

## AGENDA ITEM NO 9

### REPORT NO 77/22

#### ANGUS COUNCIL

#### SCRUTINY AND AUDIT COMMITTEE – 1 MARCH 2022

#### 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 (Appendix 1);
- (ii) note management's progress in implementing internal audit and counter fraud recommendations (Appendix 1)
- (iii) agree to move the Finance Service Capacity Review to the Pool.

#### 2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN /COUNCIL PLAN

The contents of this report contribute to the achievement of the corporate priorities set out in the Angus Community 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

- 3.1 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 plan agreed at the Scrutiny & Audit Committee in March 2021 (Report 60/21).
- 3.2 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.
- 3.3 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.
- 3.4 The latest results are included in the Update Report at **Appendix 1** and summarised in section 4 below.
- 3.5 Ad-hoc requests for advice are dealt with as they arise.

#### 4. SUMMARY OF MARCH ASSURANCES

- 4.1 The following table summarises the conclusions from audit work completed since the last Scrutiny & Audit Committee. Further information on each audit, and definitions of control assurances, are provided in Appendix 1.
- 4.2 Recommendations from consultancy work are not graded. The number of recommendations made are noted under the Grade 4 column. \* In the final column denotes that the service already has actions in place to address weaknesses identified in the audit or has action plans for other improvements in progress.

Audit	Overall control assurance	Control assessment by objective	No. of Audit Actions by Priority			
			1	2	3	4
Non-Domestic Rates	Comprehensive		-	-	-	-
Continuous auditing Creditors New reporting for October and November 2021	Substantial (revised from Comprehensive in August)		-	-	-	-
IT User access administration – IDOX	Limited		2	2	1	-

- 4.3 In addition to reporting on the results of these audits we have also included an update on new data analysis checking that we have introduced on Systems Access.

#### 5. FINANCIAL IMPLICATIONS

- 5.1 There are no direct financial implications from this report.

#### 6. EQUALITY IMPACT ASSESSMENT

- 6.1 An Equality Impact Assessment is not required, as this report is providing reflective information for elected members.

**NOTE:** No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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**List of Appendices:**

Appendix 1 Internal audit update report

# Angus Council Internal Audit



Update Report

Scrutiny & Audit Committee

1 March 2022

Cathie Wyllie  
Service Leader – Internal Audit  
Strategic Policy, Transformation & Public Sector Reform

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## INTRODUCTION

This report presents the progress of Internal Audit activity within the Council from June 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 PLAN PROGRESS REPORT

The table below notes all work that is started or in progress, including incomplete work from June 2021. It also includes the fixed portion of the audit plan agreed in March 2021.

Audit work involving Procurement staff has restarted but continues to progress slowly due to the workload resourcing positions within the service and a change of Directorate and approach.


One audit team member remains temporarily seconded on a part-time basis to support the activities of the Council Emergency Centre (CEC). The time spent this year from 1 April 2021 to the end of September was 12 days. From 18 October until 31 January 2022 the time spent, at 25 days, has been greater than anticipated due to the impact of Storm Arwen and the recent rise in Covid 19 cases. The secondment ended on 31 January 2022. Although this impacts on the time available for audit projects I do not anticipate that this will prevent me from providing my annual assurances and opinion for 2021/22.





Following discussion with the Director of Finance it is proposed to move the consultancy support of the finance capacity review to the pool as it is not known when this will be re-visited.





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

### Progress with Internal Audit Work post June 2021


Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / <i>(target in italics)</i>
<b>Corporate Governance</b>					

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / <i>(target in italics)</i>
Corporate Governance annual review – 2019-20	June 2021	Complete	N/A	N/A	1 June 2021 (Report 178/21)
Annual Assurance re IJB	March/April 2022		N/A	N/A	<i>June 2022</i>
Risk Management	Feb./March 2022	Planning			<i>June 2022</i>
Review of GDPR compliance	Feb./Mar. 2022	Planning			<i>June 2022</i>
<b>Financial Governance</b>					
Council Tax	Feb./March 2021	Complete	Comprehensive		Aug 2021

