The Highland Council	Agenda Item 4
Audit & Scrutiny Committee – 18th June 2015	Report No AS/8/15

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Statement on Internal Control and Annual Report 2014/15

Report by Head of Audit & Risk Management

Summary

The attached report includes an assessment of the adequacy, reliability and effectiveness of the Council's system of internal financial control and provides information for the Council's Corporate Governance Assurance Statement. This is contained within the Statement on Internal Control.

The annual report provides an overview of the Internal Audit Section's activities and performance data for 2014/15.

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1.   Statement on Internal Control

1.1   In order to comply with the requirements of the Public Sector Internal Audit Standards, a Statement on Internal Control must be produced. Section 2 of the attached report gives details relating to the Statement on Internal Control and the sources of information which inform the Statement.

1.2   On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31st March 2015.

2.   Annual Report 2014/15

2.1   Sections 3 to 5 provides the information relating to the annual report; details of the audit report issued during the year, an overview of the Section's activities during the year and performance data for the past three years.

3.   Implications

3.1   Section 2.5 refers to weaknesses in Service procedures for ensuring that high priority audit actions are implemented within the agreed timescales. There is therefore a risk that due to the non-compliance with internal controls, in respect of the systems or activities audited, that the system objectives may be put at risk.

3.2   There are no Resource, Resource, Legal, Equalities, Climate Change/ Carbon Clever, Gaelic or Rural implications arising from this report.

Recommendation
Members are invited to note the content of the attached report and the audit opinion provided, and to raise any relevant points with the Head of Audit & Risk Management.

Designation: Head of Audit & Risk Management

Date: 9th June 2015

Author: Donna Sutherland, Audit & Risk Manager

Background Papers:

The Highland Council

Statement on Internal Control and Annual
Report 2014/15

Contents

1. **INTRODUCTION**

1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2014 to 31st March 2015, and a report that can be used by the Highland Council to inform its Governance Statement.

1.2 This report has been produced in accordance with the requirements of the Public Sector Internal Audit Standards (the Standards) which came into effect from 1st April 2013 and apply to all internal audit service providers. These Standards were developed in collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).

1.3 Section 2450 of the Standards states that *"the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In addition, the annual report must incorporate:*

- *The opinion;*
- *The summary of work that supports that opinion; and*
- *A statement on conformance with the Standards and the results of the quality assurance and improvement programme"*.

1.4 This report also includes an overview of the Internal Audit Section's activities for the financial year 2014/15.

2. STATEMENT ON INTERNAL CONTROL

2.1 Internal Control

The Council's Financial Regulations require Service Directors to ensure the principles of internal control are incorporated in the working practices of their Services.

Internal control is defined as *"the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance"* regarding the achievement of one or more of the following objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, regulations and contracts.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or plans.

Any system of control can only provide reasonable, and not absolute assurance that control weaknesses or irregularities do not exist, or that there is no risk of material errors, losses, fraud or breaches of laws and regulations. Accordingly the Council should seek continual improvement in the effectiveness of its systems of internal control.

2.2 Internal Audit

The Standards define internal auditing as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".*

The work undertaken by Internal Audit is documented in an audit report and issued to management. Any areas of concern together with the management agreed actions and target dates for implementation are summarised in an Action Plan within the report. It is the responsibility of management to ensure that implementation of these actions takes place as agreed. The Internal Audit Section will undertake periodic follow-up reviews to ensure that the management agreed actions have been satisfactorily implemented and the results of this are reported to the Audit & Scrutiny Committee.

The Internal Audit Section operates in accordance with the Standards and as required, a risk based tactical audit plan is produced each year, and submitted for approval to the Audit & Scrutiny Committee. Organisational independence is demonstrated by the Head of Audit & Risk Management reporting in his own name to senior management, and having direct access to the Chief Executive, Audit & Scrutiny Committee, Pensions Committee, and/ or other Members as considered appropriate.

An internal assessment of compliance with the Standards has been undertaken using the CIPFA "Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note". The first assessment was presented to the Audit & Scrutiny Committee on 19/06/14 which showed 76% full, 14% partial and 10% non-compliance against the various areas set out in the Standards. An action plan was prepared to address the areas of partial and non-compliance and progress against the plan was reported to each Committee meeting. The overall compliance is now 97% and details of the full assessment will be provided within a report to Committee on 18/06/15.

