ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 29 NOVEMBER 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.   RECOMMENDATIONS

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)

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

Current position

3.5   The latest results are included in the Update Report at **Appendix 1** and summarised in section 4 below.

3.6   Two of the eight audits from 2021/22 that were incomplete at June 2022 remain in progress. We expect to report these in January 2023. All 2021/22 work is complete for ANGUSalive and the IJB.

4. SUMMARY OF OCTOBER 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
End User Solutions (IT)	Substantial		-	-	3	-
Continuous auditing Payroll April – September 2022 Outstanding queries from October 2021 to March 2022 resolved with no issues	Comprehensive		-	-	-	-
Continuous auditing Creditors Duplicate Payments September 2022	Substantial		-	-	-	-

5. FINANCIAL IMPLICATIONS

There are no direct financial implications from this report.
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6. EQUALITY IMPACT ASSESSMENT

An Equality Impact Assessment it 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

Appendix 1

Angus Council Internal Audit

Update Report

Scrutiny & Audit Committee

29 November 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 2022 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 2022. The fixed portion of the audit plan agreed in March 2022 is only included where work is already underway.

As previously reported eight audits from 2021/22 were in progress, but incomplete at June 2022. Further progress has been made, with one more of these audits complete and reported below.

A number of 2022/23 audits are in progress and planning is underway for several others.

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

Progress with Internal Audit Work post June 2022

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / *(target in italics)*
Corporate Governance					
Corporate Governance annual review – 2021-22	June 2022	Complete	N/A	N/A	23 June 2022 (Report 157/22)
Review of GDPR compliance (Business Support) (2021/22 plan)	May 2022	Report agreed, awaiting action plan	Substantial		**Oct. 2022**
Project Management	Feb. 2023	Planned			*April 2023*
Review of GDPR compliance (Education & Lifelong Learning)	October 2022	In Progress			*Jan. 2023*
Financial Governance					
Payroll continuous auditing April- September 2022 Outstanding queries from October 2021 to March 2022 resolved with no issues	On-going	Complete	Comprehensive		**Nov 2022** **Nov 2022**
Creditors continuous auditing Duplicate Payments April – June 2022 July -August 2022 September 2022 Same person registration and authorisation	On-going	Complete Complete Complete Awaiting information	Substantial		Aug. 2022 Oct 2022 **Nov 2022**
External Placements (Children)	Feb./Mar. 2023	Not started			*June 2023*
Comfort Funds	Oct./Nov. 2022	In progress			*Jan. 2023*
Programme of random cash counts	Throughout the year	In progress			Throughout the year
LEADER - Rural Funding	TBC	Not started			*TBC*
IT Governance					

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
End User Computing (2021/22 plan)	Feb/March 2022	Complete	Substantial		**Nov 2022**
IT User Access Administration SEEMIS	TBC	Planning			*TBC*
Digital Strategy and Governance	TBC	Planning			*TBC*
Cyber security	TBC	Planning			*TBC*
Continuous auditing – System access Never logged on March 2022 to 18 July 2022	Ongoing	Complete	N/A	N/A	Oct. 2022
Not logged on in last 21 days To 18 July 2022	Ongoing	Complete	N/A	N/A	Oct. 2022
Internal Controls					
Procurement – Exemptions from Tendering process (2021/22 plan)	August 2021	Complete	Limited		Aug. 2022
Fostering, adoption and kinship allowances (2021/22 plan)	May 2022	Complete	Comprehensive		Oct. 2022
Adults with incapacity follow-up (2021/22 plan)	Mar./April 2022	Review stage			*Jan 2023*
PDR Appraisal System	Jan. 2023	Not started			*March 2023*
Mandatory E-Learning Courses	April 2023	Not started			*June 2023*
Procurement	N/A	Removed October 2022	N/A	N/A	Oct 2022
Asset Management					
IT Asset Hardware Inventory	March 2023	Planned			*June 2023*
Surplus Assets	Feb. 2023	Planning			*April 2023*