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Non-domestic rates system	Oct. / Nov. 2021	Complete	Comprehensive		<b>Mar 2022</b>
Housing arrears	Feb. 2022	Planning			<i>June 2022</i>
Payroll continuous auditing Complete April – June 2021 July 2021 Aug – Sept 2021  To do Oct. – Dec. 2021 Jan. – Mar. 2022	On-going	N/A	Comprehensive		Aug 2021 Sept 2021 Nov 2021
Creditors continuous auditing Complete April – June 2021 July and August 2021 Sept. 2021 Oct. – Nov. 2021  To do Dec. 2021 – Mar. 2022	On-going	N/A	Substantial (revised from Comprehensive in August)		Aug 2021 Sept 2021 Nov 2021 <b>Mar. 2022</b>
<b>IT Governance</b>					
I-Pay follow-up	March 2021	Complete	N/A Consultancy project	N/A	Aug 2021
IT User access administration – IDOX	Dec 21/Jan 22	Complete	Limited		<b>March 2022</b>
IT project management	Nov/Dec 2021	Draft report issued			<i>June 2022</i>
End User Computing	Feb/March 2022	In Progress			<i>June 2022</i>
Continuous auditing – System access  Never logged on To October 2021	Nov/Dec 2021	Complete	N/A	N/A	March 2022
Not logged on in last 21 days To October 2021  Further periods to be reviewed - timing to be confirmed	Jan/Feb 2022	In Progress			June 2022

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
<b>Internal Controls</b>					
Procurement – Exemptions from Tendering process	August 2021	In progress			<i>June 2022</i>
On-line Recruitment / New Start process	Mar./April 2020	Complete	Substantial		Nov. 2021
Protection of vulnerable groups	July 2021	Complete	Substantial		Nov. 2021
Fostering, adoption and kinship allowances	Feb. / March 2022				<i>June 2022</i>
Adults with incapacity follow-up	Feb. 2022				<i>June 2022</i>
<b>Asset Management</b>					
Review of Roads Maintenance	March/April 2021	Complete	Substantial		Jan. 2022
Housing improvements – capital projects	July/Aug. 2021	Complete	Comprehensive		Nov. 2021
<b>Legislative and other compliance</b>					
Procurement Reform (Scotland) Act 2014 (B/F from 2018/19 plan)	Moved to 2022/23 plan		N/A	N/A	<i>Nov. 2021</i>
Participatory budgeting	Moved to 2022/23 plan	N/A	N/A	N/A	<i>Aug 2021</i>
Corporate parenting	Feb./Mar. 2022	Planning			<i>June 2022</i>



Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
LEADER	Oct/Nov 2021	Complete	Substantial		<b>Jan. 2022</b>
<b>Other</b>					
Review of Audit Scotland's publications on Fraud and Irregularity 2018/19, final item - Use of council vehicles	April 2021 Nov. 2021	Complete	N/A	N/A	<b>Jan. 2022</b>
Review of Audit Scotland's Fraud & Irregularity 2020/21 report.	Nov/Dec 2021	Complete	N/A	N/A	<b>Jan. 2022</b>
<b>Consultancy and Advice</b>					
Finance Service capacity review	Oct. – Dec. 2020	In progress, but on hold. Proposed to move to the Pool			<i>March 2022</i>
Organisational resilience	Oct. 2021	Planning			<i>June 2022</i>
Business support review	Dec 2021/Jan 2022	Planning			<i>June 2022</i>

## 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 planning process for ANGUSalive was delayed due to Covid-19. Plans for 2020/21 and 2021/22 were agreed at their Finance & Audit Sub-committee on 9 April 2021 and work for 2020/21 is expected to be complete in early August.




Reports for both bodies are presented to their respective audit committees throughout the year. Where IJB audit reports are particularly relevant to the council they will also be reported to the Scrutiny & Audit committee.

The IJB audit plan for 2021/22 was approved by the IJB Audit Committee in June 2021 and is being presented to the January 2022 Scrutiny and Audit Committee as Appendix 2 to the main Internal Audit Activity Update report. The Angus Council internal audit team is responsible for carrying out the Commissioned Services review. Other work is undertaken by the appointed internal auditor, Tony Gaskin from FTF Audit Services.

## SUMMARY OF 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.

Audit	Overall control assurance	Control assessment by objective	No. of Audit Actions by Priority			
			1	2	3	4
Data analysis – Creditors October and November 2021 reported. Cumulative assurance for the year shown.	Substantial		-	-	-	-
Non-Domestic Rates	Comprehensive		-	-	-	-
IT User access administration – IDOX	Limited		2	2	1	-

In addition to reporting on the results of these audits we have also included an update on new data analysis checking that we have introduced on Systems Access.

