

Internal Audit Update Report

Scrutiny & Audit Committee – 24 September 2013



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Introduction

This report presents the progress of the internal audit activity within the Council up to 27 August 2013. This report provides:

- an update on progress with the 2012/13 and 2013/14 Internal Audit Plans;
- summary findings and recommendations of those reports issued since the last Scrutiny and Audit Committee meeting (full copies of the Internal Audit reports are available to members on request);
- an update on work in following up on recommendations from previous reports; and
- the Scottish Local Authority Chief Internal Auditors Group (SLACIAG) Annual Report for 2012/13.

Audit Plans Progress Report

2012/13 Internal Audit Plan

All the remaining audits from the 2012/13 plan have been completed. These are:

- A92 PFI Contract Management
- E-Tendering
- Contract Letting Process - Housing Responsive Repairs
- IT Data Centre
- Property Services System (Archimedes/Badger)
- Theatre Events
- Travel & Subsistence

Summaries of the more material audit findings are provided in the Summary Findings of Internal Reports section of this report, starting on page 5.

2013/14 Internal Audit Plan

Two audits have been completed. The dates when reported to Committee are in brackets.

- 2012/13 Corporate Governance (June 2013).
- Year-end stock counts (August 2013)

Seven audits are in course:

- Self-Directed Support
- School Catering
- Creditors (non-PECOS ordering)
- E-Mail accounts
- Budget Monitoring
- Collaborative and Joint Arrangements – Angus Care and Repair
- Counter Fraud follow-up

Briefs have been agreed for two further audits, Equalities and Income Management.

Summary Findings of Internal Audit Reports

This section provides a summary of the more material findings of audit reports issued since the last meeting. It also provides information on the number of recommendations made within each report. Recommendations are ranked in relation to 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.

A92 PFI Contract Management

Level 1	0	Level 2	5	Level 3	2
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The Council entered into a PFI (Private Finance Initiative) arrangement with Claymore Roads Limited (Claymore) in 2003 for the design, build, financing and operation (DBFO) of the upgrade to the A92 between Dundee and Arbroath. The upgraded road became operational in 2005.

Monthly performance information against the contract is received from BEAR Scotland, who are sub-contracted by Claymore to maintain and operate the A92 route covered by the PFI contract. This includes traffic counting statistics which are used in the calculation of the monthly unitary charge.

Our audit work sought to identify potential opportunities through which Roads division management can improve their ability to monitor the service delivery from Claymore as part of the company's operation of the A92 PFI contract.

The review also sought to provide practical and cost effective measures through which the Roads division can implement their own sustainable performance review and monitoring processes around Claymore's service delivery.

We identified that a range of additional measures could be adopted by the Roads division to enable more robust and efficient monitoring of the A92 contract. The agreement between the Council and partner organisations makes provisions which are not currently routinely utilised in full. Additionally, BEAR Scotland holds additional information regarding the operation and maintenance of the A92 that is not currently specified within the A92 contract, but which could be made available to the Roads division through discussion and "local agreement".

E-Tendering

Level 1	0	Level 2	2	Level 3	2
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The Property Division of the Communities Department operate E-Tendering through the Public Contracts Scotland Website. This has been promoted by the Procurement Manager as part of the roll out of improved procurement arrangements across the Council and in line with the Scottish Government's procurement reform programme.

Public Contracts Scotland is the national advertising website for Scottish public sector

organisations to post:

- contract notices, contract award notices and similar formal notifications for Official Journal of the European Union (OJEU) notices (contracts over the European directive thresholds)
- small sub-EU threshold contracts commonly known as site notices
- low value non-advertised quotations

It also allows contracting authorities to receive suppliers' responses to those invitations to quote/tender electronically via the website's secure tender postbox.

The results of the audit have identified areas of good practice including:

- the detailed E-tendering guidance notes that Property have produced provide a step-by-step guide to the documents and processes required in its operation.

The results of the audit tests demonstrate that the objectives of the audit have been met. No level 1 recommendations have been made in this report. A small number of less material recommendations have been made and are considered in the body of the report.

We also identified an opportunity for the arrangements for lodgement of tenders using the Public Contracts Scotland secure tender postbox to be extended to other departments/divisions which could provide savings in time spent on tenders. In particular, the use of E-tendering could be used by Roads in relation to the roads maintenance and improvement programmes.