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Legislative and other compliance					
Corporate parenting (2021/22 plan)	Mar. – May 2022	Complete	Comprehensive		Oct. 2022
Equalities Impact Assessments & Fairer Scotland Duties	Feb. 2023	Not started			April 2023
Private Water Supplies Testing	Jan. 2023	Planned			March 2023
Participatory Budgeting	Dec. 2022	Planning			Jan. 2023
Consultancy and Advice					
Organisational resilience (2021/22 plan)	Oct. 2021 Nov 2022	In progress	N/A	N/A	Jan 2023
Business support review (2021/22 plan)	Dec 2021/Jan 2022	Complete	N/A	N/A	Oct. 2022
Ignite Consultant – Service Design	N/A	Removed October 2022	N/A	N/A	Oct 2022
Firmstep – Post implementation Review of Project Development	TBC	Not started			TBC
Health & Safety	TBC	Planning			TBC

Angus Alive and Angus Health & Social Care IJB

Angus Council's Internal Audit staff work on the audit plans for both ANGUSalive and Angus Health & Social Care IJB. 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 ANGUSalive Annual Internal Audit Plan for 2022/23 was agreed at their Finance & Audit Sub-committee on 25 March 2022 and the first audit is currently in progress.

The IJB Annual Internal Audit plan for 2022/23 was agreed by the IJB Audit Committee in June 2022. Planning for the Council's Internal Audit team input into this year's plan is underway.

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 Priority 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
End User Computing	Substantial		-	-	3	-
Continuous auditing Payroll April – September 2022 Outstanding queries from October 2021 to March 2022 resolved with no issues	Comprehensive		-	-	-	-
Continuous auditing Creditors Duplicate payments September 2022	Substantial		-	-	-	-

End User Solutions

Background

End user solutions refers to applications or software that is developed, managed and used outside of the normal software testing and quality assurance arrangements. It covers the use of and reliance on tools such as Excel spreadsheets and Access databases for business purposes and to inform decision making.

The nature of end user solutions means that it is inherently higher risk as they often do not have the IT general controls in place that off-the-shelf or professionally developed solutions would have. It is also the case that many end user solutions are not well known.

It is important that organisations have an understanding of what end user solutions are in place and that there are appropriate controls to reduce risk associated with their use.

Scope

The review examined the adequacy of internal controls over end user solutions.

For the purposes of this audit, we considered Microsoft Access databases and Excel spreadsheets as end user solutions as well as undocumented solutions that are used in parallel with existing supported applications e.g., use of complex spreadsheets outside of a business system for reporting and decision-making purposes.

- The audit reviewed the arrangements in place against the following control objectives:
- There is an inventory of high-risk end user solutions with adequate procedures to identify solutions for inclusion.
- There are effective logical access controls in place over end user solutions.
- End user solutions have adequate data validation, processing controls and security in place.
- There are effective processes in place to confirm that higher risk end user solutions have adequate change management processes.
- End user solutions are subject to regular backup and have adequate documentation of their design and operation.
- There are adequate reporting and monitoring processes for oversight of higher risk end user solutions.

Conclusion

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

Although our review has identified all control objectives as being 'Amber' rated, we have determined that the overall risk exposure to the Council is low. In the absence of an inventory of end user solutions, we performed a high-level review of Access databases and Excel spreadsheets stored on the Angus Council Storage Area Network (file store). Through this exercise, which did not extend beyond a review of file names, we did not identify any end user solutions that would be considered as high risk to the Council. Taking all of the above into account, we are satisfied that 'Substantial Assurance' is the most appropriate assurance level for this review.

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 is an inventory of high-risk end user solutions with adequate procedures to identify solutions for inclusion.

- 2. There are effective logical access controls in place over end user solutions.

- 3. End user solutions have adequate data validation, processing controls and security in place.

- 4. There are effective processes in place to confirm that higher risk end user solutions have adequate change management processes.

- 5. End user solutions are subject to regular backup and have adequate documentation of their design and operation.

