

REPORT TO: SCRUTINY COMMITTEE – 28 JUNE 2017

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: SENIOR MANAGER – INTERNAL AUDIT

REPORT NO: 180-2017

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee a summary of the Internal Audit Reports finalised since the last Scrutiny Committee.

2.0 RECOMMENDATIONS

Members of the Committee are asked to note the information contained within this report.

3.0 FINANCIAL IMPLICATIONS

None

4.0 MAIN TEXT

4.1 The day-to-day activity of the Internal Audit Service is primarily driven by the reviews included within the Internal Audit Plan. Broadly, on the completion of a specific review, a report which details the audit findings and recommendations is prepared and issued to Management for a formal response and submission of Management's proposed action plan to take the recommendations forward. Any follow-up work subsequently undertaken will examine the implementation of the action plan submitted by Management.

4.2 Executive Summaries for the reviews which have been finalised in terms of paragraph 4.1 above are provided at Appendix A. Within each Executive Summary the prime aim is to provide both Members and Management with key information which includes the reason for undertaking the review, a summary of financial data and statistics, the areas encompassed within the review and specific areas which were excluded, the principal audit objectives, an audit opinion on the adequacy of the systems and control framework of the area reviewed, the key conclusions based on the audit findings and recommendations and a summary of Management's response to the audit report. The full reports are available to Members on request.

5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6.0 CONSULTATIONS

The Chief Executive, Executive Director of Corporate Services, Head of Corporate Finance and Head of Democratic and Legal Services have been consulted on the content of this report.

7.0 BACKGROUND PAPERS

None

Pamela Redpath, Senior Manager – Internal Audit

DATE: 7 June 2017

i) INTERNAL AUDIT REPORT 2015/20

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|----------------|-------------------------------|
| Client | Corporate |
| Subject | Communication Strategy |

Introduction

A review of the Council's Corporate Communications Strategy was part of the planned internal audit work.

An effective Corporate Communications Strategy defines the ways in which an organisation will deliver messages to its stakeholders in an organised and consistent manner.

The strategy should consider areas such as the communication aims and principles, stakeholders, external and internal communication, branding, corporate image and methods or channels of communication. With the increase in the use of the internet, and particularly social media, the Council should ensure that these communication methods are effectively exploited but also well controlled. To ensure that there is a consistent approach, the strategy should be utilised by all Council services.

The Council's Corporate Communications Strategy was reviewed in 2014 and outlines the Council's key objectives with regard to communication. The updated strategy has been communicated to key members of staff and is available, along with Social Media Guidelines, on the Council's Intranet site.

Scope and Objectives

High-level review to assess the effectiveness of the Council's Corporate Communications Strategy in delivering simple, strong, clear and consistent messages to external and internal audiences.

Conclusion

The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.

The main areas highlighted in the report are as follows:

- To help shape the Council's next Communications Strategy, the Communications Team should carry out focused consultations to assess the awareness and effectiveness of current communication arrangements, with both internal staff and external stakeholders. The Council should also introduce monitoring controls to assess the effectiveness of their internal and external communications on an ongoing basis.
- A post-implementation review should be carried out to assess the benefits of the Communications Strategy. The actions within the strategy which have not been implemented should be progressed as required.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Chief Executive and appropriate action agreed to address the matters raised.

ii) INTERNAL AUDIT REPORT 2015/22

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|----------------|-------------------------------------|
| Client | Corporate |
| Subject | Construction Industry Scheme |

Introduction

A review to ensure that the Council is effectively discharging its responsibilities under the Construction Industry Scheme (CIS) was part of the planned internal audit work.

The CIS covers construction work to buildings carried out in the United Kingdom by self-employed individuals, including site preparation, refurbishment and decoration. Under the scheme, contractors are required to make deductions from sub-contractors payments and pay these to HM Revenue & Customs (HMRC) as advanced contributions to the sub-contractor's tax and National Insurance liabilities.

Some businesses, public bodies (including local authorities) and other concerns outside of the mainstream construction industry are deemed to be contractors if they have spent an average annual expenditure of £1 million or above on construction operations for a three year period. The Council is a deemed contractor and as such has a number of responsibilities under the CIS, including making deductions and filing monthly returns to the HMRC. Failure to effectively discharge these responsibilities can result in high financial penalties.

