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**Report to: Audit and Finance Committee**

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**Date of Meeting: 07 September 2017**

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**Subject: Internal Audit Annual Assurance Report 2016/17**

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**Report by: Head of Resources & Governance**

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## **1.0 Purpose**

- 1.1. This report provides an overall assurance on the Council's arrangements for risk management, governance, and control, based on Internal Audit work undertaken during 2016/17.

## **2.0 Recommendations**

2.1. The Committee is asked to:

- note that Internal Audit work undertaken supports a balanced and evidence based assurance;
- note that Internal Audit can provide **Reasonable** Assurance on the Council's arrangements for risk management, governance, and control for the year to 31 March 2017; and
- note that a self assessment, and subsequent external quality assessment, of Internal Audit's compliance with Public Sector Internal Audit Standards will be undertaken during 2017/18.

## **3.0 Considerations**

3.1. It is senior managers' responsibility to establish and maintain effective and proportionate arrangements for risk management, governance, and control. Internal Audit is not an extension of, or substitute for, operational management.

3.2. The Public Sector Internal Audit Standards 2013 (the Standards) require the Internal Audit Manager to prepare an Annual Assurance Report. This should include:

- a statement on the overall adequacy of the Council's control environment;
- a summary of Internal Audit work undertaken during the year; and

- a statement on the Internal Audit Section's compliance with the Standards.

3.3. This report has been prepared to meet those requirements.

#### **4.0 Overall Adequacy of the Council's Control Environment and Summary of Internal Audit Work Undertaken During 2016/17**

4.1. Eleven main assignments were completed by Internal Audit during 2016/17. While this falls short of completion of all planned Internal Audit work, it does support a balanced and evidence based opinion on the overall adequacy of the Council's control environment.

4.2. Internal Audit use a set of Assurance Categories. A summary of the Assurance Categories used during 2016/17 is set out at **Appendix 1**.

4.3. On the basis of the work undertaken, Internal Audit is able to provide **Reasonable** Assurance in relation to the Council's arrangements for risk management, governance, and control for the year to 31 March 2017.

4.4. Internal Audit's Annual Plan for 2016/17 was agreed by Resources and Audit Committee on 25 February 2016. The Plan proposed 19 main assignments. The departure of the Internal Audit and Fraud Team Leader during the year, as well as various other staffing changes, impacted on the delivery of the Plan. 11 of the 19 planned assignments were completed.

4.5. As Members are aware, over the course of the year a consortium audit arrangement was established with Falkirk Council for the provision of Internal Audit services (from 01 April 2017). As part of the transition towards this model of delivery, the Internal Audit and Fraud Team Leader, Head of Resources and Governance, and Falkirk Council's Internal Audit Manager discussed established arrangements for planning, delivering, and reporting on Internal Audit work. On the basis of those discussions, and on the review of working papers and reports, it is clear that work undertaken during 2016/17 can be relied upon in providing the assurance at paragraph 4.3 above.

4.6. Details of the assignments completed during the year are set out at **Appendix 2**, with a summary of the scope of, and findings arising from, each completed assignment set out at **Appendix 3**.

#### **5.0 Compliance With Public Sector Internal Audit Standards**

5.1. Over the course of 2016/17 Internal Audit sought to undertake all work in conformance with the Public Sector Internal Audit Standards. The Standards have 4 objectives:

- to define the nature of Internal Auditing within the UK public sector;
- to set basic principles for carrying out Internal Audit in the UK public sector;

- to establish a framework for providing Internal Audit services which add value to the organisation, leading to improved organisational processes and operations; and
  - to establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.
- 5.2. The Standards require the Internal Audit Manager to establish a Quality Assurance and Improvement Programme to allow evaluation of compliance with the Standards. This should comprise an annual self assessment and five yearly external assessment.
- 5.3. The most recent self assessment was undertaken during 2014/15. Given the requirement that self assessments are done annually, early attention will be given to ensuring that this is done during 2017/18. In addition, as part of a peer review process arranged via the Scottish Local Authorities Chief Internal Auditors' Group, an external quality assessment of Clackmannanshire Council's Internal Audit function will be undertaken by Argyll and Bute Council's Chief Internal Auditor later this year. The outputs of both of these assessments will be reported to Audit and Finance Committee in due course.
- 5.4. The Council's appointed external auditors, Audit Scotland, carried out a preliminary assessment of the Internal Audit function during 2016/17. Audit Scotland concluded that Internal Audit had appropriate documentation, standards, and reporting procedures in place. They did, though, also point out the risks associated with the various staffing changes within the section over the course of the year. As a result, Audit Scotland were not able to place formal reliance on Internal Audit work for their financial statements work. With the establishment of the Internal Audit Joint Working Agreement with Falkirk Council, and early and regular engagement, the two teams will, however, aim to ensure that reliance can be placed on 2017/18 work.

