the template report.

The audit reviewed the following key control objectives:

- The Council is complying with the mandatory requirements of the CRC Energy Efficiency Scheme.
- Payment of allowances for carbon emissions and energy usage is correct.

- The Council is complying with the mandatory reporting requirements of the Climate Change (Scotland) Order 2015.

The objectives were met and no control weaknesses were identified. The Energy Management Unit team is diligent in ensuring that the Council complies with the scheme.

Interreg (European Grant Funding)

We established that there were no grant claims to audit in 2016/17. Interreg claims require to be certified by a “1st level controller” (FLC) who should be independent of the Council and for which special certification is required. It is therefore not a role that Angus Internal Audit is able to perform and the sourcing of appropriate external support will be the subject of a council tendering exercise. It is planned that the FLC will be appointed in time for the first claims which will be ready around end of Sept 2017.

We were informed the rules for the funding and administration of claims etc. are well documented and communicated to various staff groups, including those where match-funding is involved. Specific financial ledger codes have been set up and the administration team will be monitoring these. The team will also visit staff controlling any match-funding to review the expenditure being incurred.

It was therefore clear that there was no reason for us to carry out any audit work in this area for the 2016/17 audit plan. Interreg is included in the 2017/18 plan. We intend to audit how well the monitoring and recording processes are working. We have assessed staff time recording as a med-high risk area, especially for those staff posts where only a portion of their employment is chargeable to Interreg. These are likely to form a major part of the costs and any rejections of the claims will impact service area budgets. Interreg rules are very strict about the nature of evidence that is required for expenditure and at present it is not clear how new staff, temp staff etc. will be made aware of the rules regarding claims, so there is an additional risk that processes will fail to meet the required standard. This work will be carried out prior to September 2017 through checking of the first claim.

General Data Protection Regulation (GDPR) Readiness Phase 1

Phase 1 of the GDPR readiness work involved a review of the draft GDPR Report and Angus Council Action Plan (dated 24 April 2017) to identify any gaps and comment on the planned activity in relation to meeting the May 2018 date for GDPR implementation.

The review identified some issues with timings to ensure GDPR readiness by May 2018. Given the financial and reputational risks related to the changes in GDPR the Information Governance Steering Group needs to take this forward as a matter of urgency.

Year End Stocktake at 31 March 2017

This work does not result in a formal report to management; the findings were notified to the Head of Corporate Improvement & Finance by memo.

Internal Audit staff attended the year-end stock counts at two locations: (1) Burgh Yard, Balmachie Road, Carnoustie – Fertilisers, Tools & Equipment, Protective Clothing etc.; and (2) Burgh Yard, Queenswell Road Forfar – Fertilisers, Tools & Equipment, Protective Clothing etc.

- We confirmed that the stock counting procedures adopted by staff were satisfactory and in line with those approved as best practice with the exception of the layout of the stock did not allow the stock count to be carried out in line with guidance,
- We did not find any significant variances and concluded that the year-end stock values were reasonable.

The total value of the consumable stores and materials held by divisions detailed on the stock forms received by internal audit was £373,143 which is not deemed a material amount in light of the overall Council budget of £245,450,000. Discussion about the level of internal audit input to stock taking in future will take place before March 2018.

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 the corporate action recording and monitoring system, “Covalent”.

Work continues to be carried out on the configuration and management 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 26 May 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.

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	6	-	-	17	23

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

Directorate	Year	Level 1	Level 2	Level 3	Grand Total
Chief Executive	2015/16		4		4
	2016/17		2		2
					6
Communities					0
					0
Children and Learning					0
					0
Resources	2013/14		3		3
	2014/15			1	1
	2015/16		8	1	9
	2016/17		4		4
					17
Grand Total			21	2	23