Contract Letting Process - Housing Responsive Repairs

Level 1	0	Level 2	4	Level 3	1
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A review of the contract letting process for the provision of a responsive repairs service to council housing tenants has been conducted as part of the 2012-2013 audit plan.

Procurement is an increasingly complex process. Challenges to procurement decisions (both legal and informal) are becoming more common and more costly for purchasing bodies to deal with. Public bodies must be able to demonstrate that they achieve value for money from their procurement process whilst providing transparency in their contracting processes.

It is essential that there are formal and consistent processes in place that govern the contract letting and award process. This will ensure that the Council can demonstrate a fair and equitable approach to all suppliers that is robust against challenge. It is also essential that all procurement processes are applied either by professional procurement officers (who are trained in and familiar with these process requirements) or by appropriate specialists under the supervision of the procurement officers.

This audit has considered the adequacy of the procurement process in relation to the provision of a responsive repairs service to council housing tenants to confirm that it was compliant with required Angus Council practice. The contract was awarded in April 2010.

The results of the audit have identified areas of good practice. In particular:

- Clear terms for the assessment of responses were included within the pre-qualification questionnaire (PQQ).
- Supplier selection at PQQ stage was on the basis of correct supplier selection criteria related to supplier's financial and economic standing and their technical and professional capacity and capability. Bid evaluation was on a purely financial basis with the required level of technical quality assured through specification requirements.
- The assessment of the pre-qualification questionnaires was carried out by suitably qualified officers.
- Service delivery against the framework contract is formally monitored on a quarterly basis.

The results of the audit tests demonstrate that the objectives of the audit have been met. No level 1 recommendations have been made in this report. A small number of less material recommendations have been made which principally relate to the administrative matters of the contract letting process.

IT Data Centre

Level 1	1	Level 2	2	Level 3	3
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In early 2012, the Council approved the business case for the build of a new data centre adjacent to the main Headquarters building. This was to provide improved resilience and recovery capability for the Council's IT services in the event of a disaster.

Our audit was performed in two stages:

Stage 1 where we sought to gain assurance that there were adequate plans in place for the project management of the build of the data centre. A management letter was produced and issued to IT management to allow them to take appropriate actions in response to observations identified at this stage of the review. This was reported to management in November 2012.

Stage 2 (this stage) has sought to gain assurance that there were adequate plans and governance arrangements in place for the fit out of the new data centre and the migration of existing infrastructure to it.

The work carried out as part of the audit identified a number of areas of good practice. In particular:

- Formal detailed plans have been maintained and updated regularly to reflect any additional tasks which have to be included. The plans also contain details of completed tasks. The plans explicitly detail the implementation stage and the individual tasks which are required in order to complete the fit out and migration.

- There was formal communication posted on the Council intranet so that all relevant personnel were aware of the impact of the planned migration to the new data centre. In addition, email communication was issued to stakeholders to inform them of the impact on IT services as the project commenced.
- The IT Priorities and Project Board has acted as the Project Board for the data centre fit out and migration. Project Board meetings have been held on a scheduled monthly basis and by arrangement if decisions were required. The project team met weekly. Monthly highlight reports were also produced which detailed risks and issues raised and we confirmed that these were discussed at the Project Board meetings.

The level 1 recommendation relates to:

- IT Disaster Recovery and Business Continuity Plans have yet to be created for the new data centre and the infrastructure contained within it. This was referred to in the management letter issued in November 2012 but has still not been put in place. Given the Council's requirement for availability of IT systems and the increased reliance on the data centre's availability it is important that formal IT Disaster Recovery and Business Continuity Plans are in place to deal with any critical issues which may arise.

Property Services Systems (Archimedes/Badger)

Level 1	1	Level 2	8	Level 3	1
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A review of the core Property Services business system, Archimedes/Badger, has been conducted.

The Council operates the Archimedes/Badger property management system. This is the core property management system which is also heavily used for job planning and management reporting.

Archimedes/Badger is a modular system which interfaces with the Council's Integra finance system. It is therefore important that the interface between both systems is effectively managed.

The work carried out as part of the audit identified a number of areas of good practice. In particular:

- There are robust controls in place for system interface transactions between Archimedes/Badger and Integra.
- There is system validation during data input and processing.
- A formal change control process exists between Property Services and third party supplier DeCAL. A dedicated test environment exists alongside the production system.