## **6.0 Conclusion**

- 6.1. Internal Audit undertook sufficient work during 2016/17 to support a balanced and evidence based opinion that Reasonable Assurance could be placed on the Council's arrangements for risk management, governance, and control.
- 6.2. In providing that opinion, Internal Audit sought to operate in compliance with the 2013 Public Sector Internal Audit Standards. A formal self assessment, and subsequent external quality assessment, of Internal Audit's compliance with these Standards will be undertaken during 2017/18.

## **7.0 Sustainability Implications**

- 7.1. None noted

## 8.0 Resource Implications

### 8.1. Financial Details

8.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes

8.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes

### 8.4. Staffing

## 9.0 Exempt Reports

9.1. Is this report exempt? Yes  (please detail the reasons for exemption below) No

## 10.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box )

The area has a positive image and attracts people and businesses

Our communities are more cohesive and inclusive

People are better skilled, trained and ready for learning and employment

Our communities are safer

Vulnerable people and families are supported

Substance misuse and its effects are reduced

Health is improving and health inequalities are reducing

The environment is protected and enhanced for all

The Council is effective, efficient and recognised for excellence

(2) **Council Policies** (Please detail)

## 11.0 Equalities Impact

11.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?  
Yes  No

## 12.0 Legality

12.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

### 13.0 Appendices

13.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

- Appendix 1: 2016/17 Internal Audit Assurance Categories
- Appendix 2: Summary of 2016/17 Internal Audit Programme
- Appendix 3: Details of 2016/17 Internal Audit Programme

### 14.0 Background Papers


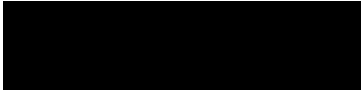
14.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes  (please list the documents below) No

#### Author(s)

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#### Approved by

NAME	DESIGNATION	SIGNATURE
Stephen Coulter	Head of Resources and Governance	
Nikki Bridle	Depute Chief Executive	



## 2016/17 INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
<b>Significant Assurance</b>	There is an adequate and effective system of risk management, governance, and control to address risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
<b>Reasonable Assurance</b>	Business objectives are likely to be achieved. However, improvements are required to enhance the adequacy / effectiveness of risk management, governance, and control.
<b>Limited Assurance</b>	There is considerable risk that the system will fail to meet its objectives. Significant improvements are required to improve the adequacy and effectiveness of risk management, governance, and control.
<b>No Assurance</b>	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.





## SUMMARY OF 2016/17 INTERNAL AUDIT PROGRAMME

Planned Assignments (as per 2016/17 Internal Audit Plan)			
	Service	Assignment	Level of Assurance
1.	Corporate / Strategy and Customer Services	Social Media	Significant Assurance
2.	Housing and Community Safety	Housing Revenue Account	Reasonable Assurance
3.	Development and Environment	Validation of Climate Change Submission	Significant Assurance
4.	Resources and Governance	Resources and Governance Performance Management	Reasonable Assurance
5.	Housing and Community Safety	New Housing IT System	Reasonable Assurance
6.	Housing and Community Safety	Housing Benefit and Council Tax (Vanguard Project)	Significant Assurance
7.	Resources and Governance	Insurance	Significant Assurance
8.	Corporate	Stock Control	Significant Assurance
9.	Resources and Governance / Development and Environment	Land and Property Asset Management	Reasonable Assurance
10.	Corporate / Resources and Governance	Procurement	N/A – undertaken as consultancy
11.	Clackmannanshire and Stirling Integration Joint Board	Corporate Governance	Significant Assurance

Assignments Deferred			
	Service	Assignment	Reason
1.	Corporate	Governance – Council, Committees, and Executive	Action ongoing by Head of Resources and Governance to review key documents.
2.	Development and Environment	Health and Safety Management Systems	External report commissioned from the Council's insurers, Gallagher Bassett.
3.	Education Services	2 assignments were scheduled to be undertaken	Education Service was in the process of re-structuring following the dissolution of the shared service.
4.	Social Services	Budget Management and Monitoring plus one further review were scheduled to be undertaken	Budget Management and Monitoring deferred as a review, commissioned by the Scrutiny Committee, was undertaken by Strategy and Customer Services.  The other assignment was deferred because of the dissolution of the shared service and appointment of a new Head of Service.
5.	Resources and Governance	Implementation of New Finance System	Finance system not fully implemented until the end of the year. Internal Audit reported on project governance and attended project board meetings.
6.	Resources and Governance	ICT Strategy Implementation	Resource constraints prevented this being undertaken.