### 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) to analyse the data extracted from the Council's systems. No new testing on Payroll has been completed for reporting.

Regular testing on system log-in access that has never been used or has not been used within the last 21 days has now been added to the data analysis work.

### Creditors

Continuous auditing on Creditors (Accounts Payable) covers two objectives:

- registration and authorisation of payments by the same person, and
- duplicate payments.

The cumulative level of assurance given as a result of testing payments registered and authorised by the same person is yellow and checking for duplicate payments is green giving an overall assurance level of **Substantial Assurance**.

Audit testing on creditors has been extended to cover the period October to November 2021 for the first objective above. This did not identify any instances of the same person registering and authorising an invoice, apart from Payments staff who are checking the P2P payments to ensure these are working correctly before it is automated. As a result of the checking Integra shows that they have done both parts.

Duplicate payments were tested for April 2021, with no issues identified. This work was reported previously, but for clarification, further testing for May onwards has not been undertaken as this will be covered in the NFI testing currently under way.

### **Systems Access**

We are currently working with IT colleagues to examine records at October 2021 showing staff who have never logged on to council systems, or who have not logged on in the last 21 days. This work will allow access that is not needed to be cancelled, thereby reducing opportunities for unauthorised access to council systems.

Work on the “never logged on” report identified 4 logins that should be deleted as the people no longer work for the council. Work on the “Not logged on” report is in progress.

## Non-Domestic Rates

### Introduction

As part of the 2021/22 annual plan, Internal Audit has completed a review of the control framework in place governing the billing and collection of Non-Domestic Rates (NDR) in Angus.

### Background & Scope

Non-domestic rates (NDR), also called business rates, are taxes paid on non-domestic properties to help pay for local council services. Scottish Government are responsible for the policy and legislative framework and set the tax rates, but individual councils administer and collect the tax. Net income received is paid to the Scottish Government as a contribution to the national non-domestic pool.

Non-domestic rates are based on the rateable value of a property, which is determined by the independent Scottish Assessors. The amount paid is calculated by multiplying the property's rateable value by a pence in the pound tax rate known as the poundage, set by the Scottish Government. Reliefs such as the Small Business Bonus Scheme may reduce this amount. The business rates poundage for 2021/22 is shown below:

<b>National business rate</b>	<b>2021/22 pence per £</b>
Properties with a rateable value up to £51,000	49.0p
Properties with a rateable value from £51,001 to £95,000	50.3p
Properties with a rateable value from £95,001	51.6p

Business Rates Reductions are given for rates relief under the following categories:

Charitable, Discretionary, Empty property, Rural, Retail, hospitality, leisure and aviation, Disabled, District heating, Fresh start, Transitional Business Growth.

The Council's Revenues & Benefits service administers NDR through the Northgate system. Within the Angus Council area, at 31 March 2021, there was a total of 5,539 live NDR properties and the net amount collected for NDR for 2020/21 was £18.8 million (98.2% collection rate).

The overall objective of this audit is to provide assurance that there is an adequate control framework in place governing the billing and collection of NDR in Angus.

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

### General

- There is an adequate control framework in place governing the operation of the NDR billing and collection system, with comprehensive documented procedures available to all relevant staff which include appropriate user access restrictions and GDPR arrangements.
- A satisfactory back-up regime is in place for the system, and an up-to -date, robust contingency plan is available in the event of IT failure.

### Liability & Billing

- All applicable business properties in Angus have been identified and billed promptly and accurately.
- All discounts, reliefs, exemptions, etc. have been correctly recorded to comply with statutory requirements.
- NDR bills are raised accurately and in a timely manner.
- The NDR system is regularly accurately updated, with new accounts and other changes processed promptly and accurately.

### Collection & Monitoring

- Payments are recorded correctly and timeously within the appropriate account, with procedures in place to address returned/failed Direct Debit payments, and reconciliations carried out for all payments not matched correctly to an NDR account.
- Arrears are identified promptly, and procedures are in place to pursue outstanding debt.
- All NDR write offs, cancellations and refunds are valid and properly authorised.
- Regular reconciliations of the NDR system, bank account and financial ledger are undertaken.
- Systems are in place to regularly monitor and report on collection performance.