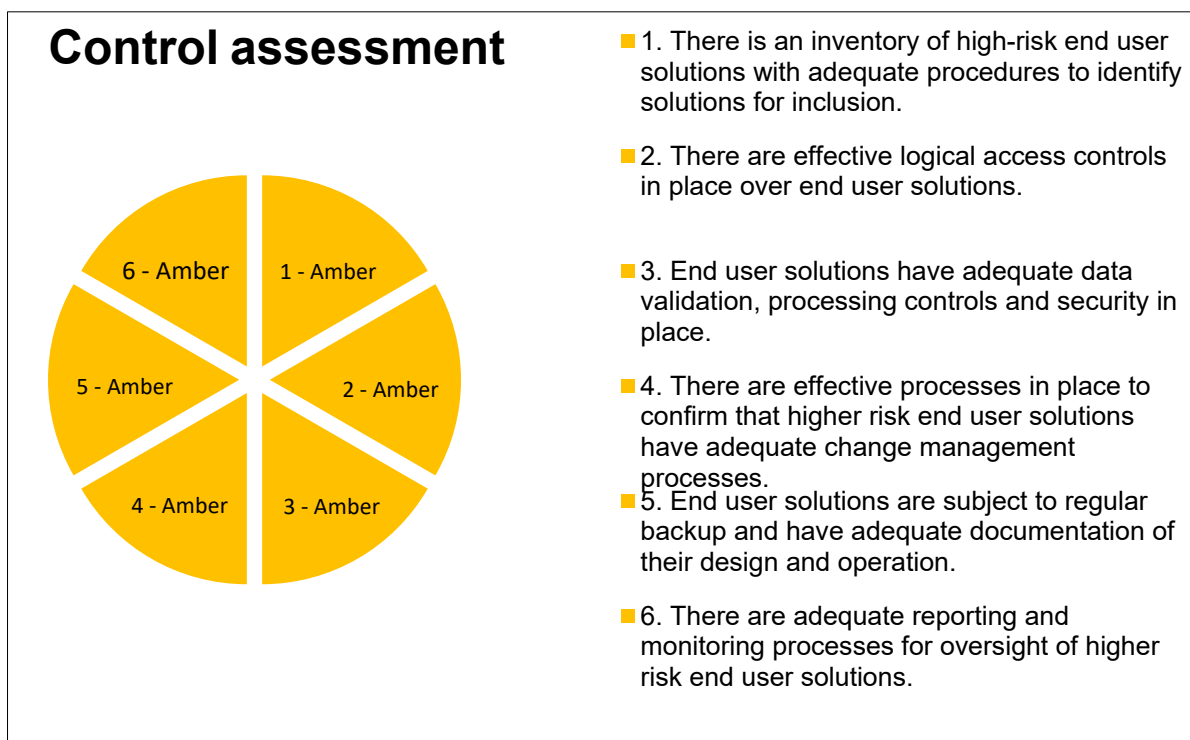- 6. There are adequate reporting and monitoring processes for oversight of higher risk end user solutions.

Audit Recommendations summarised by Type & Priority

Improvement actions by type and priority
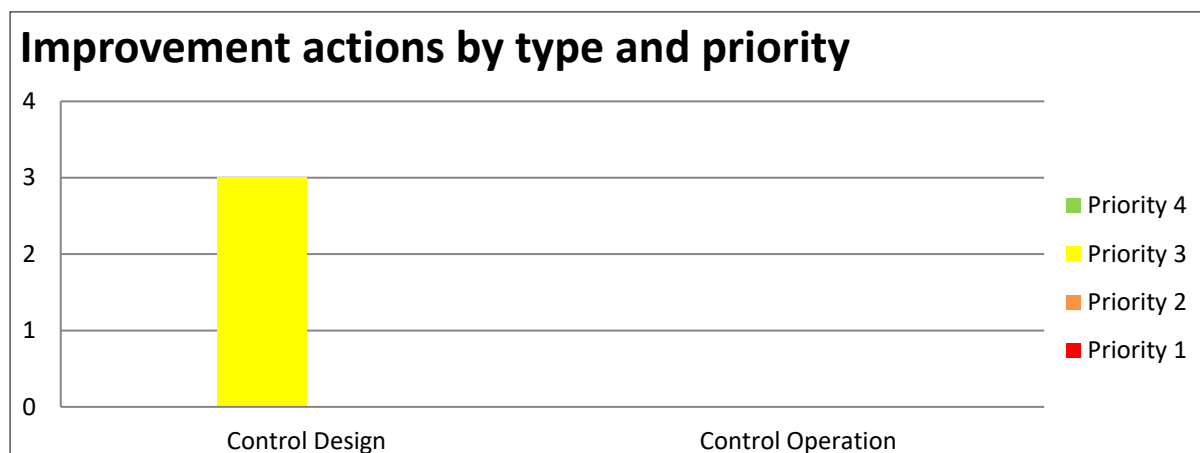
There are three recommendations in this report; all of which are all design control recommendations (all Priority 3).