## DETAILS OF 2016/17 INTERNAL AUDIT PROGRAMME

No.	Assignment Area and Service	Assurance and Key Findings
1.	Social Media  Corporate / Strategy and Customer Services	<p><b>Significant Assurance</b> This review focussed on controls over Social Media set-up, management, maintenance, and performance management. We also reviewed the Social Media Policy to assess compliance with legislative requirements and good practice guidelines.</p> <p>We found that corporate social networking accounts are managed by the Communications and Community Team and are well controlled. A new policy, including a Business Case application process for any new social media accounts, has been established, and comprehensive Social Media Acceptable Use Guidelines have been developed alongside this policy.</p> <p>Good management information is available on interactions via social media, and this will be used to help inform the next Communications and Marketing Strategy.</p>
2.	Housing Revenue Account  Housing and Community Safety	<p><b>Reasonable Assurance</b> Internal Audit reviewed arrangements for ensuring compliance with the requirements set out in the National Guidance on the Operation of Local Authority Housing Revenue Accounts (the Guidance).</p> <p>We found HRA policies and procedures to be well defined, and in compliance with the Guidance. Procedures were in the process of being further updated. We reviewed a sample of 2015/16 and 2016/17 HRA transactions to confirm that they were appropriate and in line with the Guidance. We found a number of transactions charged to the HRA in error. We advised Accountancy Officers of these, and recommended that the procedures around management checks on HRA transactions are reviewed and improved.</p> <p>We found there to be rationale in place for determining the proportion of 24 categories of internal charges that should be charged to HRA. There was, however, limited supporting documentation as to why particular rationale were being applied.</p> <p>Clear and effective HRA management information and reporting mechanisms had been established, including plans set out in the Tenant Participation Strategy.</p>
3.	Validation of Climate Change Submission  Development and Environment	<p><b>Significant Assurance</b> The Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order requires relevant public bodies to prepare reports on compliance with climate change duties. Guidance requires the validation of submitted information and, for the 2015/16 return, Internal Audit undertook this work.</p> <p>We found that the submitted figures were accurate and compliant with reporting requirements. A small number of required changes were identified during the validation process, mainly to take account of updated data.</p>

No.	Assignment Area and Service	Assurance and Key Findings
4.	<p>Resources and Governance Performance Management</p> <p>Resources and Governance</p>	<p><b>Reasonable Assurance</b> Work focussed on the performance framework in place within the ICT, Human Resources, Payroll, Accountancy, Asset Management, Health and Safety, and Democracy sections.</p> <p>We found that a performance management framework had been established, with high level objectives flowing through sections' operational plans and individual employees' development plans. Officers were aware of the Resources and Governance Business Plan, and the objectives and priorities set out in that document. We reviewed a sample of performance information reported to Committee, and found calculations to be accurate and based on relevant supporting evidence.</p> <p>There was, however, some scope for better recording of performance information on the corporate Covalent system, and for reviewing the existing suite of indicators to ensure these remain relevant. We also recommended that Resources and Governance customer feedback arrangements are improved.</p>
5.	<p>New Housing IT System</p> <p>Housing and Community Safety</p>	<p><b>Reasonable Assurance</b> This review was undertaken at a relatively early stage of the implementation of the TechOne integrated Housing Management System. Internal Audit work focussed on project management roles, responsibility, and documentation, consultation with stakeholders, the management and monitoring of contract changes, and compliance with Contract Standing Orders.</p> <p>In overall terms, Internal Audit found that a sound framework of internal control had been established. Project management responsibilities had been assigned, and arrangements were based on the Prince 2 methodology, including a Project Initiation Document setting out roles and responsibilities.</p> <p>Stakeholder consultation had been undertaken via various system demonstrations, and we found that the procurement process had been undertaken in line with Contract Standing Orders.</p>
6.	<p>Housing Benefit and Council Tax (Vanguard Project)</p> <p>Housing and Community Safety</p>	<p><b>Significant Assurance</b> The scope of this assignment was to review the impact of Vanguard's work on Housing Benefit and Council Tax processes, and to assess whether the redesign of those processes resulted in efficiencies and improved performance.</p> <p>To assess whether the project resulted in improved performance we reviewed a sample of the Council's Housing Benefit and Council Tax Key Performance Indicator (KPI) results. We found that, for both areas, performance had improved. To further validate this we reviewed the supporting documentation underpinning reported performance, and found this to be adequate and robust.</p> <p>As well as improved performance, we found that the project had resulted in a number of process improvements, although some of these have yet to be formalised in written guidance.</p>