2.3 Internal Audit work

The 2014/15 audit plan was approved by the Audit & Scrutiny Committee on 27/03/14. All audit reports issued are provided as a standing agenda item to each Committee meeting together with progress against the Plan. Where the Plan has required to be adjusted during the course of the year all amendments have been set out in the progress report and have been approved by Members.

A summary of the audit reports issued together with the audit opinion and grades is provided at Section 3.2.

The plan also includes a programme of work to support the Statement on Internal Control which includes:

- A high level review of the Council's system of internal control by way of an evidence-based checklist comprising of six key areas:
  o Control environment.
  o Identification and evaluation of risk and control objectives.
  o Information and reporting.
  o Control processes.
  o Monitoring and corrective action.
  o Assessment of whether the key controls have been applied during the year.

- Examination of the Council's main financial systems. Individual audits have been undertaken of the Council's Payroll, General Ledger and Income systems. The other systems; Debtors, Budgetary Control and Creditors have been subject to a review of the key controls including:

  o Financial procedures and guidance issued to staff;
  o Segregation of duties;
  o User access levels and appropriateness;
  o System backups.

  A sample of transactions was also selected for detailed testing to verify that the controls were operating as expected and no control issues were identified.

  At the time of writing this report the testing has not been completed. However, no control issues have been identified from this work which affects the audit opinion and the audit findings will be addressed in a separate report.

- Consideration of the Council's arrangements with regard to information management and security, corporate governance and risk management.

2.4 Areas of concern

Any areas of concern identified from an audit review will result in an audit recommendation being made which is contained within an action plan. These recommendations are graded as high, medium or low; high defined as *"major issues that managers need to address as a matter of urgency"*.

During 2014/15, a total of 133 audit recommendations were made. Of these, 19 were classified as high grade and details are provided in Table 1 overleaf. A full breakdown of the audit grades and the overall audit opinions can be found at Table 2 on pages 12 - 13.

Table 1

Area of Concern – High Grades	Update
Inspection of equipment in Schools	Due to the audit findings, a follow up review is included in the 2015/16 audit plan.
(1) It was not possible to establish if the contract sums paid were correct as there were no records of the any variations and annual price increases to the contract. In addition, no schedule of works was provided by the contractor and it was not known if the expected works were undertaken.	An update report was provided to the ASC on 24/09/14 which confirmed that the necessary agreed actions to address this concern had been implemented.
(2) The contractor provided all inspection reports on their database but subsequently withdrew access to this information when their contract was terminated. There was the risk that the wrong inspection dates were recorded to the reports downloaded and so the required inspection periods would not be adhered to. The Care & Learning Service's records were not up to date, and in agreement with the database. Also prompt action was not always taken to address any remedial works identified.	The update report also stated the database information was unreliable. Therefore, interim Fixed Electrical Inspection contracts had been put in place in order to re-inspect and test all sites which were out of date. Further contract now in place until June 2016. A new contract was also in put in place for the inspection, maintenance and repair of gym equipment.
School Meals Income Collection and Monitoring Systems (follow-up) (1) Not all schools ensured that their school meals income was verified to the Catering Returns by an independent officer. (2) Whilst the process for reconciling school meals income had been improved following a system upgrade, it was unclear whether this would allow individual lodgements to be agreed to the General Ledger.	Both agreed actions which addressed the audit concerns have been implemented as agreed.
Grass Cutting contract - monitoring and contract payment arrangements The process for the monitoring of performance of the outsourced contract was unsatisfactory as: • The site inspections performed did not accord with the actual performance. As a result some areas had an excessive number of inspections where as others had a lesser number. • The site inspection guidelines were not followed consistently when scoring performance. • The Breach Standards Log was inaccurate and incomplete. • Performance reports did not state whether satisfactory performance was being delivered.	Due to the audit findings, a follow up review is included in the 2015/16 audit plan. The actions to address performance monitoring have been implemented as agreed.

