

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 9 MARCH 2023

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 2022 (Report 78/22).

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 All of the audits from 2021/22 that were incomplete at June 2022 are now complete and reported, except two - Organisational Resilience and Adults with Incapacity follow-up.

4. SUMMARY OF 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
Comfort Funds	Substantial		2	3	3	2

5. FINANCIAL IMPLICATIONS

There are no direct financial implications from this report.

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

Angus Council Internal Audit



Update Report

Scrutiny & Audit Committee

9 March 2023

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.




All except two of the 2021/22 audits brought forward to 2022/23 (Organisational Resilience and Adults with Incapacity (AWI)) are now complete and reported.


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 / <i>(target in italics)</i>
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	Blank	Blank	<i>April 2023</i>
Review of GDPR compliance (Education & Lifelong Learning)	October 2022	Draft report under review	Blank	Blank	<i>April 2023</i>
Financial Governance					
Payroll continuous auditing April- September 2022 October – December 2022	On-going	Complete Complete	Comprehensive		Nov. 2022 Jan. 2023
Creditors continuous auditing Duplicate Payments April – June 2022 July -August 2022 September 2022 October – December 2022 Same person registration and authorisation	On-going	Complete Complete Complete Complete Awaiting information	Substantial		Aug. 2022 Oct 2022 Nov 2022 Jan. 2023
External Placements (Children)	Mar./Apr. 2023	Not started	Blank	Blank	<i>June 2023</i>
Comfort Funds	Oct./Nov. 2022	Complete	Substantial		Mar. 2023
Programme of random cash counts	Throughout the year	In progress			Throughout the year

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
LEADER - Rural Funding (if required)	TBC	Not started			<i>TBC</i>
Payroll (added November 2022)	Jan. 2023	In progress			<i>April 2023</i>
IT Governance					
End User Computing (2021/22 plan)	Feb/March 2022	Complete	Substantial		Nov 2022
IT User Access Administration SEEMIS	Feb. 2023	Planned			<i>Apr. 2023</i>
Digital Strategy and Governance	Feb./Mar. 2023	Planned			<i>Apr. 2023</i>
Cyber security	TBC	Planning			<i>TBC</i>
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
2023 testing	In Progress				
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	Draft report issued			<i>April 2023</i>
PDR Appraisal System	April 2023	Not started			<i>June 2023</i>
Mandatory E-Learning Courses	March 2023	Not started			<i>June 2023</i>

Audits	Planned	WIP status	Overall control assurance	Control assessment by objective	S&A committee date / (target in italics)
Procurement	N/A	Removed October 2022	N/A	N/A	Oct 2022
Asset Management					
IT Asset Hardware Inventory	March 2023	Planned			<i>June 2023</i>
Surplus Assets	Feb. 2023	Planning			<i>April 2023</i>
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			<i>April 2023</i>
Private Water Supplies Testing	Feb. 2023	Planned			<i>April 2023</i>
Participatory Budgeting	Jan./Feb. 2023	In progress			<i>April 2023</i>
Consultancy and Advice					
Organisational resilience (2021/22 plan)	Oct. 2021 Nov 2022	In progress	N/A	N/A	<i>April 2023</i>
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			<i>TBC</i>
Health & Safety	Jan./Feb. 2023	In progress			<i>April 2023</i>

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 ANGUSalve Annual Internal Audit Plan for 2022/23 was agreed at their Finance & Audit Sub-committee on 25 March 2022 and the audit work is currently in progress.

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

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
Blank	Blank	Blank	1	2	3	4
Comfort Funds	Substantial		2	3	3	2

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.

There is no update at March 2023

Comfort Funds

As part of the 2022/23 annual plan, Internal Audit has completed a review of Comfort Funds within Angus Council establishments to provide assurance that there are appropriate controls in place to ensure effective management of these funds.

Background & Scope

Comfort Funds are defined as funds raised on behalf of an establishment, not belonging to or due to be rendered to Angus Council. Council establishments which hold Comfort Funds are generally residential care homes or day care centres. Comfort Funds are held for the benefit of residents/service users to finance additional expenditure such as outings, birthday gifts, etc. Income for the fund is received in the form of donations, bequests and fundraising activities.