No.	Assignment Area and Service	Assurance and Key Findings
7.	Insurance  Resources and Governance	<p><b>Significant Assurance</b> Internal Audit work focussed on insurance fund administration and claims handling.</p> <p>The Council established a claims handling contract in 2015. The Insurance Officer collates claims for the claims handler, records and monitors payments, and reconciles transactions through the Insurance Fund and ledger. Standard claim forms are used, and we found that the standard and consistency of claims complied with procedures.</p> <p>There was some scope for updating written instructions, for better checking of the transaction fees paid to the claims handler, and for reconciling the account from which claims are paid.</p>
8.	Stock Control  Corporate	<p><b>Significant Assurance</b> Internal Audit assessed the controls in place to minimise the risks associated with the management of stock. Financial Regulations are clear that Heads of Service are responsible for ensuring that stocks are held securely, accurately accounted for, and that appropriate levels are maintained. As at 31 March 2016 c£500k of stock was held.</p> <p>In general, we found that robust controls were in place in areas where significant levels of stock are held. This includes annual stock take instructions; stock control procedures; arrangements for checking stock in / out; and systems for receiving, paying for, holding, and accounting for stock.</p>
9.	Land and Property Asset Management  Resources and Governance / Development and Environment	<p><b>Reasonable Assurance</b> The scope of this assignment was to review arrangements for recording, maintaining, and leasing non-operational land and property assets.</p> <p>While the 2010-2015 Property Asset Management Plan (PAMP) is out of date, annual Property Review Reports act as an interim PAMP, giving an overview of property acquisition and disposal.</p> <p>A standard lease is used for the letting of the majority of properties. These oblige the tenant to pay for insurance premiums. We found instances where insurances had not been recharged to tenants for the past three years. In addition, there was some scope for better monitoring outstanding rental debt.</p> <p>Council properties, other than housing, are recorded on the Uniform system. We found that there was appropriate checking of data held on Uniform to that held on the fixed asset register.</p> <p>The property portfolio is actively managed with a view to maximising rental income, and significant capital receipts have been generated via disposals. There remain a number of buildings let at zero rent, and a review undertaken by Graham and Sibbald in late 2015 identified some properties where rent charged did not reflect the true and fair rental value. Management are aware of the reasons for these discrepancies.</p>

No.	Assignment Area and Service	Assurance and Key Findings
10.	<p>Procurement</p> <p>Corporate / Resources and Governance</p>	<p><b>N/A – undertaken as consultancy</b></p> <p>Our 2016/17 Plan included a review of procurement, and the extent to which procurement activity is helping achieve budget savings. Rather than issue a formal Internal Audit report, this work has been undertaken on a consultancy basis, with outcomes discussed with the Head of Resources and Governance and Procurement Manager.</p> <p>The ‘Procurement Journey’ is now being followed, and there is a clear process for documenting that an appropriate budget is in place for each procurement exercise. We found various examples of improved procurement practice driving out material savings, including via the use of local and national framework contracts.</p> <p>We also noted examples of proactive management review and monitoring of contracts, including regular progress meetings with contractors and officer input into Scotland Excel contracts.</p> <p>We did identify expenditure from suppliers not on either the Council’s contracts register or the list of Scotland Excel contracts, and details have been passed to the Procurement Manager.</p> <p>The ‘Procurement Matters Group’ forms an integral part of the procurement governance framework (along with Contract Standing Orders, Financial Regulations, and supporting guidance), and seeks to continue to improve organisational understanding of the procurement process, mitigate and manage risk, and help generate procurement savings. It is important that this Group continues to meet and to seek ways of improving and streamlining the procurement process.</p> <p>Consultation on, and development of, a full Procurement Strategy (replacing the current, interim, Strategy) will be undertaken during 2017/18.</p>
11.	<p>Corporate Governance</p> <p>Clackmannanshire and Stirling Integration Joint Board</p>	<p><b>Significant Assurance</b></p> <p>Stirling Council’s Audit Manager fulfils that role for Clackmannanshire and Stirling Integration Joint Board (IJB). Auditors from the Council and Health Board Internal Audit teams jointly undertake planned Internal Audit work. Clackmannanshire Council’s Internal Audit team led on a review of IJB Corporate Governance arrangements. The findings arising from this were reported to the IJB on 16 February 2017.</p> <p>We found that, in general, corporate governance arrangements were appropriate and operating effectively. Governance policies and procedures have been developed and approved, and the roles and responsibilities of IJB members have been defined with meetings taking place regularly.</p> <p>While we found there to be evidence of performance and financial scrutiny, arrangements for this are still being developed to ensure they are efficient and clearly link to key Strategic Plan priorities.</p>