The level 1 recommendation relates to:

- Management should ensure that the server (hosting the system) is moved to the new Council data centre (from Bruce House) as soon as possible. This will ensure that the server is held in a secure location and enhance the resilience of the system through the environmental protection measures that are in place.

Theatre Events

Level 1	5	Level 2	4	Level 3	0
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As part of the 2012/13 audit plan Internal Audit has undertaken a review of the arrangements in place relating to the financial and operational management for the commissioning of acts and shows at the Webster Memorial Theatre.

The Cultural Services Division of the Communities Directorate is responsible for the operation of the Webster Memorial Theatre within Angus. As part of its remit, there is a requirement to commission acts, shows and a programme of events which will be presented at the Theatre.

The results of the audit have identified areas of good practice including:

- There is annual review of theatre hire charges which are formally approved.
- Invoices were issued to customers timeously after productions were completed.
- A complete audit trail of documentary evidence was retained to support invoices and associated recharges.

The level 1 recommendations relate to:

- To ensure a legally binding formal agreement exists for shows commissioned, Management should introduce an appropriate contract signing procedure which ensures that contracts are signed off by the Senior Service Manager or Head of Service. The Arts Officer, who is involved in the contract negotiations, should ensure that all contracts are signed on behalf of Angus Council by a Senior Officer and by the Artiste's representative.
- Production Company contracts should not be entered into by Theatre staff as financial and operational risks to Angus Council may not have been adequately assessed or reviewed by Legal and Democratic Services prior to negotiation and signing of the contract.

The standard Angus Council contract should be used wherever possible, with the use of a production company contract allowed only in exceptional circumstances and after agreement with Legal and Democratic Services.

- Management should request an exemption from complying with the terms of the Financial Regulations in respect of commissioning shows and production contracts.

Additionally, due to the semi-commercial nature of productions commissioned, all

contracts entered into between the Council and Artiste should be recorded by Theatre staff on the Angus Council Contract Register to comply with Financial Regulations and provide transparency and corporate monitoring of the Theatre contracted spends.

- Written procedures are introduced in relation to the collection and administration of *Performing Right Society* (PRS) charges by Theatre staff to ensure a correct and consistent approach is followed when processing collection and payment of PRS charges.
- In light of the increasing budget issues affecting Council services, it is recommended that the existing Theatre Business Plan is reviewed to ensure the Plan best reflects the current and future strategic and operational needs of the Theatre.

Travel & Subsistence

Level 1	0	Level 2	3	Level 3	0
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The objective of the audit was to test compliance in terms of the correct payment of travel and subsistence expenses to staff within the Council.

The samples for audit testing were obtained utilising the IDEA computer data analysis audit program. A sample was extracted from payments made between June and November 2012. To complete the review an abridged sample of 25 claims was selected for further examination.

The results of audit testing for the 2012/13 period show that there are still a significant number of errors being identified. Only 24% of the claims included in the sample contained no errors although some of the errors identified were of a clerical nature which had no impact on the value of the claims. Errors in 28% of the claims reviewed had some impact on the value of the claim paid.

The main issues identified related to the home to base mileage not being applied correctly and an apparent excess in mileage claimed for journeys recorded, linked to a lack of supporting detail about these journeys, to support the mileage claimed.

The level of errors identified from the sample examined indicates that there is a lack of detailed review and checking by either the authorised signatory or the person signing as checking the calculations to confirm the accuracy and reasonableness of the mileage claims.

Follow-Up Audits – Update

Internal audit review the implementation of recommendations from previous audits, using the agreed action plan as the base for the follow-up audit. In some cases, the follow-up work is undertaken as part of a current audit and reported together with the current audit findings. In others, a separate audit is carried out and an audit report or memorandum is issued to the client.

Procurement – Off Contract Buying Follow Up

Internal Audit has completed a follow-up of the recommendations detailed in report 10-44 Procurement Off-Contract Buying. The report was issued to management in September 2011 and was considered by the Scrutiny & Audit sub-committee in November 2011. .

The findings of the follow up audit are summarised below:

Recommendation Grades	Number in original report	Number now fully implemented	Number outstanding
Level 1	2	1	1
Level 2	4	3	1

The level 1 audit recommendation that has not been addressed relates to the production of reports for senior managers to highlight off-contract spend within their departments. The Procurement Section developed a report for 2010/11 which was issued to departmental managers for comment. However, this was a very labour-intensive process and provided only limited data accuracy. There are no plans to repeat the exercise in the near future. The recommendation was designed to address the risk that persistent off contract buying could leave the Council open to legal challenge and could result in the Council failing to achieve best value. The recommendation has not been closed in the internal audit recommendation database and management should consider how these risks can be addressed.