While Angus Council is not directly responsible for the administration, preparation, and audit of the accounts of such funds, the Council's Financial Regulations section 32 "All Voluntary and Unofficial Funds" states that:

32.2 COMFORT FUNDS

Where comfort funds exist, each fund must have in place a constitution, and a management committee comprising staff, service users and carers/friends of service users. Cheques drawn from a fund bank account will require two signatures, one of which must be an employee. Any exception to this must be approved by the Director with operational responsibility for the unit managing the fund. Annual accounts must be prepared and be audited by persons independent of the daily operation of the fund. Employees of the service responsible for the unit managing the fund cannot act as auditors. Audited accounts must be displayed or otherwise made readily accessible to the public. If it is found that a fund is not being managed appropriately, or that controls are not being observed, or that the fund is not being used for the benefit of those it is supposed to serve, the Director of that service will arrange for the fund to be dissolved.

Scope

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

- There is adequate guidance to assist staff in the management of comfort funds, and this guidance is in line with Angus Council's Financial Regulations
- The guidance is being adhered to by staff
- All items of income and expenditure are adequately recorded and authorised
- Audited annual accounts are available to the public.
- Appropriate procedures are in place for the return of funds held on behalf of residents in supported accommodation at Kinloch Court, Provost Johnston, and St. Drostan's.

The audit also assessed whether the guidance and Financial Regulations relating to Comfort Funds requires to be reviewed/updated to allow alternative forms of payment where cheques are no longer accepted.

The locations where comfort funds are held in adult services are, Seaton Grove, Arbroath, Kinloch Residential and Independent Accommodation, Carnoustie, The Gables, Forfar and Lochlands, Lilybank and Rosehill Resource Centres, Arbroath, Forfar, and Montrose. Beech Hill Care Home also had a Comfort Fund and on closure of the facility the monies were split between Seaton Grove and Kinloch Residential Unit.

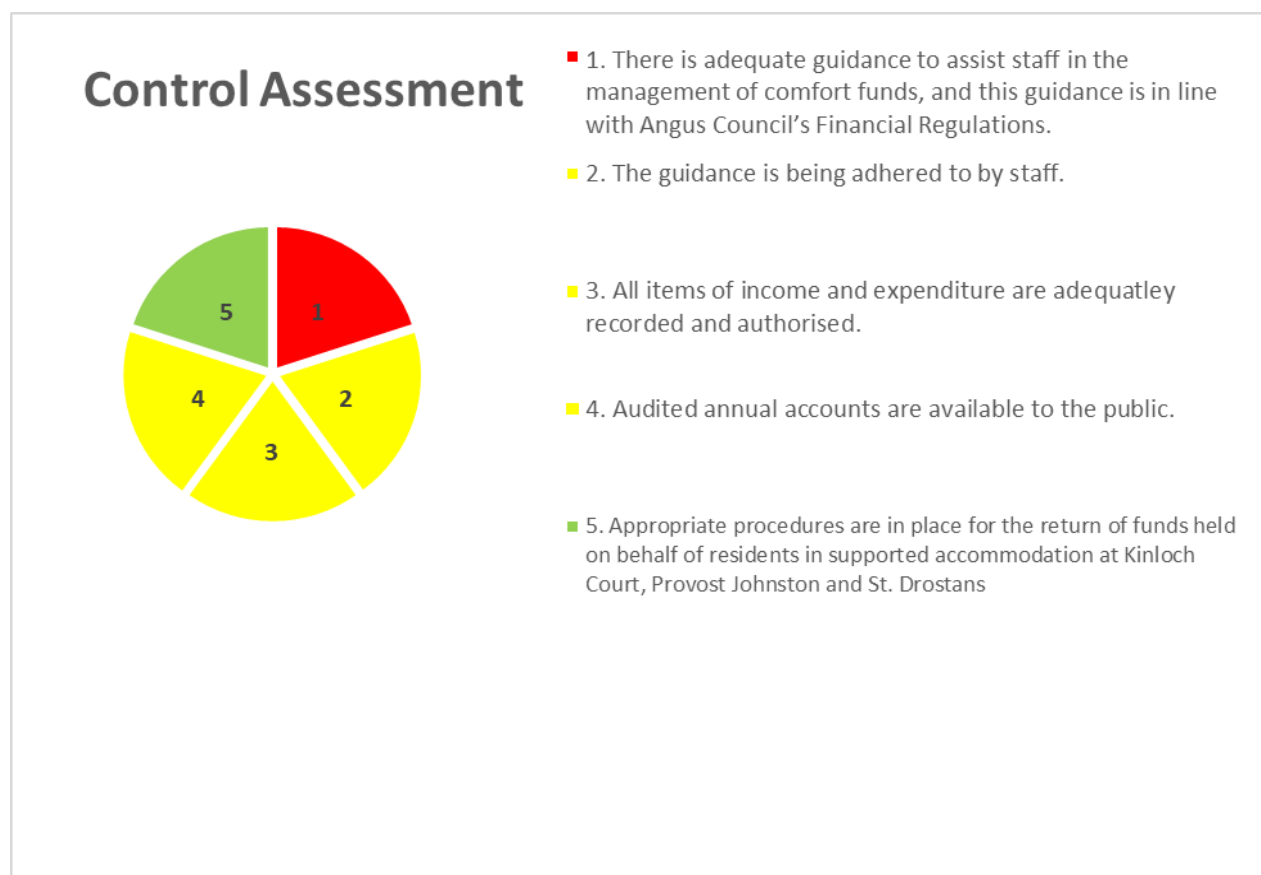
The Service Leader, Accommodation & Home Care, AHSCP informed Internal Audit that funds held for the residents in supported accommodation at Kinloch Court, Provost Johnston, and St Drostan's were going to be given back to the residents as there are no processes in place for managing a comfort fund. The process for returning these funds to residents was reviewed during the course of the audit.

