
Report to: Audit and Finance Committee

Date of Meeting: 15 March 2018

Subject: Internal Audit Progress Report 2017/18

Report by: Internal Audit Manager

1.0 Purpose

- 1.1. The purpose of this report is to provide an update on progress with completing the 2017/18 Internal Audit Plan.

2.0 Recommendations

- 2.1. The Committee is asked to note progress being made with completing the 2017/18 Internal Audit Plan.

3.0 Progress With Completing 2017/18 Internal Audit Plan

- 3.1. The Plan was agreed by Audit and Finance Committee on 16 March 2017. It set out sixteen assignments to be completed by the team during the year.
- 3.2. Two additional assignments have been undertaken, at the request of Services:
- Validation of the Council's Submission in Relation to the Public Body Duties Set Out in the Climate Change (Scotland) Act 2009; and
 - Vehicle Management and Usage (within Waste Services and Property Services).
- 3.3. Our Plan for 2017/18 included work on Procurement and Contract Monitoring. We have reviewed Procurement Governance arrangements, and undertaken more detailed work on the contract management arrangements across a sample of contracts. This has resulted in two, rather than one, report.
- 3.4. The Plan also included a review of Social Care and Education Transport. Again, due to differences in arrangements across the two Services, we have set out our findings in two separate reports.
- 3.5. At the previous meeting of this Committee, in January 2018, I proposed deferring planned work on Public Protection Governance to accommodate these additional assignments. Our 2018/19 Internal Audit Plan is included

elsewhere on the agenda of this meeting, and work on public protection has been scheduled for the early part of next year.

- 3.6. A summary of the status of this year’s work is attached at **Appendix 1**. All assignments have now been started or completed. A summary of the scope of, and findings arising from, each assignment completed to final report stage is set out at **Appendix 2**. Definitions of the assurance categories used by Internal Audit are set out at **Appendix 3**.
- 3.7. As per the Joint Working Agreement between Clackmannanshire and Falkirk Councils, Internal Audit measures performance against the following Key Performance Indicators (KPI).

Key Performance Indicator	2017/18 to date
Complete 85% of main audit programme	65%
Have 90% of recommendations accepted	100%
Issue 75% of draft reports within 3 weeks of completion of fieldwork	100%
Complete (to issue of final report) 75% of main audits within budget	82%

- 3.8. Performance is as expected and we will meet, or exceed, target for each of the KPIs.

4.0 Conclusions

- 4.1. The team has now completed, or is in the process of completing, all planned 2017/18 work (subject to adjustments at paragraphs 3.2 – 3.5). This will allow a balanced and evidence based opinion on arrangements for risk management, governance, and control to be provided in the Internal Audit Annual Assurance Report that will be presented to the 17 May meeting of this Committee.

5.0 Sustainability Implications

- 5.1. None noted

6.0 Resource Implications

6.1. *Financial Details*

- 6.2. 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

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

6.4. *Staffing*

7.0 Exempt Reports

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

7.0 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 | <input type="checkbox"/> |
| Our communities are more cohesive and inclusive | <input type="checkbox"/> |
| People are better skilled, trained and ready for learning and employment | <input type="checkbox"/> |
| Our communities are safer | <input type="checkbox"/> |
| Vulnerable people and families are supported | <input type="checkbox"/> |
| Substance misuse and its effects are reduced | <input type="checkbox"/> |
| Health is improving and health inequalities are reducing | <input type="checkbox"/> |
| The environment is protected and enhanced for all | <input type="checkbox"/> |
| The Council is effective, efficient and recognised for excellence | <input type="checkbox"/> |

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

8.0 Equalities Impact

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

9.0 Legality

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

10.0 Appendices

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

- **Appendix 1:** Internal Audit Plan 2017/18 – Progress at February 2018
- **Appendix 2:** Summary of Each Assignment Completed to Final Report Stage
- **Appendix 3:** Definition of Internal Audit Assurance Categories

11.0 Background Papers

11.1 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)

NAME	DESIGNATION	TEL NO / EXTENSION
Gordon O'Connor	Internal Audit Manager	07872 048 030

Approved by

NAME	DESIGNATION	SIGNATURE
Stephen Coulter	Head of Resources and Governance	Signed: S Coulter
Nikki Bridle	Depute Chief Executive	Signed: N Bridle

