

Agenda Item	6
Report No	AS/10/17

HIGHLAND COUNCIL

Committee: Audit & Scrutiny Committee

Date: 26th June 2017

Report Title: Internal Audit Annual Report 2016/17

Report By: Corporate Audit Manager

1. Purpose/Executive Summary

- 1.1 The attached report includes an assessment of the Council's framework of governance, risk management and control, and the associated opinion which provides information for the Council's Annual Governance Statement.

2. Recommendations

- 2.1 The Committee is invited to note the content of the report, the audit opinion provided and to raise any relevant points with the Corporate Audit Manager.

3. Annual Report 2016/17

- 3.1 The Public Sector Internal Audit Standards requires that the Chief Audit Executive (the Corporate Audit Manager):

“Delivers an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”

These requirements have been met by the report provided at **Appendix 1** with section 2 of the report used to inform the Council’s Annual Governance Statement.

- 3.2 The annual report also provides an overview of the Internal Audit Section’s activities and performance data for 2016/17.

4. Implications

- 4.1 There are no Resource, Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever, Risk or Gaelic implications. Any issues identified have already been addressed within previous reports to Committee.

Designation: Corporate Audit Manager

Date: 16th June 2017

Author: Donna Sutherland

Background Papers:



The Highland Council

Internal Audit Annual Report 2016/17

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1. INTRODUCTION

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2016 to 31st March 2017, and a report that can be used by the Highland Council to inform its Annual 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 2016/17.

2. ANNUAL GOVERNANCE STATEMENT

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 Corporate Audit Manager reporting in her 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.

The Standards require that there is periodic self-assessment against the Standard's requirements and that an external assessment is conducted at least once every five years by a qualified, independent assessor from outside the organisation. This was arranged through the Scottish Local Authorities Chief Internal Auditors Group (SLACAIG) which developed a standard External Quality Assessment framework for use within the Group. During 2016/17 this assessment was undertaken by the Audit & Risk Manager from West Dumbartonshire and the results were reported to the Audit & Scrutiny Committee on 02/03/17. This report included a summary of conformance with the Standards which is shown overleaf in Table 1. The overall conclusion was that the Internal Audit Service **Generally Conforms** with the Standards.

Summary of conformance with the Standards

Table 1

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	Definition of Internal Auditing				
Section B	Code of Ethics				
Section C	Attribute Standards				
1000	Purpose, Authority and Responsibility				
1100	Independence and Objectivity				
1200	Proficiency and Due Professional Care				
1300	Quality Assurance and Improvement Programme				
Section D	Performance Standards				
2000	Managing the internal Audit Activity				
2100	Nature of Work				
2200	Engagement Planning				

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
2300	Performing the Engagement				
2400	Communicating Results				
2500	Monitoring Progress				
2600	Communicating the Acceptance of Risks				

Where the assessment identified areas for improvement these were detailed in an action plan and a number of management actions were agreed. Completion of these will then improve upon the extent of compliance with the Standards.

2.3 Internal Audit work

The 2016/17 audit plan was approved by the Audit & Scrutiny Committee on 24/03/16. 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.

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 2016/17, a total of 90 audit recommendations were made. Of these, 21 were classified as high grade and further details are provided in Table 2 below. A full breakdown of the audit grades and the overall audit opinions can be found at Table 3 on pages 13 - 14. This number is significantly lower than that reported in the previous year which had 40 high grades, 17 of which came from 3 audit reports on project governance which was highlighted as a “Significant Governance Issue” in the 2015/16 Annual Governance Statement. This highlighted particular issues concerning the governance of projects within the Council with 3 reports (implementation of a new debt recovery system, capital project to build Ben Wyvis School and governance of Inverness Old Town Arts and Inverness City Arts Group) issued, all containing the audit opinion of “Limited Assurance”. It has been confirmed that 29 actions, including 14 high grades, have been satisfactorily implemented. The remaining 3 high grade actions are being addressed by management but are taking longer to implement than originally planned. These consist of:

- Ben Wyvis – review of the role of capital Clerk of Works and Building Service Inspectors was to be undertaken. New members of staff have been recruited but work is ongoing to ensure that the site inspection quality process meets the required performance standards. In addition, new tablets and software has been procured and is in the process of being rolled out to the area based Clerk of Works. A revised target date of 31 December 2017 has been agreed for these actions.
- Inverness Old Town Arts and Inverness City Arts Group – the 2 outstanding issues are being addressed by the Council’s External Legal Advisors. It is hoped that resolution will be achieved by 30 June 2017.