Area of Concern – High Grades	*Update*
Creditors (1) 15/41 paid invoices were not supported by a purchase order or equivalent. (2) A large number of bank accounts relating to obsolete suppliers had not been deactivated.	Both of these actions have been completed as agreed.
Business Continuity Planning (BCP) arrangements (follow-up) (1) The corporate BCP was incomplete and did not reflect the new Council structure.	This was revised and approved by the Executive Leadership Team on 19/01/15.
(2) Service BCPs had not been completed.	This action was due to be completed by 31/01/15 but is still ongoing; the BCPs for the Corporate Development and Finance Services were presented for approval to the Resources Committee on 27/05/15. The BCPs for Community Services and Development & Infrastructure are complete and will be presented to the respective Committees on 04/06/15 and 19/08/15. The Plans for the Chief Executive's Office and Care & Learning are scheduled to be presented on 26/08/15 and 27/08/15 respectively.
(3) Some work was still required to address the actions required following the review of the single point of weakness. (4) The Council's critical services required review as a result of Service restructuring.	Both of these actions have been completed as agreed.
Contractor's Framework Agreement for works up to £50,000 (follow-up) There was no system in place to demonstrate that the award of works to contractors on the framework was fair and above board.	It was agreed that a process for the rotation of the use of contractors would be developed and this would be implemented by 31/03/15. This was subsequently delayed due to delays in implementing and new property management system (K2). A rotation project for plumbing works is now being trialled which is linked to the performance of the contractor. This will be fully integrated into K2 by 31/03/16.
In addition, one contractor named in an anonymous letter about the unfair award of works had undertaken works in a trade that they were not registered for on the framework.	It was agreed that this would be investigated and addressed by the relevant Area Community Services Manager by 12/12/14. This matter has been investigated and the action is complete.

Area of Concern – High Grades	Update
School off-site excursions	Due to the audit findings, a follow up review is included in the 2015/16 audit plan.
The Council policy and guidance for the use of minibuses was out of date.	It was agreed that this would be reviewed and updated, linking to the ongoing work of the Integrated Transport Project. This action was due for completion by 31/03/15 but has not yet been completed. A new policy has been drafted and has been issued for consultation. It is intended that the final version will be presented for approval to the Community Services Committee on 05/11/15.
Commissioning of Children's Services

There was no commissioning plan in place for children's services which identifies the best providers in order to secure the required outcomes. | This action is not due for implementation until 31/08/15. |
| Human Resource Security

It was not confirmed that all clerical and administration officers who access and input personal and sensitive data in the CareFirst system had been screened with Disclosure Scotland checks before accessing the system. | This action was due to be implemented by 28/02/15 but is still ongoing. Disclosure checks are being undertaken for these staff and a revised target date of 31/07/15 has been agreed for completion of this action. |
| Uniform System

There were difficulties in tracking payments because payments and their corresponding applications were sometimes received at different times. In addition online bank payments received via BACS payment can go into the suspense ledger account and then journals have to be produced to allocate them to the correct ledger code. Because the customer did not enter an application reference number with the payment it could be difficult to allocate the payment to the application. | This action has been implemented as agreed. |
| Highland Instrumental Unit – Income Systems

Despite the fact that payment should only be made by Direct Debit, a number of invoices were also issued. A number of these subsequently were then paid late or not at all. | The music tuition leaflet and pupil registration form were amended to state that failure to pay by Direct Debit could result in the service being withdrawn. |
| No regular monitoring of debt took place contrary to the requirements of Financial Regulations. | It was agreed that regular debt reports would be obtained and reviewed on a termly basis. This was due to be implemented by 28/02/15. It is now being progressed and a revised target date of 31/07/15 has been agreed. |

Area of Concern – High Grades	Update
Corporate Internet Use (follow-up) Regular monitoring reports of Internet Use had not been produced for Service Managers delegated to manage acceptable use of their staff.	Monitoring reports are now produced as agreed and this action has been completed.

2.5 **Action Tracking**

The areas of concern detailed in Table 1 have been addressed by audit recommendations agreed with Management who should take the necessary implementation action. As part of the audit process, these are action tracked to ensure that the agreed actions were implemented as agreed. The results of the action tracking, including delays in achieving the target dates are reported to the Audit & Scrutiny Committee on a regular basis and the next report will be provided to the ASC on 30/09/15.

The 2013/14 SIC and Annual Report referred to the failure by management to implement audit actions as agreed. In particular, there were 6 high grade actions that were due to be implemented during the year that were only partially addressed. As a result, the Head of Internal Audit & Risk Management wrote to all Directors and Service administrators of the Performance and Risk Management system (PRMS) and reminded them of the following:

- Actions should only be signed off as complete by the responsible Head of Service.
- Where extensions of time are sought to implement agreed actions, requests must be made by the responsible Head of Service to the Head of Audit & Risk Management.
- The monitoring of outstanding actions should form part of regular performance monitoring within each Service.

In addition to the above:

- Internal audit reports will, in future, be issued to the appropriate Service PRMS administrator in order that they can ensure that all reports are entered onto the system.
- Financial Regulations have been updated to reinforce the procedures regarding the audit actions.
- Compliance with the above processes will be reviewed during the course of this year and will be reported back to Committee.