Conclusion

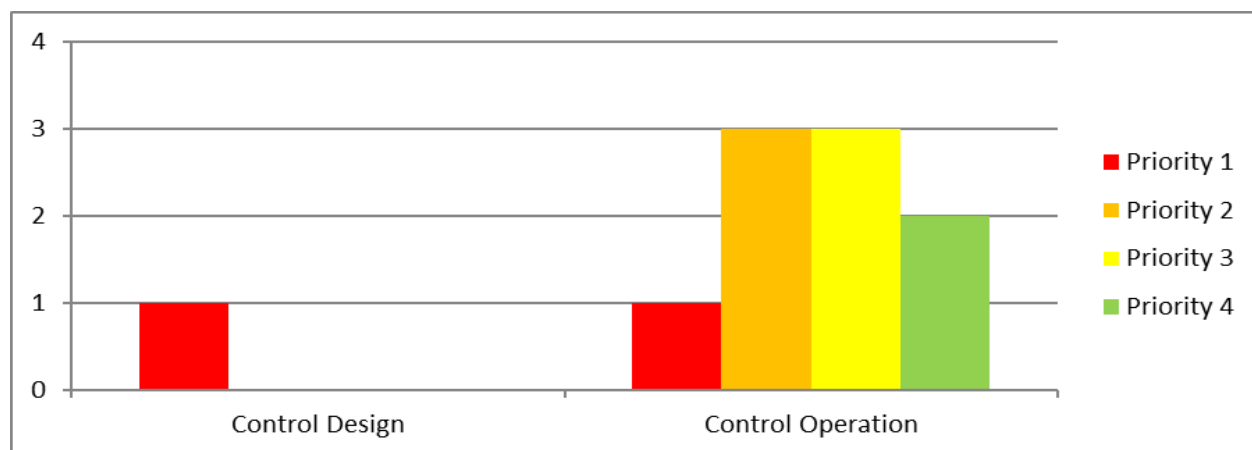
The overall level of assurance given for this report is '**Substantial Assurance**'.