No further significant governance issues were identified from the 2016/17 Internal Audit work undertaken. On a positive note, a review of the Transformation Saving Programme reported that this had a sound system of project governance in place. A review of compliance with the Council’s Project Management Governance Policy, which came into place on 01/04/16, will be subject to audit in 2017/18.

Table 2

Area of Concern – High Grades	Agreed Action Completed/ Update (where not completed)
<u>Inspection of Equipment in Schools (Follow-up)</u>	
<p>(1) Records of inspection and testing:</p> <ul style="list-style-type: none"> - Accurate and complete asset registers are still not maintained. - The Property Policy has not been finalised. - The “Electrical Risk Review” report highlighted a number of issues with the level and cost of remedial works identified across the Council. <p>(2) The agreed action in respect of monitoring arrangements was not implemented as:</p> <ul style="list-style-type: none"> - The process for the monitoring and recording completion of fixed electrical remedial works has not been documented. In addition, work is required to ensure that supporting documentation is up to date for monitoring purposes. - There were issues with a back-log of electrical remedial works required. - No guidance had been produced by the Care and Learning Service for Head Teachers to follow where gym equipment has been reported as being defective or should be removed. - There was no process for monitoring whether approved works are completed for the Gym and P&E Contracts. 	<p>A number of different actions were agreed by management and some of these have been implemented. However, a number are still outstanding and revised target date of 28/08/17 has been agreed.</p> <p>Again multiple actions were agreed by management but none of these have been implemented. It has been recognised that additional resources are required and a recruitment process is in place with the Development & Infrastructure Service. The revised target date of 28/08/17 has been agreed.</p>
<u>Managing School Rolls</u>	
<p>Revised primary school capacity figures, based on the Scottish Government Guidance, had not yet been completed and published.</p>	<p>Updated school capacity figures have been completed but the service confirmed on 14/12/16 that there was still some work to do to formally document the revised methodology. This was subsequently put on hold until the methodology has been refined. A revised target date of 30/11/17 has been agreed to allow these actions have been taken.</p>

Area of Concern – High Grades	Agreed Action Completed/ Update (where not completed)
<u>Self-Directed Support</u>	
<p>(1) The justification for the agreed expenditure within individual Support Plans was not always clear.</p> <p>(2) There is no single and complete record of all the children and young people receiving an SDS Personal Budget.</p> <p>(3) Services were being purchased on behalf of clients without ensuring that these were suitably registered and staff had the appropriate PVG checks.</p> <p>(4) The maximum level of funding available through the RAS process is £21,000. In spite of this, a number of clients were in receipt of budgets over this limit and there was no process in place for dealing with these.</p> <p>(5) There was no system in place to record and monitor how successful the improvements are to people's lives from receiving SDS.</p>	All agreed actions have been completed.
<u>SharePoint</u>	
A report on security of the SP2010 Environment issued in October 2015 contained 2 critical and 7 recommended findings to be addressed. It was reported that at the time of the audit review these were being reviewed with the contractor.	Agreed action completed.
<u>Transformation Savings Programme Projects</u>	
Prompt remedial action was not taken following the reporting of a Red project status.	Not yet due for action tracking.
<u>Administration of Fuel</u>	
Global fuel consumption monitoring of the fleet had not been introduced. The fleet was partially monitored with the introduction of tracking for heavy vehicles, with a trial underway on a small number of lighter vehicles.	Agreed action completed.
<u>Debtors</u>	
Gaps in the reference numbers of invoices, credit notes, and adjustment transactions were found which could be used to hide fraudulent activity.	Not yet due for action tracking.