The level 2 recommendations in report 10-44 related to four specific locations where the original audit had identified significant levels of off-contract purchasing. Our follow-up audit confirmed that there have been improvements at three of the locations, but that several schools are still making off-contract purchases.

A new level 2 action has been agreed with management for additional monitoring arrangements to be put in place to ensure that all schools are making use of approved corporate contracts as far as possible.

Income – Direct Debit Collections

Internal Audit has completed a follow-up of the recommendations detailed in report 11-12, Income – Direct Debit Collections. The report was issued to management in February 2012 and was considered by the Scrutiny & Audit sub-committee in April 2012. The recommendations are summarised in the table below

Division	No. of Level 1 Recs	No. of Level 2 Recs	No. of Level 3 recs	Update at July 2013
Housing	1	2	1	All completed
Environmental Management	1	3	0	All completed
Finance	2	0	0	1 completed. 1 outstanding – revised completion date 30/9/13
Leisure Services	0	6	0	2 completed. 4 outstanding – revised completion date 31/8/13

The outstanding level 1 recommendation for Finance relates to the development of guidance on the minimum level of controls for direct debit income, to ensure consistency across all departments / divisions.

Three of the Leisure recommendations in report 11-12 had been recorded by management as actioned / complete when the action plan was agreed in February 2012. The follow-up work identified that only one of these had in fact been completed and two were still outstanding in July 2013.

Scottish Local Authority Chief Internal Auditors Group (SLACIAG)

SLACIAG is the professional networking group for Local Authority Heads of Audit. The purpose of the group is to develop and improve the practice of Internal Audit in Scottish local authorities, police, fire and public transport bodies. It achieves this by meeting to discuss issues of common concern, commissioning work to develop ideas, sharing good practice, working in partnership with other professions/governing bodies and promoting SLACIAG as the representative body for internal audit in public authorities.

SLACIAG produce an annual report on their activities and a copy of the 2012-2013 report is attached at Appendix 1 for information.

Appendix 1 – SLACIAG Annual Report 2012/2013



ANNUAL REPORT FROM THE CHAIR – 2012/2013

1. INTRODUCTION

- 1.1 SLACIAG comprises the Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport.
- 1.2 The overarching vision of the Group is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of Local Authority Internal Audit, governance, and operations. In support of that vision we have four key objectives, namely:
- to raise our profile with key stakeholders and to be recognised as the logical, respected, and essential source of opinion on governance, risk, and control within Scottish Local Government;
 - to identify areas of Internal Audit work where a pan-Scotland or inter-Authority approach will bring benefits to our people, clients, and stakeholders;
 - to consider the development and training needs of our people; and
 - to seek statutory recognition for the role of Internal Audit in Scotland.
- 1.3 The purpose of this Annual Report is to summarise our activity and key achievements during 2012/13.

2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2012/13

- 2.1 SLACIAG met three times during 2012/13:
- 09 August 2012 at Angus Council;
 - 09 November 2012 at CIPFA Education and Training Centre in Edinburgh; and
 - 22 March 2013, also at CIPFA Education and Training Centre in Edinburgh.
- 2.2 All three meetings were very well attended, with lively discussion and debate leading to good progress against the Group's key objectives.
- 2.3 In addition to allowing members to discuss relevant Internal Audit developments and issues, external speakers were invited to meetings to deliver presentations on topics such as:
- Audit Scotland's role in the audit of Community Planning, Local Area Networks, Shared Risk Assessments, and Assurance and Improvement Plans;
 - DWP's Single Fraud Investigation Service and corporate fraud;
 - writing for impact;
 - social media and cloud computing; and
 - SLACIAG as a Special Interest Group of CIPFA.