Internal Audit Plan 2017/18 – Progress at February 2018

Planned Assignments (as per 2017/18 Internal Audit Plan)			
	Service	Assignment	Status
1.	All Services	Pensions Transactional Testing	Work In Progress
2.	Resources and Governance / All Services	Payroll Transactional Testing	Draft Report Issued
3.	Resources and Governance / All Services	Recruitment and Selection	FINAL REPORT ISSUED Limited / Substantial Assurance
4.	Housing and Community Safety / All Services	Sundry Debtors	FINAL REPORT ISSUED Substantial Assurance
5.	Resources and Governance / All Services	Procurement Governance AND Contract Monitoring	FINAL REPORTS ISSUED <ul style="list-style-type: none"> • Procurement Governance: Limited Assurance • Contract Monitoring: Limited / Substantial Assurance
6.	Resources and Governance	Cyber Security	Work In Progress
7.	Social Services	Public Protection - Governance	Defer into 2018/19 Plan
8.	Social Services / Education Services	Social Care and Education Transport	FINAL REPORTS ISSUED <ul style="list-style-type: none"> • Social Care Transport: Substantial Assurance • Education Transport: Substantial Assurance
9.	All Services	Cash and Income Collection	FINAL REPORTS ISSUED <ul style="list-style-type: none"> • Speirs Centre • St Mungo's Primary School • Park Primary School
10.	Education Services	Pupil Equity Fund	Work In Progress
11.	All Services	Follow Up of Internal Audit Recommendations	Ongoing
12.	All Services	Ad Hoc / Consultancy Work	Ongoing
13.	All Services	National Fraud Initiative	Ongoing
14.	All Services	Continuous Auditing	FINAL REPORT ISSUED Duplicate Creditors payments of £116k identified – April 2016 to present
15.	Clacks and Stirling IJB	Financial Projections	Work In Progress
16.	Central Scotland VJB	IT Control Environment / General Electoral Roll Registration Process	Work In Progress

Additional Assignments			
	Service	Assignment	Status
1.	Development and Environmental	Validation of Climate Change (Scotland) Act 2009 Return	FINAL REPORT ISSUED Substantial Assurance
2.	Development and Environmental / Housing and Community Safety	Vehicle Management and Usage, Bulky Uplifts, and Garden Aid	FINAL REPORT ISSUED N/A as Consultancy Basis

Summary of Each Assignment Completed to Final Report Stage

Assignment	Service	Assurance
Recruitment and Selection	Resources and Governance / All Services	Limited / Substantial
Scope	Final Report Executive Summary	
<p>We reviewed arrangements for the recruitment and selection of permanent, temporary, and casual staff. In particular:</p> <ul style="list-style-type: none"> • policies, procedures, and guidance; • advertisement, application, assessment, and approval arrangements, including pre-employment checks; • the process for appointing successful applicants, including salary placement and contract award processes; and • procedures for notifying HR, Payroll, and Pensions of the outcome from the recruitment and selection process. 	<p>We provided Limited Assurance in relation to the adequacy of the Recruitment and Selection Policy and the associated training arrangements, and Substantial Assurance in relation to the corporate processes followed to recruit staff.</p> <p>The Recruitment and Selection Policy was last revised in May 2007. This has been recognised by Human Resources and a new draft Policy has been prepared. There remains some scope for improving this further, for example by including greater clarity on the pre-employment checks required when recruiting internal candidates to a different post.</p> <p>The Policy requires that all staff involved in the process must be trained. It has been a number of years since any training has been organised (this was the responsibility of the corporate Learning and Development Adviser). Human Resources have recognised this and are currently working on a training programme to be available later this year.</p> <p>We found there to be instances where the audit trail was incomplete. In particular, there was a lack of documentation to confirm why applicants have, and have not, been selected for interview (eg shortlisting and interview scoring matrices not fully completed and / or certified by panel members). There were inconsistencies in documentation being retained for individual recruitment exercises.</p>	