## **Conclusion**

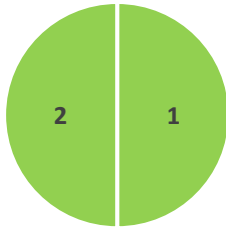
The overall level of assurance given for this report is '**Comprehensive Assurance**'. No recommendations were made as a result of the audit.

## **Overall assessment of Key Controls**

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

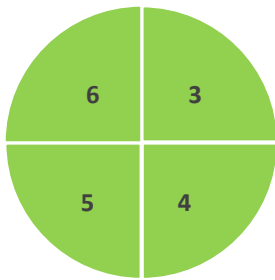
## Overall Assessment of Key Controls

### General



- 1. There is an adequate control framework in place governing the operation of the NDR billing and collection system, with comprehensive documented procedures available to all relevant staff which include appropriate user access restrictions and GDPR arrangements.
- 2. A satisfactory back-up regime is in place for the system, and an up-to-date, robust contingency plan is available in the event of IT failure.

### Liability & Billing



- 3. All applicable business properties in Angus have been identified and billed promptly and accurately.
- 4. All discounts, reliefs, exemptions, etc. have been correctly recorded to comply with statutory requirements.
- 5. NDR bills are raised accurately and in a timely manner.
- 6. The NDR system is regularly accurately updated, with new accounts and other changes processed promptly and accurately.

## Collection & Monitoring



- 7. Payments are recorded correctly and timeously within the appropriate account, with procedures in place to address returned/failed Direct Debit payments, and reconciliations carried out for all payments not matched correctly to an NDR account.
- 8. Arrears are identified promptly, and procedures are in place to pursue outstanding debt.
- 9. All NDR write offs, cancellations and refunds are valid and properly authorised.
- 10. Regular reconciliations of the NDR system, bank account and financial ledger are undertaken.
- 11. Systems are in place to regularly monitor and report on collection performance.

## Key Findings

### Planned Improvements/Changes:

- The NDR staff guidance manual is currently being updated onto One Note.
- Staff are aware that the remaining sections of the bank reconciliation guidance notes which have not been updated are to be completed fully.

# **IDOX User Access Management**

## **Introduction**

As part of the 2021/22 audit plan, Internal Audit has completed a review of the IDOX system user access management controls.

## **Background**

The Council is reliant on the IDOX system for document management of planning and building control applications. 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 ensures that segregation of duties is maintained.

Our review considered the user account and access management controls in place within the Council that ensure the confidentiality, integrity and availability of the IDOX system data. The review also considered the adequacy of user access controls to ensure effective segregation of duties. 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.

## **Conclusion**

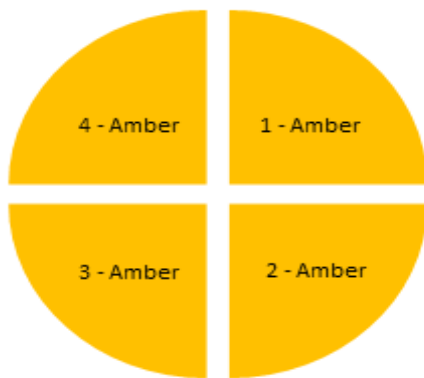
The overall level of assurance given for this report is 'Limited Assurance'.