There has been some improvement from the position reported last year. However, as can be seen from the information at Table 1, there are a number of high grade actions which have not been implemented. Although, in compiling this report, explanations have now been provided for the various delays, in some cases, no extensions of time were requested in accordance with the above procedure. It is also apparent that the monitoring of actions also requires further improvement. This matter will again be raised with the Executive Leadership Team and an update will be provided back to the Audit & Scrutiny Committee.

2.6 **Assurance from Service Directors**

As part of the Annual Accounts process, all Service Directors are asked to provide assurance that the following statements are valid:
- That Financial Monitoring Statements are regularly reviewed at Service Management Meetings.
- That Staff have been made aware of Financial Regulations and Contract Standing Orders.
- That Staff have been made aware of the Code of Conduct, Information Systems Security, Fraud and Corruption and Whistle blowing policies.

- That the Service has a robust scheme of delegation and that Staff have been informed of their supervisory and accountability responsibilities and that their responsibilities are documented in a Job Description.
- That segregation of duties is an important control mechanism operation within the Service and where it has not been possible to operate such a control a suitable alternative is in place.
- That appropriate targets have been established within the Service to measure financial and other performance.
- That a formal system of project management, including project governance operates within the Service.
- That appropriate arrangements are in place to govern companies.

The necessary assurances have been provided by all Service Directors and no issues have been highlighted which affects the Statement on Internal <u>Financial</u> Control.

2.7 Information Management and Security

The majority of the Council's information systems and services are currently provided by Fujitsu Services as part of a five year contract which commenced on 01/04/10 and has been partially extended for a further 18 months up to 30/09/16. The Council's ICT cost management framework and disaster recovery are also included within the Fujitsu contract. Performance of the contract and service delivery is monitored by the ICT Partnership Board and reports every 6 months to the Resources Committee. In 2014 reports were presented in May and November. A dedicated ICT re-procurement team has been set up for re-provision beyond 2015 for some services, and beyond September 2016 for the majority of the contract services. The re-provision team is preparing the OJEU notice to be published over the summer 2015 with a supplier industry day prior to publication.

In addition to Fujitsu, the Council's other main ICT supplier, Vodafone (which acquired Cable & Wireless), provides managed data network services to Schools, Libraries and Council administration locations and had an extension to the Pathfinder North (PfN) contract from 2014 to March 2016. PfN contract performance is monitored by the Pathfinder North Partnership and is reported to the Resources Committee twice a year. The Partnership joined the Scottish Wide Area Network (SWAN) Vanguard Project to procure a single, network service for use by potentially all Scottish public service organisations and the Pathfinder North Project operating within Vanguard, has received a thorough External Project Assurance Review. This Review found that the re-procurement project was well managed enjoying excellent project governance driven by a strong and genuine commitment to work in partnership. It has been agreed that the Partnership will continue and a 3-person permanent team has been set up to manage the relationship between partners and the SWAN contract. In addition a project team has also been set up within The Highland Council to manage transition of Council sites from the Vodafone contract to SWAN.

The concurrent renewal of the Council's two major ICT service delivery contracts and the move to a mixed economy approach creates a challenging contract management environment for the Council's ICT Services.

The Council's compliance renewal date with authorisation to use the Cabinet Office's Public Sector Network for secure email communications between it and its government partners and applications such as DWP and Blue Badge, was extended from September 2014 to 30/04/15. The Council has now been given a 24 month re-accreditation running until May 2017.

The Council's latest organisation structure has still to be updated within its network management software Active Directory. Active Directory is a database that keeps track of all the user accounts and passwords in your organization. It

allows organisations to store user accounts and passwords in one protected location, improving its security. It is used to allocate different access levels to different types of users who are accessing a network. This will be a substantial piece of work and there is currently no decision to progress with that update, although small scale changes are likely to happen during 2015 to separate out Highlife Highland and the Valuation Joint Board.

The Council has an approved Information Security Management System in place as required by ISO 27001. In addition it has an Information Security Policy and ICT Acceptable Use Policy. Operational Information Security management is managed by ICT Services and an ICT Security Group exists to support this through the review of security incidents and identifying and evaluating security risks. The Information Management Governance Board reviews high level information security risks referred from the ICT Security Group and other information security risks that relate to non-ICT issues. A formal review carried out in 2010 highlighted areas where the Council did not fully meet ISO 27001 compliance requirements at that time. However, a substantial amount of work has been carried out since that review and another formal review was completed in June 2014 as part of the Fujitsu ICT Contract Security Plan.