Area of Concern – High Grades	Agreed Action Completed/ Update (where not completed)
<u>Control of Road Bonds & Enforcement of Planning Conditions</u>	
<p>(1) A draft 'Road Construction Consent Operating Procedure' was prepared in November 2015 but at the time of the audit it had not yet been finalised and rolled out to staff.</p> <p>Also there was no internal operating procedure for calling in a road bond or deposit.</p> <p>(2) A central spreadsheet was maintained but no assurance could be given that it was a complete and accurate record of the current value of road bonds/ cash deposits held in favour of the Council.</p>	Not yet due for action tracking.
<u>Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme</u>	
<p>A number of issues were found in the underlying data which supported the information contained within the CRCEES report and it could be established that this was correct. In particular:</p> <ul style="list-style-type: none"> - There were problems with the documentation held to support the information reported - The accuracy of the reported data for on-site generated electricity could not be established due to errors found - The threshold for reviewing differences in consumption was not in accordance with phase 2 guidance - The accuracy of the calculation of the estimated supplies could not be established. 	All agreed actions have been completed.
<u>Review of the process for the management of the Renewable Heat Incentive (RHI)</u>	
<p>(1) No reconciliation was undertaken between the financial ledger, Ofgem's payment history, and the periodic payments record maintained by the RHI Data Co-ordinator. Therefore, there was no process to ensure that all income due was received and properly accounted for.</p> <p>(2) The basis for the setting of previous year's budgets could not be established and the targets set were considered too high.</p>	It was confirmed that all agreed actions have been completed. In addition a follow-up review is due to commence shortly.

Area of Concern – High Grades	Agreed Action Completed/ Update (where not completed)
<u>Rental Income</u>	
<p>(1) Moving forward, there is a need to ensure that corporately the Council arrangements for rental income ensure that:</p> <ul style="list-style-type: none"> • All chargeable assets are identified and accurately recorded; • The correct rental sums are charged and collected on time using the most efficient collection method; • Rent reviews are undertaken in accordance with the lease agreements and on time; • Copies of all leases are held and the necessary information is provided to Legal Services; • There is clarity over roles and responsibilities. <p>There was no Council policy for the waiving or reduction of rent. Despite this there are a number of leases charged at nominal sums.</p> <p>(2) Each Service has its own arrangements and it could not be established if complete and accurate records of all chargeable assets were held.</p> <p>(3) A number of issues were found in regard to income collection process across Services.</p>	<p>All agreed actions will be followed up as part of a specific rental income follow up audit which will take place during 2017/18.</p>
<u>Common Good Funds – Rental Income</u>	
<p>The audit identified several concerns regarding the process for income collection and rent reviews across the various Common Good Funds including issues with incorrect amounts being charged, leases could not be located and the need to update the Common Good Fund Policy to reflect the role of Ward Managers.</p>	<p>Not yet due for action tracking.</p>

As can be seen in the table above:

- 10 agreed actions have been completed as agreed
- 3 actions have revised target dates
- 3 actions are not yet due to be action tracked.

2.5 Action Tracking

The areas of concern detailed in Table 2 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 six-monthly basis with reports provided on 16/06/16 and 24/11/16.

The action tracking process also allows for revision of the agreed action target dates. All actions were either satisfactorily implemented or revised target dates were agreed.

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 Annual Governance Statement which forms part of the Council's Annual Accounts.

2.7 Information Management and Security

The majority of the Council's information systems and services were provided by Fujitsu Services as part of a five year contract commencing from 01/04/10 with an agreed exit provision termination agreement to give the Council contractual cover until 31/03/17 in line with the ICT re-provision requirements. In September 2016, the Council awarded a 7 year ICT Services contract to Wipro Holdings UK Ltd. As part of this service provision, the ICT Team worked closely with partners since September 2016 towards the transition of ICT services from Fujitsu to Wipro with take on of service starting on 01/04/17. The planned ICT Transition programmes of work were reported to the Resources Committee on 23/11/16 and 08/02/17 along with the ICT Network programmes to provide detail of the wider ICT Implementation activity. This covered the initial transition and 6 Transformation Projects.

An ICT Implementation Board is in place with 4 sub-boards: ICT Transition and Transformation, ICT Contract Exit, ICT Networks and the Curriculum ICTiL Board to provide governance and oversee delivery of the ICT implementation.