Assignment	Service	Assurance
Sundry Debtors	Housing and Community Safety / All Services	Substantial
Scope	Final Report Executive Summary	
<p>We tested different sundry debtor transaction types, and reviewed supporting policies and procedures. In particular, we tested:</p> <ul style="list-style-type: none"> • new sundry debtor accounts; • changes to sundry debtor accounts; and • sundry debtor invoices (including cancelled invoices). <p>We also tested debt management, arrears, and write off controls. Audit testing of a sample of council tax, NDR, sundry debtor, and former tenant arrears transactions, and write offs, focussed on:</p> <ul style="list-style-type: none"> • outstanding debt, to ensure that appropriate recovery action was being taken; and • 2016/17 debt write offs, to ensure that appropriate action was taken to assess the likelihood of full or partial debt collection, and that the debt write off was appropriately authorised. 	<p>We provided Substantial Assurance in relation to the adequacy of the key controls for sundry debtor transactions, debt management, and write offs. This was based on the results of our testing of a sample of processed sundry debtor transactions.</p> <p>The arrangements for identifying and recording sundry debtor payments are robust, with debt write offs for the 2016/17 financial year authorised in line with the Council's Recovery and Write Off Policy.</p> <p>We did, however, note a number of areas where there was scope for further improving the existing framework of control.</p> <p>We found several instances where the audit trail was incomplete. In particular, there was a lack of documentation being retained by Services to support new or amended debtor accounts, and the raising or cancelling of invoices. In addition, the authorisation arrangements within Services for these transactions require to be reviewed to ensure they are consistent and being authorised by the appropriate Officer.</p> <p>We have recommended that an Authorised Signatory List should be established for Service requests to cancel sundry debtor invoices. We have also suggested that the functionality within the Tech One system should be utilised to enable supporting documentation to be available electronically.</p> <p>Our work highlighted there is scope for establishing corporate written procedures. These should be developed for creating or amending debtor accounts, raising or cancelling invoices, and identifying accounts for write off.</p>	

Assignment	Service	Assurance
Procurement Governance	Resources and Governance / All Services	Limited
Scope	Final Report Executive Summary	
We reviewed procurement governance arrangements, roles, and responsibilities.	<p>We provided Limited Assurance in relation to procurement governance arrangements.</p> <p>This assurance was broadly based on the level of monitoring, reviewing, and reporting of current procurement activity to senior management and to elected Members. Information provided is mainly historical and does not relate to current procurement activity. In our view, this is a significant weakness as procurement activity accounts for c£61m of annual expenditure. In addition, the need for senior management to be aware of all procurement activity is particularly important given the significant savings that procurement could potentially deliver.</p> <p>There were effective elements of the governance arrangements. A Procurement Strategy has been developed and there are regular meetings of the Procurement Matters Group. The Procurement Manager was clear about roles and responsibilities, and corporate procurement guidance is kept under constant review. Contract Standing Orders are in the process of being updated.</p>	

Assignment	Service	Assurance
Contract Management and Monitoring	Resources and Governance / All Services	Limited / Substantial
Scope	Final Report Executive Summary	
<p>Our contract management and monitoring work focused on a sample of Service managed contracts:</p> <ul style="list-style-type: none"> • Facilities Management Repairs and Maintenance; • Mental Health Counselling for Adults; and • Fencing Replacement. <p>For each of these contracts we reviewed:</p> <ul style="list-style-type: none"> • financial controls, including budget setting and monitoring arrangements, and billing and invoice validation / approval procedures; and • contract management and monitoring arrangements. 	<p>We provided a separate assurance for each of the contracts reviewed.</p> <p>In overall terms, we found that staff were clear about their roles and responsibilities.</p> <p>We could, however, provide only Limited Assurance in relation to the Facilities Management Repairs and Maintenance contract. While contract management and monitoring arrangements have evolved and improved, our assurance is based on the arrangements across the lifetime of the contract.</p> <p>There has been a significant overspend on the Facilities Management Repairs and Maintenance contract. This has not been reported to Committee, as required by Section 53 of Contract Standing Orders.</p> <p>In addition, the supplier has provided services that were not included in the original contract specification. There has been a lack of robust monitoring of spend by the contract manager, with a number of officers involved in engaging the supplier's services.</p> <p>We provided Substantial Assurance in relation to the Mental Health Counselling for Adults contract. This was being well managed and monitored with adequate segregation of duties in place for the ordering of, and payment for, services.</p> <p>We also provided Substantial Assurance in relation to the Fencing Replacement contract (albeit with the caveat below). The contract was being managed and monitored with adequate segregation of duties in place for the ordering of, and payment for, services. The spend on contract work was on budget.</p> <p>However, the supplier was also being used for reactive repairs, which are not part of the contract. These repairs are being initiated and approved by teams that are not within the span of control of the contract manager. Reactive repair spend (ie off contract spend) has totalled £129,491 over the period September 2016 to December 2017.</p> <p>A common theme across the contracts tested is that there is no specific contract budget embedded within the Tech One finance system. Contract expenditure is allocated to ledger codes which are not restricted to particular contracts. This could result in failure to identify contracts exceeding their original agreed value.</p>	