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 three recommendations to address limited risk exposure weaknesses, all of which are Priority 3 recommendations.

Priority 3

- An exercise has not been undertaken to create an inventory of end-user solutions maintained within the Council. It is recognised the Angus Council Data to Cloud (ACDC) project could be used to support identification of end user solutions that are used to support important business processes/reporting.

- Where higher risk solutions are identified, Service management in conjunction with Digital & IT, should take action to identify appropriate options to migrate the solution to a supported and controlled platform.

- There is a need for formal processes and controls to be established and implemented for low and medium risk end user solutions. Guidelines should be published which set out governance, security, data protection, version control, backup, design documentation and change management requirements

Activity already underway:

The ACDC initiative planned for 2022/23, includes determining which data is to be migrated from the current Storage Area Network (SAN) to new cloud storage. This exercise will seek to migrate only necessary data and review whether there is a need to retain old files.

Wider Learning Points:

The use of end user solutions is not advocated by the Council. A challenge for the Council is that an exercise has not been undertaken to establish whether there are user-developed databases and/or spreadsheets being used in support of important business processes. This presents a risk that adequate controls are not in place to ensure the confidentiality, integrity and availability of data. Management should utilise the ACDC project, with support from IT business relationship and Service managers, to identify instances of databases and spreadsheets which are being used for business purposes and to risk assess these to minimise operational, reputational and financial risk.

Although this is not part of the scope of this project, we identified that a large number of large files were held on the Storage Area Network (SAN) that had not been accessed for a long time, indicating scope for improvement in data management processes. We recognise that the Angus Council Data to Cloud (ACDC) project will aim to address this.

Data Analysis/Continuous Auditing

Continuous auditing analysing data extracted from Council systems is undertaken using the data analysis software, CaseWare IDEA (Interactive Data Extraction Analysis). The Continuous Auditing programme covers:

- Payroll
- Creditors (Accounts Payable), and
- System log-in access.

We are reporting on Payroll and Creditors in November 2022.

Payroll

The cumulative level of assurance given for the period April to September 2022 is **Comprehensive Assurance**. All investigated instances of duplicate NI numbers, duplicate bank account numbers, and high value payments had satisfactory explanations. There were no instances of missing NI numbers identified**.**

We previously reported that 2 high value payments in the period from October 2021 to March 2022, were still being investigated with Payroll. The queries are now resolved with no issues arising.

Creditors – Duplicate Payments

The cumulative level of assurance for duplicate payments the period to September 2022 is **Substantial Assurance.** One duplicate payment of £1,628.28 was identified and a request for repayment has been made.

We are awaiting information to allow testing on same person registration and authorisation.

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 33 (37 at 28 September 2022) Internal Audit actions outstanding as at 21 November 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 November 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	-	4	1	-	-	5
	2020/21	-	3	-	1	-	4
	2021/22	3	2	2	-	-	7
Legal & Democratic	2019/20	-	1	-	-	-	1
	2020/21	-	-	-	-	-	-
	2021/22	1	3	1	-	-	5
Infrastructure	2019/20	-	-	-	-	-	-
	2020/21	-	1	-	-	-	1
	2021/22	-	-	-	-	-	-
Grand Total		**4**	**14**	**4**	**1**	**-**	**23**

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

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Not Graded	Grand Total
SPT & PSR	2020/21	-	-	-	-	-	-
	2021/22	1	-	-	-	-	1
Children, Families & Justice	2020/21	-	-	-	-	-	-
	2021/22	-	-	1	2	-	3
HR, DE, IT & Business Support	2020/21	-	1	-	-	-	1
	2021/22	1	-	-	-	-	1

Directorate	Year						Total
Vibrant Communities & Sustainable Growth	2020/21	-	-	-	-	-	-
	2021/22	-	1	2	-	-	3
Legal & Democratic	2020/21	-	-	-	-	-	-
	2021/22	-	1	-	-	-	1
Grand Total		**2**	**3**	**3**	**2**	**-**	**10**

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 November 2022
(Due date extended)

Directorate		Year review Carried Out	Total
HR, Digital Enablement, IT & Business Support		2019/20	1
Vibrant Communities & Sustainable Growth		2021/22	2
Grand Total			**3**

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.**