## **Overall assessment of Key Controls**

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



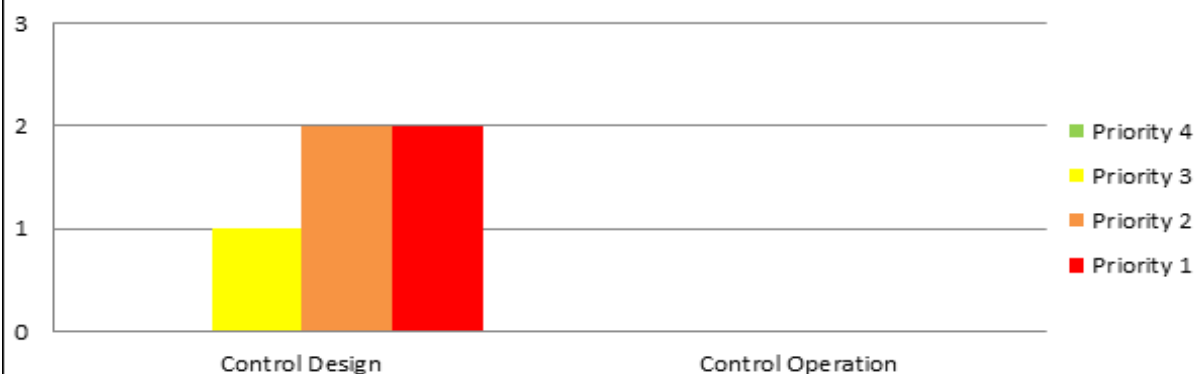
## Control assessment



- 1. There are adequate system administration and user procedures
- 2. There is effective user account management which ensures only authorised users have access .
- 3. User access levels are appropriate and ensure adequate segregation of duties in relation to the administration and operation of the system.
- 4. There are appropriate audit facilities within the system to allow effective and regular monitoring of the application.

## Audit Recommendations summarised by Type & Priority

### Improvement actions by type and priority



There are 5 recommendations in this report; all of which are all design control recommendations (two priority 1, two priority 2 and one Priority 3).

## Key Findings

### Areas Identified for Improvement:

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

We have made 5 recommendations to address high, moderate, and limited risk exposure, including: two Priority 1 recommendations, two Priority 2 recommendations and one Priority 3 recommendation.

A number of weaknesses identified in this report have been raised in similar previous reports. It was agreed that a guidance document would be shared with all Council system administrators to set out expected controls for an effective and secure system. This action was completed but the guidance has not been followed for this system.

**Priority 1**

- There was an absence of controls in place for user access and account management for the IDOX system. We identified approximately 54% of active user accounts had not been used for over one year and an excessive number of users who had highly privileged access to the system. There are also no system administration and user operating procedures for the system.

**Priority 2**

- There is no process in place to monitoring user activity within the system. Functionality exists to identify activity at user and individual document level but this is not used.

**Priority 3**

- The current password configuration for IDOX is not consistent with Council policy. We recognise that the risk is reduced due to the need to gain access to the Council network to be able to use the system.

**Wider Learning Points:**

- The key themes arising from this audit serve to underscore the importance of establishing effective user access and account management procedures for all Council business systems. This is an essential component to preserve the confidentiality, integrity and availability of Council data.
- A key point for consideration will be to consider the benefits of more systems being managed within the Digital & IT team. This should allow for establishment of better practices and consistency in approach.

## 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 21 Internal Audit actions outstanding as at 21 February 2022 (excludes actions for Angus Alive and IJB). CLT 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**.
- Table 2 details all other actions which are **currently in progress** (not yet reached due date).

### Internal Audit Actions - In Progress as at 21 February 2022 (Due date extended)

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	5	2	-	-	8
	2020/21	1	1	-	1	-	3
Legal & Democratic	2019/20	-	1	-	-	-	1
	2020/21	-	-	-	-	-	-
<b>Grand Total</b>		<b>2</b>	<b>7</b>	<b>2</b>	<b>1</b>	<b>-</b>	<b>12</b>

### Internal Audit Actions - In Progress as at 21 February 2022 (Not yet reached due date)

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Not Graded	Grand Total
Infrastructure	2020/21	-	1	-	-	-	1
	2021/22	-	-	-	-	-	-
HR, Digital Enablement, IT & Business Support	2020/21	-	6	1	-	-	7
	2021/22	-	-	1	-	-	1
<b>Grand Total</b>		<b>-</b>	<b>7</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>9</b>

## Summary of Progress – Counter Fraud

Internal control actions resulting from counter fraud reviews are included in Pentana to allow them to be monitored more effectively. Counter Fraud recommendations are not assigned a priority.

### Counter Fraud Actions - In Progress as at 21 February 2022

Directorate	Year review Carried Out	Total
HR, Digital Enablement, IT & Business Support	2019/20	1
	2021/22	-
Vibrant Communities & Sustainable Growth	2019/20	-
	2021/22	4
<b>Grand Total</b>		<b>5</b>

### Counter Fraud Actions - Overdue as at 21 February 2022

Directorate	Year review Carried Out	Total
HR, Digital Enablement, IT & Business Support	2019/20	1
	2021/22	1
<b>Grand Total</b>		<b>2</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>