Third parties used to host Council systems and data may be required to hold an ISO 27001 certification and this will be considered in future procurement exercises. Fujitsu has ISO 27001 information security management certification for their Data Centre in Stevenage and their back up site in London until 04/12/15. During 2013/14, a member of ICT Services and Internal Audit visited the Stevenage Data Centre and controls were found to be as expected. In addition an Internal Audit review of physical and environmental security for other Inverness data sites, not included in the Fujitsu certificate of assurance, was carried out. This review reported the audit opinion of "substantial assurance" for the areas covered.

ICT Projects carried out as part of the Fujitsu ICT contract are controlled through the PRINCE2 project management methodology and are overseen by a Projects Review Board. The Council has an approved ICT Strategy to support the Council's Corporate and Service Plans covering the period from 2012 – 17, and was last revised in October 2013. Increasingly projects are being managed directly by the Council rather than by Fujitsu, although some key corporate projects in 2014/15 were delivered by Fujitsu. One of these was the Aspien Debt Recovery Project which was stopped by the Council as the system was failing to meet requirements. An audit was carried out of this project early in 2015 and the report gives "limited assurance" for the areas covered. Seven recommendations were made in that report relating to guidance and processes for ICT projects.

The Information Management Governance Board also oversees the Information Management Strategy and its implementation across the Council, and this is supported by an Information Management Policy Framework. Internal Audit reviewed the management of Council records by High Life Highland in the records repository at the Highland Archives and Registration Centre in Inverness. The review included observations of progress on records management in the Managing Information Project within the Corporate Improvement Programme and consideration of new legal requirements of the Public Records (Scotland) Act. The audit report provided an opinion of "substantial assurance" for the areas covered.

The Board also oversees data protection issues. The Council previously recognised that arrangements for data protection compliance with regard to governance and controls need to be strengthened and produced an action plan to introduce appropriate improvements which is predominantly complete. Actions are being monitored by the Information Management Governance Board.

2.8 Governance arrangements

The Council has a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007). This framework has been updated with regard to the CIPFA Statement on the "*Role of the Chief Financial Officer (CFO) in Public Service Organisations*" and a supporting CIPFA/ SOLACE application note has been produced which shows that the Council complies with most of the additional governance requirements. Governance was strengthened further when the Council's Financial Regulations were revised on 19/06/14 to clarify that the CFO, as well as the Head of Audit & Risk Management, has direct access to the Audit & Scrutiny Committee.

The Depute Chief Executive/ Director of Corporate Development is responsible for:

- overseeing the implementation of the Local Code of Corporate Governance and monitoring its operation

- reviewing the operation of the Local Code of Corporate Governance in practice

- reporting annually to the Council on compliance with the Local Code and any changes required to maintain it and ensure its effectiveness.

This process is subject to annual audit and the work undertaken during this year has not identified any control weaknesses in the Council's governance arrangements.

2.9 Risk Management

Risk management is a key element of Corporate Governance. The Council has a risk management strategy which demonstrates its commitment to maintaining a structured approach to risk management and ensuring that it effectively manages its risks. The last update to the strategy was approved by the Audit & Scrutiny Committee on 20/06/13 and a further review is due later in 2015.

The Corporate Risk Register is reviewed on a six-monthly basis and the results of these reviews were reported to the Audit & Scrutiny Committee on 19/06/14 and 20/11/14. During the year improvements were made to the risk management process which included removing any risks which were considered to be "business as usual", identifying target risk scores and clear actions which address the risk. In addition, the information provided to Members was enhanced in order that progress with managing the corporate risks can be monitored and reported upon.

2.10 Integrated Care Arrangements

A Partnership Agreement has been in place between the Council and NHS Highland (NHSH) for integrated services for Adult and Children's Services since 01/04/12. This agreement uses the Lead Agency model where both organisations are jointly accountable for determining outcomes and the resources to be committed. The Council is the Lead Agency for Children and NHSH for Adults, and they are each responsible for all aspects of business delivery, strategy, internal governance, operational delivery or commission of services and fully accountable for the delivery of the agreed outcomes.

A new integration scheme document has been produced as required by the Public Bodies (Joint Working) (Scotland) Bill 2014 which came into effect on 01/04/15. The scheme is presently being updated to take account of the comments provided by the Scottish Government and once this has been done, will be sent back for their approval. The scheme document is significantly shorter than the Agreement which it replaces but this is still available as a reference document where more detailed information is required.