Scope and Objectives

Review to assess that the Council's responsibilities under the CIS as a deemed contractor are being effectively discharged.

Conclusion

The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.

The main areas highlighted in the report are as follows:

- There is limited organisational awareness of the CIS process on the part of key staff involved with sub-contractors, and currently no formal training is provided to staff on CIS requirements. Failure to comply with the requirements of the CIS could result in reputational damage to the Council and financial penalties. Formal training should be delivered and roles and responsibilities detailed in a CIS procedure which should be made available to all staff involved with the CIS process.
- There is inconsistency and, in some cases, limited information about prospective suppliers and sub-contractors being provided to Corporate Procurement in the supplier adoption process, leading to difficulties in discharging the requirements of CIS. New supplier request forms should be updated to include all information required for performing CIS checks.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Executive Director of Corporate Services, the Executive Director of Neighbourhood Services and the Executive Director of City Development and appropriate action agreed to address the matters raised.

iii) INTERNAL AUDIT REPORT 2015/30

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|----------------|------------------------------|
| Client | Construction Services |
| Subject | Sub-contractors |

Introduction

A review of the procedures operated in respect of sub-contractors within Construction Services was part of the planned internal audit work.

The services provided by Construction Services cover a wide spectrum of activity and include emergency repairs, gas testing, housing repairs, lift maintenance, new build, refurbishment, property repairs and Scottish Housing Quality Standard improvements. In order to provide these services, Construction Services employs skilled craftsmen covering the key building trades. Work is scheduled throughout the year to ensure resources are available to carry out the various contracts. From time to time, however, Construction Services will utilise sub-contractors to supplement in-house resources.

The Scottish Government has emphasised the importance of procurement to Scotland's economic recovery and is currently in phase two of its public procurement reform work. Statutory guidance and models of best practice, including the introduction of The Procurement Reform (Scotland) Act 2014, are being developed to support organisations to embed sustainability in procurement, improve access for suppliers and increase collaborative working, amongst other aims. The Council itself is engaged in ongoing procurement reform. It is important that procedures operated are robust to ensure sub-contractors appointed meet required standards, e.g. they are financially stable, but also that procurement procedures support the wider Scottish Government aims of improving access and increasing collaborative working.

During the 2015/16 financial year, Construction Services spent of the order of £5 million on procuring services from suppliers on the 'Assessed Sub-contractors List'.

Scope and Objectives

Review of the approach operated in respect of the appointment and use of sub-contractors within Construction Services to assess compliance with procurement practices and principles.

Conclusion

The principal conclusion drawn from this review is that there are significant weaknesses in the system which must be addressed.

The areas of concern highlighted in the report are as follows:

- At the time of the audit fieldwork Construction Services was maintaining an 'Assessed Sub-contractors List' and whilst any sub-contractor could apply to be accepted onto the list, its existence had not been advertised. There were 85 sub-contractors on the list, which was being utilised to competitively tender contracts instead of advertising publicly in line with The Public Contracts (Scotland) Regulations. Since completion of the audit fieldwork a significant amount of work has been undertaken by Construction Services and the Council's Corporate Procurement Team to move towards establishing a compliant route to market. In particular, letters were issued to sub-contractors advising them to register on the Public Contracts Scotland portal, on which in excess of 35 Quick Quote packages have subsequently been published to date. In addition, work surrounding the development of a construction and building services framework is ongoing, with two Prior Information Notices already published, another one expected to be published before the end of June 2017 and an aim to have final arrangements in place before the end of the calendar year.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Executive Director of Corporate Services, the Executive Director of Neighbourhood Services and the Executive Director of City Development and appropriate action agreed to address the matters raised.

iv) INTERNAL AUDIT REPORT 2016/06

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| Client | Corporate |
| Subject | Follow-up Review of Grant Funding |

Introduction

As part of the planned internal audit work, a follow-up review of Internal Audit Report 2014/04, Grant Funding, was undertaken.

The original internal audit report concluded that there were weaknesses in the system which should be addressed.

The main area highlighted in the report was as follows:

- Formalised policies and procedures should be developed to improve the level of corporate oversight and ensure that a minimum level of control is consistently applied to grant funding across the Council.

Scope and Objectives

To assess whether or not each of the recommendations agreed by management in Internal Audit Report 2014/04 had been implemented within the given timescales. The follow-up review was restricted to areas included in the original report.