Assignment	Service	Assurance
Social Care Transport	Social Services	Substantial
Scope	Final Report Executive Summary	
<p>We reviewed arrangements:</p> <ul style="list-style-type: none"> for ensuring that all drivers and transport assistants are vetted under the Protection of Vulnerable Groups scheme; for checking driver licensing, vehicle and passenger insurance, and the road worthiness of vehicles; and the arrangements for ensuring the suitability of volunteer drivers. 	<p>We provided Substantial Assurance in relation to the adequacy of Social Services transport management arrangements.</p> <p>We found that controls around transport management were sound. The staff in the business areas we visited had a clear understanding of their roles and responsibilities.</p> <p>We found that all drivers and passenger escorts were PVG Scheme members. We were also content with the arrangements in place to record and monitor vehicle usage, and for vehicle storage and security.</p> <p>Given the ongoing demand for transport services by service users, we have recommended that a formal Transport Policy is developed to ensure clarity and consistency of transport entitlement and provision.</p>	

Assignment	Service	Assurance
Education Transport	Education Services	Substantial
Scope	Final Report Executive Summary	
<p>We reviewed arrangements:</p> <ul style="list-style-type: none"> for ensuring that all drivers and transport assistants are vetted under the Protection of Vulnerable Groups scheme; and for checking driver licensing, vehicle and passenger insurance, and the road worthiness of vehicles. 	<p>We provided Substantial Assurance in relation to the adequacy of Education transport arrangements.</p> <p>We found that controls around transport management were generally sound. The staff who manage this process on a day to day basis had a clear understanding of their roles and responsibilities.</p> <p>We found that all passenger escorts were PVG Scheme members.</p> <p>We did, however, recommend that the SLA (between Education Services and Stirling and Clackmannanshire Councils Public Transport Unit (PTU), which is staffed and operated by Stirling Council) could be more specific in relation to the driver and vehicle checks being carried out, and for the requirement that the PTU provides assurance that these checks have been satisfactorily completed.</p>	

Assignment	Service	Assurance
Cash and Income Collection	Strategy and Customer / Education Services	N/A – Spot Checks
Scope	Final Report Executive Summary	
<p>Over the course of the year we visited the following three premises to review local cash handling and safe security arrangements:</p> <ul style="list-style-type: none"> Speirs Centre; St Mungo's Primary School; and Park Primary School. <p>As part of the visit to the Speirs Centre we also reviewed wider security arrangements.</p>	<p>Speirs Centre:</p> <p>Cash floats and income collected at the time of the visit were complete and reconciled. The arrangements for the handover of income to the external security firm for banking were also operating effectively.</p> <p>There was scope for improving the control framework by ensuring:</p> <ul style="list-style-type: none"> up to date written income handling, banking, and security procedures are in place; cash drawers are locked when not in use and excess cash is stored securely in the safe; and the physical security of the office is reviewed. <p>St Mungo's Primary School:</p> <p>We were generally content with the processes being followed, though there was a need to ensure that:</p> <ul style="list-style-type: none"> a log is maintained of safe contents; and an additional safe key is obtained. 	

Assignment	Service	Assurance
Cash and Income Collection	Strategy and Customer / Education Services	N/A – Spot Checks
Scope	Final Report Executive Summary	
	<p>In general, income is counted and banked by administration staff, with the Banking Income Analysis form signed by the Headteacher. There were no written income handling and banking procedures in place at the school. Procedures on the roles and responsibilities of staff regarding the collection, storing, reconciliation, and banking of income should be established and rolled out across all schools.</p> <p>Park Primary School: Internal Audit's visit to Park Primary School followed two separate thefts of cash that had been reported to Internal Audit and the Police. The purpose of our visit was to discuss with the Depute Headteacher and administration staff the arrangements for cash and safe security.</p> <p>Since the thefts a number of changes had been made to the arrangements for storing school monies:</p> <ul style="list-style-type: none"> the original safe was no longer being used as it was identified by the Police as being potentially unsecure; a locked filing cabinet was being used as an interim measure; and two new safes and a key safe had been purchased by the school. <p>We acknowledged that work was in progress to improve the framework of control. In addition to what is planned there was a need to ensure that a log is maintained of all safe contents.</p> <p>We re-iterated the recommendation above that procedures on the roles and responsibilities of staff are established and rolled out to all schools.</p>	