The draft integration scheme has been subject to review by Internal Audit to ensure that this is in accordance with the Bill's requirements. This review has

shown that the scheme broadly accords although some differences have been identified and these are being addressed with management at present.

2.11 Audit Opinion

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31st March 2015.

3.   INTERNAL AUDIT GRADINGS AND OPINIONS

3.1   During the year, a total of 32 final reports were issued. Where the report contains an audit recommendation, this is given a grading of high, medium or low. In addition, the report contains an overall audit opinion which is used to inform the annual statement on internal control. With regard to the audit opinion, there are five levels of assurance which have the following definitions:

Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Reasonable Assurance	Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

3.2   Table 2 below, provides a summary of the audit reports issued together with the audit opinion, number of recommendations and a breakdown of the associated grades.

Table 2

Report Name	Report Date	Audit Opinion	No. of Recommendations	High	Medium	Low
Payments to Nursery Providers (follow-up)	21/05/14	Substantial	2	0	1	1
Verification of Performance Indicators 2012-13	27/05/14	Substantial	2	0	1	1
Highland Archive Centre (HLH)	10/06/14	Substantial	5	0	5	0
Inspection of equipment in Schools	10/06/14	Limited	13	2	10	1
School Meals Income Collection and Monitoring Systems (follow-up)	10/06/14	Limited	6	2	3	1
Grass Cutting contract - monitoring and contract payment arrangements	10/06/14	Limited	3	1	2	0
School Transport	10/06/14	Substantial	2	0	2	0
Corporate Governance Arrangements 2013-14	06/08/14	Substantial	1	0	1	0
Housing Benefit Payments and Council Tax Reduction Scheme 2013-14	27/08/14	Substantial	3	0	3	0
Creditors	28/08/14	Reasonable	6	2	4	0

Report Name	Report Date	Audit Opinion	No. of Recommendations	High	Medium	Low
Business Continuity Planning arrangements (follow-up)	09/09/14	Limited	8	4	4	0
End user computing	11/09/14	Substantial	2	0	2	0
Contractor's Framework Agreement for works up to £50,000 (follow-up)	15/09/14	Reasonable	4	1	3	0
Revenue Budgetary Control	15/09/14	Substantial	4	0	3	1
EFF Axis 4	01/10/14	Reasonable	7	0	5	2
School off-site excursions	04/11/14	Limited	4	1	2	1
Oracle Financials	05/11/14	Substantial	2	0	2	0
Review of Employability Service	10/11/14	Substantial	5	0	2	3
Leader Programme 2013-14	10/11/14	Substantial	2	0	1	1
Commissioning of Children's Services	10/11/14	Substantial	3	1	2	0
Children's Units	10/11/14	Limited	10	0	8	2
Human Resource Security	11/11/14	Reasonable	3	1	2	0
Matters arising from the Highland Council's Statement of Internal Control 2013-14	11/11/14	Substantial	3	0	1	2
Uniform System	11/11/14	Reasonable	5	1	4	0
Childcare Income	28/11/14	Reasonable	11	0	11	0
Compliance with Carbon Reduction Commitment Energy Efficiency Scheme 2013 - 14	04/12/14	Substantial	3	0	2	1
Corporate Governance Arrangements 2013-14	04/02/15	Full	0	0	0	0
Highland Instrumental Unit	16/02/15	Reasonable	6	2	4	0
Corporate Internet Use (follow-up)	16/02/15	Reasonable	4	1	3	0
Capital monitoring and budgetary control	09/03/15	Substantial	1	0	1	0
Review of payments through the Service Centre	17/03/15	Substantial	3	0	3	0
Workforce Planning arrangements	27/03/15	Substantial	1	0	1	0

Totals   **134**   **19**   **98**   **17**

4.   **OVERVIEW OF 2014/15**

4.1   **2014/15 Tactical Plan**

The 2014/15 tactical plan was approved by the Audit & Scrutiny (A&S) Committee on 27/03/14. Progress against the plan is reported as a standing item at each Committee meeting as part of the internal audit reviews and progress report.

The audit reviews which could not be undertaken during the year, as originally planned, were discussed with Directors as part of the consultation process in producing the 2014/15 tactical plan.

4.2   **Staffing Issues**

Following a restructuring of the Section to deliver efficiency savings, a revised structure has been in place during 20014/15. The section comprises of a general audit team managed by the Audit & Risk Manager with 4 Auditors, 3 Assistant Auditors (1 full-time and 2 part-time) and 1 Trainee Auditor. The Computer Audit team is managed by the Computer Auditor who is supported by an Assistant Computer Auditor. The full-time, and one of the part-time Assistant Auditors commenced in May 2014.