- 2.4 In last year's Annual Report I provided an update and position statement against each of the four key objectives set out at paragraph 1.2 above. This was based on a Leadership, Quality, and Performance Action Plan developed following our 2011 Conference. In this report, I'd like to focus in on some of our achievements during 2012/13, with a revised and updated Action Plan to be developed on the basis of discussions at our June 2013 Conference in Dundee.
- 2.5 Probably the most significant development during 2012/13 was the formalisation of SLACIAG's status as a Special Interest Group of CIPFA Scotland. This partnership will be mutually beneficial, not least through SLACIAG's representation on the CIPFA Scottish Branch Committee. SLACIAG have always sought to work closely with our stakeholders, and as leaders in public sector governance and control, CIPFA Scotland and SLACIAG sit well together.
- 2.6 As part of the link up with CIPFA, SLACIAG adopted an updated Constitution at its AGM in August 2012. This was subsequently submitted to, and approved by, the CIPFA Scottish Branch Committee. At the same time, SLACIAG took the opportunity to invite a number of new members onto our own Management Committee, and confirmed existing Chair, Vice Chair, and Secretary appointments. A new Treasurer was appointed to replace the previous incumbent who wished to step down from the post.
- 2.7 Prior to stepping down, the Treasurer presented SLACIAG's audited accounts for 2011/12. These show a healthy financial position.
- 2.8 SLACIAG continues to view the training and development of its members, and their teams, as being of paramount importance. Over the course of 2012/13 a Training Needs Analysis exercise, using the CIPFA Excellent Internal Auditor framework, was undertaken to identify potential training and development needs of Local Authority Internal Auditors (a similar exercise was undertaken by the Computer Audit Sub-Group in relation to computer auditors). This will allow SLACIAG to source relevant and best value training for its members.
- 2.9 SLACIAG was also active in the run up to the launch of the joint CIPFA / CIIA Public Sector Internal Audit Standards on 01 April 2013. The Standards replace the previous CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006, and are fundamental to how SLACIAG members, individually and collectively, require to deliver Internal Audit services within our Councils.
- 2.10 As a key stakeholder in the development of the Standards, SLACIAG was asked to provide representation on the UK Internal Audit Standards Advisory Board and, as Chair of SLACIAG, I was delighted to act as a Practitioner Member of that Board.
- 2.11 Of equal, if not more, importance, however, was the collective input SLACIAG provided via its formal response to the consultation on the draft Standards and related Application Note. The Standards have far reaching implications for Local Authority Internal Auditors, not least through the requirement for periodic external quality assessment, and it is pleasing that SLACIAG were able to take the opportunity of helping shape the way in which our services will, in future, be delivered.

3. COMPUTER AUDIT SUB-GROUP

- 3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and issues. This includes raising awareness of new standards, updates to legislation, and new and current topics of interest.
- 3.2 During 2012/13 CASG met three times:

- 26 April 2012 at Falkirk Council;
 - 23 August 2012 at Argyll and Bute Council; and
 - 22 November 2012 at Dundee City Council.
- 3.3 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group. The purpose of these presentations is to keep the group updated and informed on computer audit developments, resources, and techniques.
- 3.4 In the past year, presentation topics have included:
- auditing databases;
 - GSX code of compliance;
 - cloud computing;
 - social media in the workplace.
 - cyber security issues;
 - electronic document storage;
 - Bring Your Own Device (BYOD);
- 3.5 The group, at the request of SLACIAG, also prepared competency matrices for the IT Audit Assistant, IT Auditor, and Lead IT Auditor roles.
- 3.6 CASG meetings continue to be well attended and cater for computer audit knowledge from novice through to professional level.

4. SUMMARY

- 4.1 The year 2012/13 has again been a successful and productive one for SLACIAG. The link up with CIPFA Scotland will, undoubtedly, bear fruit for both partners, and will allow SLACIAG to further develop its voice and brand. Allied to that, SLACIAG's continued ability to tap into the combined knowledge and experience of its members means that the vision of becoming the voice of Internal Audit across Scottish Local Authorities is now ever more achievable.
- 4.2 The June 2013 Conference is an important event for SLACIAG. By opening up the Conference to all Scottish Local Authority Internal Auditors, and by attracting a top quality line up of speakers and presenters, SLACIAG is making a clear commitment to the furtherance of the profession at a time when its value to our organisations cannot be overstated or under estimated.
- 4.3 As with last, and previous, years, I'd like to sign off by thanking the Executive Committee for all their support and assistance throughout the year and thanking all SLACIAG members for their continued support of the Group.

Janine Wilson (Service Manager - Governance, Angus Council)
Chair of SLACIAG
10 June 2013