Overall assessment of Key Controls

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



Audit Recommendations summarised by Type & Priority



There is one design control recommendation priority 1 and nine operational control recommendations in this report, one priority 1, three priority 2, three priority 3 and two priority 4.

Key Findings

Good Practice:

- Weekly financial checks are performed by Senior Staff and recorded on a separate schedule signed by the Manager at The Gables, Forfar.
- Operational financial monies audits were completed for Lochlands, Lilybank and Rosehill Adult Resource Centres in February 2022.

Areas Identified for Improvement:

We have made 10 recommendations to address high, medium, and low risk exposure which are:

Level 1

- The 2013 guidance on managing Comfort Funds should be reviewed, updated and uploaded onto the AHSCP intranet for all staff to adhere to, reflective of current good practice. Staff should be made aware of the updated guidance, and training on the Comfort Funds procedures should be implemented by Managers where necessary.
- A register of funds should be held within the AHSCP service as detailed in section 32.3 of the Financial Regulations.

Level 2

- The name of the Comfort Fund bank account should reflect the name of the care centre and cheque signatories should be updated for people who are available to sign cheques where cheques are still being used.
- Staff should be reminded F1, or Comfort Fund vouchers, should be authorised at time of completion or asap.
- Financial Regulations to be updated with debit card instructions as a form of payment from Comfort Funds.

Level 3

- Staff should be reminded to complete monthly reconciliations of the Comfort Fund income and expenditure to the relevant cash held and bank statements, remembering to record when the check has been completed and by whom, signed as checked by another member of staff.
- The accounts for The Gables and Kinloch Care Independent Unit should be audited in line with Financial Regulations, section 32.2.
- To ensure the Financial Regulations are being followed, regular checking of reconciliation of funds should be performed by Finance, or the Financial Regulations should be altered to put the onus on the establishment to ensure regular reconciliations are performed and authorised by a manager.

Level 4

- Where the constitution details the Comfort Fund Management Committee these should be updated to reflect the current committee.
- Electronic records should be introduced for income and expenditure with running balances for both cash and cheques detailed.

Risk

The Corporate Risk Register held on Pentana does not include any risks specifically relating to Comfort Funds.

The direct risk is that Comfort Funds may be used for inappropriate or unauthorised purposes, and that inadequate procedures and controls could result in misappropriation of funds and reputational damage to the Council.

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 38 (30 at 31 December 2022) Internal Audit actions outstanding at 1 March 2023 (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 at 1 March 2023 (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	-	2	-	1	-	3
	2021/22	3	2	2	-	-	7
Legal & Democratic	2019/20	-	-	-	-	-	-
	2020/21	-	-	-	-	-	-
	2021/22	1	4	1	-	-	6
Infrastructure	2019/20	-	-	-	-	-	-
	2020/21	-	1	-	-	-	1
	2021/22	-	-	-	-	-	-
Grand Total		4	13	4	1	-	22

**Internal Audit Actions - In Progress at 1 March 2023
(Not yet reached due date)**

Directorate	Year Audit Carried Out	Level 1	Level 2	Level 3	Level 4	Not Graded	Grand Total
Children, Families & Justice	2020/21	-	-	-	-	-	-
	2021/22	-	-	1	1	-	2
	2022/23	-	-	-	-	-	-
HR, DE, IT & Business Support	2020/21	-	1	-	-	-	1
	2021/22	-	-	-	-	-	-
	2022/23	-	-	-	-	-	-
Vibrant Communities & Sustainable Growth	2020/21	-	-	-	-	-	-
	2021/22	-	-	2	-	-	2
	2022/23	-	-	-	-	-	-
Finance	2020/21	-	-	-	-	-	-
	2021/22	-	-	-	-	-	-
	2022/23	-	1	-	-	-	1
AHSCP	2020/21	-	-	-	-	-	-
	2021/22	-	-	-	-	-	-
	2022/23	3	2	2	3	-	10
Grand Total		3	4	5	4	-	16

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 1 March 2023

Directorate	Year review Carried Out	Total
Vibrant Communities & Sustainable Growth	2021/22	2
Grand Total		2

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.