As a result of changes arising from the creation of the Single Fraud Investigation Service by the Department of Work and Pensions (DWP), the Benefit Fraud Investigation Team, which is currently within the Revenues and Business Support Section of the Finance Service, will cease in July 2014. 2 members of staff will transfer to Internal Audit & Risk Management and a new Corporate Fraud team will be created on 01/08/15 under the management of the Audit & Risk Manager. In addition to undertaking fraud investigations it is intended that this new team will undertake proactive work in order to try and reduce the risk of fraud occurring within the Council by targeting those areas of higher risk. The work of this team will be reported to Committee as part of the progress report.

4.3   **Scrutiny Reviews**

A scrutiny review of was undertaken using the Audit Scotland national reports, "Using Cost Information to Improve Performance: Are You Getting it Right?" and "Managing performance: are you getting it right?" This review identified a number of areas for improvement and was reported to the Audit & Scrutiny Committee on 20/11/14.

It was recognised that the scrutiny review process required improvement and to assist Members in undertaking effective scrutiny, further training was provided by CIPFA on 09/05/14.

In addition, the Head of Audit & Risk Management met with the Chair and Vice-Chair of the Audit & Scrutiny Committee to discuss how to progress the work of the Scrutiny Working Group and the following was agreed:

- Members should be drawn from Council as a whole (providing the membership of the Group reflects the Council's political balance) to ensure that they have the appropriate skills, experience, interest particular to the scrutiny topic concerned.
- At the start of each exercise the meetings required to complete the exercise need to be arranged so that the attendance of Members is better and there is greater continuity. The reporting timescales also need to be planned and agreed.
- Information provided at evidence gathering sessions needs to be supported by the relevant evidence. Where necessary, Internal Audit should undertake some subsequent analysis to support the reliability of this evidence. It may be necessary to then call back the Director to discuss that analysis.
- Scrutiny topics need to be risk-based and focussed.

Following the above revisions to the scrutiny process a review of the Council's arrangements for managing sickness absence has been undertaken during the course of the year. This work is nearing completion and will be reported to the next Committee meeting in September.

4.4 Fraud and Irregularity Investigations

There were a total of 3 investigations during the year, including 2 which were brought forward from the previous year. All of these relate to issues within Schools and School Funds:

- An investigation into missing money from a School Fund resulted in the Clerical Assistant being dismissed. This individual has also been charged by the Police and court proceedings are scheduled for later this year.

- This investigation related to concerns about the administration of the School Fund, and the appropriateness of both DSM and School Fund expenditure. Following a disciplinary investigation the Administrative Assistant was dismissed. In addition, a Police investigation is on-going.

- The last investigation also centres upon the administration of the School Fund and this is presently on-going.

Once the results of the investigations are known, including where appropriate action by the Police, any identified system weaknesses will be reported to the Audit & Scrutiny Committee.

5. PERFORMANCE DATA

5.1 Performance Data

In accordance with the Standards (PSIAS) a new Quality Assurance Improvement Programme (QAIP), which gives assurance over, and measures the Internal Audit activity, was introduced and details were provided to Committee at the meeting of 20/11/14. The QAIP was expanded to include a section on performance management and a set of new performance indicators were introduced from 01/04/15. Previously, a performance and quality assurance framework was in place which included a set of performance measures and the information shown for 2012/13 and 2013/14 in Table 3 below was reported under this framework. The 2014/15 data reports upon the indicators set out in the QAIP.

Table 3

Category	Performance Indicator	Target	2012/13	2013/14	2014/15	Within Target?
Financial						
Cost of Internal Audit	Actual net expenditure v budgeted net expenditure, expressed as a percentage	<100%	83%	91%	97%	√
	Cost per £m net expenditure	Within lowest quartile (8th or less) of CIPFA benchmarking comparators	Y, 4th out of 32 authorities	Y, 7th	Not yet available	n/a
Quality						
Customer Feedback	Percentage of satisfaction from individual audit engagements expressed through Client Audit Questionnaire	90%	90%	N/A	92%	√
	Percentage of Client Audit Questionnaires returned	70%	N/A	N/A	70%	√
Compliance with CIPFA Code of Practice/ PSIAS	Percentage of areas of compliance against best practice checklist	95%	97%	N/A	N/A	√
	Percentage of areas of full compliance against the PSIAS	95%	N/A	76%	97%	√
Business Processes						
Implementation of Recommendations	Percentage of recommendations accepted v number of recommendations made	95%	99%	100%	99%	√
Timeliness of Draft Report	Percentage of draft reports issued within 15 days of Matters for Discussion meeting	90%	0%	11%	14%	X