The staffing element of the Telephony service has been managed by the Council since 01/04/15 with fixed telephony now provided by Vodafone. On 01/03/16, a contract commenced with Capita (SWAN Value Added Service contract) for the LAN service.

Performance of Fujitsu ICT service delivery and contracts were monitored by the Service Management Board which sat under the ICT Partnership Board and reports were provided every 6 months to the Resources Committee. During

2016/17, Committee reports were presented on 25/05/16 for the period October 2015 to March 2016. On 23/11/16, a performance report was provided for the period April to September 2016 on the delivery of services by the Council's ICT providers, principally Fujitsu Services, Vodafone and Capita. A report for the period October to March 2017 is due in 2017 and new governance arrangements will be put in place for the new contract. This includes the new ICT Contracts Board to replace the ICT Partnership Board in April 2017.

SWAN Transition from Pathfinder North (PfN) was reported to the Resources Committee in 23/11/16 and also in 08/02/17. These reports described the inter-dependencies between the ICT Re-provision Programme work and SWAN transition, with reference to preparatory work for a wider Local Area Network (LAN) refresh across Council sites.

The Council's contract with its other main ICT supplier, Vodafone, for managed data network services to Schools, Libraries and Council administration locations ended on 31/03/16 but was subsequently extended to cover the additional time needed to transition to the new provider. The Wide Area Network (WAN) provision is being transitioned from Vodafone to a new Capita Scottish Wide Area Network (SWAN) contract on a site by site basis. As at 08/02/17 the total number of Highland sites connected was reported as 250 out of 392, representing 64% of the Highland estate. The Transition forecast estimated that a very small percentage of sites may be completed beyond June 2017. Two defined key risks associated with delayed transition were defined as business continuity and additional costs. Forecasted additional costs for the Partnership based on the estimated transition schedule were described as approximately £1.1m for the Partnership, with costs for Highland forecasted to be approximately £387k over 2016/17 and £258k in 2017/18. The PfN Partnership was said to be progressing its claim for additional costs incurred as a result of the delay on behalf of all Partners under the dispute resolution process set out in the contract.

The Council is authorised to use the Cabinet Office's Public Sector Network (PSN) for secure email communications between it and its government partners and applications such as DWP and Blue Badge. The Council has been re-accredited and this will cover the period 30/04/15 to 09/05/17.

The organisational structure in Active Directory did not accurately reflect the current structure of the Council at the start of the year. Active Directory is a database that keeps track of all the user accounts and passwords in the organisation and allows it to store user accounts and passwords in one protected location, improving security. It is used to allocate different access levels to different types of users who are accessing a network. The upgrade and rationalisation of Active Directory is listed as one of 6 transformation projects to be commenced alongside Transition starting in 31/03/17.

The Council's approved ICT Strategy to support the Council's Corporate and Service Plans covering the period from 2012 – 17 was last revised in October 2013. A new Project Management Governance Policy was approved by the Resources Committee on 25/11/15. One element of this policy was to provide Members with regular updates on the status of projects. An update on the status of ICT projects currently underway is provided to each meeting of the Resources Committee with the most recent being on 08/02/17. The Council has an approved Information Security Management System in place as a requirement of the information security standard ISO 27001. The Council's Information Management Strategy was updated and approved on 23/11/16. Policies supporting the updated Information Management Policy Framework - Records Management, Records Retention & Disposal, Information Security and Assurance Policy and the Data Protection Policy were also approved. The Information Security & Assurance Policy included information on protective marking requirements using an agreed

security classification scheme. Protective marking was to be applied to highlight sensitive information to support appropriate handling of that information by recipients of the information both within the council and by partners. The Records Management Policy stated that a Highland Council Business Classification Scheme would be established to take account of national standards and meet the requirements of the Public Records (Scotland) Act.

In accordance with the Public Records (Scotland) Act 2011, the Council and the Highland Licencing Board submitted a Records Management Plan to the Keeper of the Records of Scotland which was approved on 31/03/16. In agreeing this Plan, the Keeper expected Highland Council to fully implement the agreed Plan and meet its obligations under the Act.