Assignment	Service	Assurance
Continuous Auditing	All Services	N/A – Ongoing Assurance
Scope	Final Report Executive Summary	
<p>This involved analysing Creditors payment file data (payments to suppliers of goods and services) to identify any potential duplicate payments.</p> <p>We used audit interrogation software to identify any matches on invoice date, invoice amount, and invoice number. We then checked our initial results on Tech One to identify any cancelled payments; payments made to different suppliers; and duplicate payments that have already been identified and either cancelled or monies recovered. We also reviewed the scanned version of the invoices on Tech One.</p>	<p>For the period April 2017 to September 2017 we identified 23 potential duplicate payments, with a value c£24,000.</p> <p>The first stage of this work covered the period April 2016 to March 2017. The findings arising from this work were reported to management in July 2017, and identified 72 potential duplicate payments with a value c£90,000.</p>	

Assignment	Service	Assurance
Validation of Climate Change (Scotland) Act 2009 Return	Development and Environment	Substantial
Scope	Final Report Executive Summary	
<p>The Climate Change (Scotland) Act 2009, introduced the requirement for public bodies to report on their climate change duties. The Council's annual report had to be submitted to the Sustainable Scotland Network by 30 November.</p> <p>The annual report format is a standard template split into:</p> <ul style="list-style-type: none"> • Profile of Reporting Body; • Governance, Management, and Strategy; • Emissions, Targets, Projects; • Adaptation; and • Procurement. <p>Internal Audit work focused on reviewing the reporting arrangements and the accuracy of the information in the report.</p>	<p>We provided Substantial Assurance on the Council's reporting arrangements and the accuracy of the information in the report.</p> <p>We made one recommendation, relating to enhancing the audit trail associated with the reporting process by using an electronic evidence pack to support each of the sections of the report.</p> <p>During the course of our audit work we also identified issues which should be considered for future years' reporting. These related to the inclusion of Waste Management related emission sources in the annual report, and the inclusion of data for all carbon reduction projects.</p> <p>In addition, we suggested that target dates are set for updating the Sustainability and Climate Change Strategy, establishing a Carbon Management Group, revising the Carbon Management Plan, and developing a Climate Change Adaptation Strategy.</p>	

Assignment	Service	Assurance
Vehicle Management and Usage (within Waste Services and Property Services)	Development and Environmental / Housing and Community Safety	N/A – Consultancy Basis
Scope	Final Report Executive Summary	
<p>Supervisory and monitoring roles and responsibilities of Service management in relation to:</p> <ol style="list-style-type: none"> 1. Vehicle Management and Usage (Waste Services and Property Maintenance): <ul style="list-style-type: none"> • vehicle management policies, procedures, and guidance; • recording and monitoring of vehicle usage; and • expenditure on vehicle maintenance and fuel. 2. Bulky Waste Uplifts: <ul style="list-style-type: none"> • approving and monitoring service requests, work rotas, and works undertaken; • ensuring that service charges are accurately recorded and billed for. 3. Garden Aid: <ul style="list-style-type: none"> • approving and monitoring service requests, work rotas, and works undertaken; and • the stock control of Garden Aid equipment. 	<p>This work did not result in a formal Internal Audit report. It identified various common themes and operational findings that will form the basis of an action plan. The Internal Audit team are in the process of agreeing the content of that action plan with the Team Leader (Traffic and Transportation).</p> <p>Key common themes identified were:</p> <ul style="list-style-type: none"> • No evidence of review of size of fleet by Services (eg, on an annual basis) to ensure continuing need and that best value is being achieved. No fleet related management information provided, by Fleet Services, to managers and supervisors since April 2017. • No corporate guidance detailing the roles and responsibilities of all vehicle users (and their supervisors). There is a Code of Practice for the Use of Council Vehicles dating from 2007. Updated corporate guidance should cover: <ul style="list-style-type: none"> ○ requirement for first vehicle checks; ○ details of when vehicles can and cannot be used; ○ who can drive the vehicles; ○ what vehicles are authorised to be taken home (and who approves this); ○ the requirement to complete logbooks and for logbook review; ○ refueling arrangements; and ○ steps to be followed if vehicle is involved in an accident. • Telematics not widely used for monitoring purposes by managers or supervisors. Automated reports are being provided from Telematics on speed limits, idling time, and mileage but no indication that this is being reviewed. Could be better use of system functionality to highlight issues which require further manager or supervisor review (eg, vehicle not used, vehicle out with Clackmannanshire boundary, high daily mileage etc.). • Roles and responsibilities of supervisors for day to day vehicle management should be recorded in their job descriptions. 	

Definition of Internal Audit Assurance Categories

Level of Assurance	Definition
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No assurance	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.