Category	Performance Indicator	Target	2012/13	2013/14	2014/15	Within Target?
Timeliness of Final Report	Percentage of draft reports responded to by client within 20 days of issue	85%	N/A	N/A	44%	X
	Percentage of final reports issued within 10 days of receipt of management response	90%	N/A	N/A	87%	X
Completion of Audit Plan	Percentage of audits completed in the year against audits in the Plan	85%	24%	20%	48%	X
Follow up reviews	Percentage of follow ups undertaken within due date	95%	88%	33%	50%	X
Staffing						
Training & Development	Average number of training and development hours per employee	14 hours or more	36 hours	81.4 hours	169 hours	√
Sickness Absence	Number of days absence per employee	Less than 5 days per annum	2 days p.a.	1.7 days p.a.	2.6 days p.a.	√

<u>Comments on the performance data:</u>

Whilst there are a number of positive results in Table 4, there are a number of areas within the Business Processes category where performance was not within target:

<u>Timeliness of draft report</u>

Although there has been a slight improvement in performance, the completion of draft reports within the target timescale has been disappointing. One reason is the number of audits that each auditor is involved with at one time, each with varying priorities. Therefore this prevents work being completed within the original planned timescale.

It has also been recognised that there is room for efficiency in the production of draft and final audit reports, particularly as there is duplication between the management summary; the report body and the action plan. Therefore, *in order to improve performance*, the standard report template has been amended which should help to achieve the quicker production of draft reports.

<u>Timeliness of final report</u>

This indicator is a new indicator and one that is subject to monitoring as part of the Quarterly Performance Review. When draft reports are issued the recipient is asked to respond within a 20 day timescale and it is therefore disappointing that this is frequently not met, particularly as it can be disruptive to the wider work of the audit team and also because it is necessary to issue reminders.

In order to improve performance, the Head of Internal Audit & Risk Management will remind all Service Directors of the timescale. In addition this will continue to be monitored at Quarterly Performance Reviews, allowing performance to be compared both with the target and with previous quarters.

<u>Completion of the audit plan</u>

Although there has been considerable improvement with regard to this indicator in comparison with the previous year, the figure reported shows that only 48% of planned audits have been completed. This indicator does not take account of the fact that there were a number of planned audits that were still work in progress at the year-end; including some where the draft report had been issued. Furthermore, when the audit plan is drafted each year, there are several reviews that are planned for the year end, particularly those to support the Statement on Internal Control.

The previous Audit & Scrutiny meeting of 26/03/15 was provided with an update with regard to completion of the plan and this showed that 49 audit assignments were included within the 2014/15 plan and 42 assignments would be delivered, allowing for the adjustments approved by Members. Therefore this shows that 86% of the plan will be achieved.

With regard to the reported performance, there are a number of areas that have had an impact:

- Following the recent restructuring of the Section, two new Members of staff started during the year. In addition, a Trainee Auditor started in January 2014. These changes included replacing 2 previous qualified posts with unqualified staff and, as a consequence, the training hours have been much higher than expected.

- The indicator does not take account of the relative complexities and priorities. Although each audit is allocated a time budget, some reviews have exceeded that budget as a result of the nature of the findings or the complexities of negotiating and agreeing action plans which cut across more than one Service.

- Obtaining responses to draft reports and also to queries raised during the course of audit reviews has extended the time taken to issue final reports.

There are *actions that are being taken to improve performance* which are as follows:

- The audit plan for 2015/16 provides for audits of the key financial systems being undertaken on a "continuous auditing" basis, thus reducing the amount of time required at the end of the financial year.

- Measures referred to above, particularly with regard to the amended reporting template and in requesting Services to comply with the response timescales will also have a positive impact.

<u>Follow ups</u>

In last year's report reference was made to a change in the process whereby the follow-up information would be obtained from PRMS. However, delays with Services inputting internal audit recommendations and updating the corresponding actions that have been taken, means that this information could not be followed up timeously. Therefore, due to the unreliability of the PRMS information it was decided to revert back to the previous action tracking process. This has recently been implemented and follow-ups are now being undertaken timeously which should ensure that better performance is recorded for next year.