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 IMGB reviews high level information security risks referred from the ICT Security Group and other information security risks that relate to non-ICT issues.

The following third party assurances have been received:

- Fujitsu has ISO 27001 information security management certification for their Data Centre in Stevenage and their back up site in London until 04/12/18.
- Wipro Holdings (UK) Ltd is UK registered. A visit to the WIPRO Holdings Ltd data centre in Scotland and review of certification assurances is planned in summer 2017.
- For the SWAN contract Capita Business Services has ISO27001:2013 information security management certification for the period 26/01/15 to 26/01/18. Their Direct Network Service Provider (DNSP), Udata Infrastructure UK Ltd, has been assured as compliant with requirements to connect to the PSN as a DNSP. The Capita Udata connectivity and network framework has been assessed under CESG Assured Service and approved against Telecommunications from 23/03/15 to 22/03/18.
- In respect of Integra, the supplier Capita Integrated Business Solutions (Capita IBS) has accreditations including ISO 9001:2008 – Quality Management System certification to 31/10/18 and ISO 27001:2013 – Information Security Management Systems Requirement certification to 15/06/18. The hosted system is managed in a UK data centre by Ark Data Centres Limited. Ark has certifications including ISO 27001:2013 – Information Security Management Systems Requirement for the provision of a distributed data centre environment valid from 28/07/16 to 27/07/19; ISO 9001:2008 – Quality Management System certification from 17/05/16 to 16/05/18; and certification for operating a Business Continuity Management System complying to the requirements of ISO22301:2012 from 18/05/16 to 17/05/19.
- To ensure the safety of the Council's network and comply with PSN requirements, penetration (PEN) testing was carried out in April 2016 and a report of findings followed in May 2016. This highlighted a number of areas for improvement which are being addressed. In May 2017, the areas remaining to be completed are classed as 1 critical, 3 high, 3 medium and 2 low.

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.

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.

The 2016/17 Code was approved by the Highland Council on 27/10/16 and was presented to the ASC for further scrutiny on 24/11/16.

The Council's corporate governance arrangements are subject to annual review by Internal Audit and the work undertaken in respect of the 2016/17 Local Code 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 Corporate Risk Register is reviewed on a six-monthly basis and the results of these reviews were reported to the Audit & Scrutiny Committee on 29/09/16 and 02/03/17.

2.10 Managing the risk of fraud and corruption

CIPFA published the Code of Practice on managing the risk of fraud and corruption in 2014. The Code contains five key principles which are aimed at embedding effective standards for countering fraud and corruption in organisations in order to support good governance. These principles are to:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption.

A number of these standards are already in place such as the expected Human Resources, and Information and Communication Technology policies, and the Council's Anti-fraud and Anti-corruption policy. A review of compliance with the Code of Practice was planned during 2016/17 but this has been delayed due to a major investigation into the award of works for void properties. This review is now planned for the latter half of 2017/18 and will also take into account the findings from audit investigations where improvements that can be made to further strengthen the Council's approach to managing the risk of fraud and corruption.

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 framework of governance, risk management and control for the year to 31st March 2017.

3. INTERNAL AUDIT GRADINGS AND OPINIONS

3.1 During the year, a total of 21 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 3 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 3

Report Name	Report Date	Audit Opinion	No. of Recommendations	High	Medium	Low
Inspection of Equipment in Schools (Follow-up)	06/06/16	Limited	4	2	2	0
Managing School Rolls	06/06/16	Limited	3	1	2	0
Self Directed Support	05/05/16	Limited	10	5	5	0
SharePoint	19/09/16	Reasonable	10	1	8	1
Third Party Arrangements in Relation to Information Security	20/06/16	Reasonable	5	0	5	0
Verification of 2014/15 Performance Indicators	15/04/16	Reasonable	3	0	3	0
Transformation Savings Programme	20/02/17	Reasonable	5	1	3	1
Housing Rents	04/10/16	Full	1	0	0	1
Administration of Fuels	25/04/16	Limited	7	1	6	0

Report Name	Report Date	Audit Opinion	No. of Recommendations	High	Medium	Low
Outsourced Grass Cutting Contract - Monitoring and Payment Arrangements (Follow-up) - Report	31/05/16	Reasonable	4	0	4	0
Debtors	08/09/16	Reasonable	12	1	10	1
Personnel Recruitment Process	20/09/16	Reasonable	5	0	4	1
Matters Arising from the Highland Council's Statement of Internal Control 2015/16	14/11/16	Substantial	1	0	1	0
LEADER Programme 2015/16	07/11/16	Substantial	3	0	3	0
Control of Road Bonds and Enforcement of Planning Conditions	08/11/16	Reasonable	6	2	4	0
Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2014/15	11/05/16	Limited	2	1	1	0
Renewable Heat Incentive Income	19/09/16	Reasonable	3	2	1	0
Rental Income	15/11/16	Limited	3	3	0	0
Common Good Funds - Rental Income	17/02/17	Reasonable	3	1	2	0
Totals			90	21	64	5

4. OVERVIEW OF 2016/17

4.1 2016/17 Tactical Plan

The 2016/17 tactical plan was approved by the Audit & Scrutiny (A&S) Committee on 24/03/16. 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 2016/17 tactical plan.

4.2 Staffing Issues

During 2016/17 a new Audit & Performance Team was formed following the departure of 2.6 staff through Voluntary Redundancy. Details of the remit and priorities of the Team were reported to Committee on 02/03/17 together with the Internal Audit Plan for 2017/18.

Any staffing matters are reported to Committee within the standing progress report and the final appointment of an Assistant Auditor in July 2017 meant that the Internal Audit Section was fully staffed. The establishment is now 7.4 FTE audit staff and 1 FTE for the Corporate Audit Manager who also performs the role of Chief Audit Executive as required by the Standards.

4.3 Corporate Fraud Work

The remit of the new Corporate Fraud Team is the prevention, detection and investigation of all types of fraud within the Council. The Team also acts as the Single Point of Contact (SPOC) as part of the liaison arrangements with the Department of Work and Pensions.

Performance information is provided to each Committee meeting on corporate fraud activity and in 2016/17 the staff through close working with Housing Officers from Community Services on housing tenancy fraud, recovered a total of 22 Council properties.

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. This contains a set performance indicators which are reported to Committee on a quarterly basis. The information for the full year is set out in Table 4 below.

Table 4

Category	Performance Indicator	Target	2014/15	2015/16	2016/17	Within Target?
Financial						
Cost of Internal Audit	Actual net expenditure v budgeted net expenditure, expressed as a percentage	<100%	97%	93%	92%	✓
	Cost per £m net expenditure	Within lowest quartile (8 th or less) of CIPFA benchmarking comparators	Y, 5 th	N, 10 th	Not yet available	N/A
Quality						
Client Feedback	Percentage of satisfaction from individual audit engagements expressed through Client Audit Questionnaire	90%	92%	85%	85%	×
	Percentage of Client Audit Questionnaires returned	70%	70%	84%	90%	✓
Business Processes						
Implementation of Recommendations	Percentage of recommendations accepted v number of recommendations made	95%	99%	99%	99%	✓
Timeliness of Final Report	Percentage of draft reports responded to by client within 20 days of issue	85%	44%	68%	54%	×
	Percentage of final reports issued within 10 days of receipt of management response	90%	87%	92%	97%	✓
Training & Development	Average number of training and development hours per employee	2 days or more	24 days	15 days	18.5 days	✓
Sickness Absence	Number of days absence per employee	Less than 5 days per annum	2.6 days	17 days	11 days	×

Comments on the performance data which is not within target:

Client Feedback

The client satisfaction rate has remained consistent but is still below target. Work will be undertaken to review the areas which have attracted lower scores in order to establish if there are any particular patterns and if so, action will be taken to address these. However, as reported elsewhere to Committee, the quarter 4 performance shows and improvement.

Timeliness of final report

This has continued to be an issue as highlighted in the standing reports to Committee. It is hoped that the new shorter report format will bring about improvement in response times.

Sickness absence

The deterioration in performance for the past 2 years were due to members of staff being on long term sickness absence. This has been resolved with both staff now back at work full-time.