Conclusion

The principal conclusion drawn from the follow-up work undertaken is that whilst some action has been taken to strengthen the control weaknesses highlighted in the original review there are still some recommendations which require to be implemented by management.

The main areas where actions agreed by management are still outstanding are as follows:

- A Grant Funding Working Group was established to address the findings of the original Internal Audit Report and met during 2014 and 2015. A Corporate Policy for Grant Income was drafted but was not finalised. More recently, the draft Corporate Policy for Grant Income was revisited and revised along with associated guidance documentation. Some improvements have been made to working practices in respect of management of grant funding and communications between the services and with staff in Corporate Finance. Internal Audit was advised that steps will be taken to re-convene the Working Group and one of the first priorities will be to agree and finalise the Corporate Policy for Grant Income and associated guidance documentation.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Executive Director of Corporate Services and the Executive Director of City Development and appropriate action agreed to address the matters raised.

v) INTERNAL AUDIT REPORT 2016/09

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| Client | Corporate |
| Subject | Follow-up Review of Business Continuity |

Introduction

As part of the planned internal audit work, a follow-up review of Internal Audit Report 2014/28, Business Continuity, was undertaken.

The original internal audit report concluded that there were weaknesses in the system which should be addressed.

The main areas highlighted in the report were as follows:

- To ensure that the Council's approach to Business Continuity Management (BCM) is in line with good practice, the areas for improvement identified during this exercise should form the basis of an improvement plan for implementation within a reasonable timeframe. Improvements include consideration, at a strategic level, of the existing approach to BCM and how this and the supporting framework can be strengthened going forward to ensure that the Council's resilience is sustainable. A short policy statement should then be developed defining the agreed roles and responsibilities of key groups, individuals, departments and specific support services. Thereafter, steps should be taken to ensure that all business critical activities are identified and business continuity plans to support these are developed, maintained and tested.

Scope and Objectives

To assess whether or not each of the recommendations agreed by management in Internal Audit Report 2014/28 had been implemented within the given timescales. The follow-up review was restricted to areas included in the original report.

Conclusion

The principal conclusion drawn from the follow-up work undertaken is that whilst some action has been taken to strengthen the control weaknesses highlighted in the original review there are still some recommendations which require to be implemented by management.

The main areas where actions agreed by management are still outstanding are as follows:

- In general, implementation of the recommendations is at an early stage, which in part is due to the Council re-structure and corresponding changes to responsibilities of key staff. However, work to develop and document IT resilience and business continuity arrangements, which are integral to the service business continuity arrangements, has been completed and reports on implementation of Business Continuity Plans, IT Disaster Recovery Plans and associated recovery strategies were approved by the Council Management Team (CMT). To support the Council to progress the outstanding recommendations, a decision was made to utilise Zurich, the Council's insurance supplier, to provide a number of business continuity workshops aimed at assisting services to develop their business continuity plans. These workshops are scheduled to take place in August 2017.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Executive Director of Corporate Services and the Executive Director of Neighbourhood Services and appropriate action agreed to address the matters raised.

vi) INTERNAL AUDIT REPORT 2016/26

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| Client | Corporate |
| Subject | Follow-up Review of Information Security Management Systems |

Introduction

As part of the planned internal audit work, a follow-up review of Internal Audit Report 2012/25, Information Security Management Systems, was undertaken.

The original internal audit report concluded that there were weaknesses in the system which should be addressed.

The main areas highlighted in the report were as follows:

- To improve the robustness of the Council's approach to ISMS, the governance arrangements should be reviewed to define and communicate roles and responsibilities. Thereafter steps should be taken to ensure that a comprehensive risk assessment of the Council's information assets is undertaken to determine which of these should be included within the scope and incorporated into the ISMS documentation.
- Going forward and in line with recognised good practice, ISMS documents should be reviewed annually and incorporate an appropriate version control process, the framework to capture and record corrective action in respect of ISMS reviews, audits and reported security incidents should be reassessed and an appropriate security training and awareness programme for relevant staff should be implemented.

Scope and Objectives

To assess whether or not each of the recommendations agreed by management in Internal Audit Report 2012/25 had been implemented within the given timescales. The follow-up review was restricted to areas included in the original report.

Conclusion

The principal conclusion drawn from the follow-up work undertaken is that whilst some action has been taken to strengthen the control weaknesses highlighted in the original review there are still some recommendations which require to be implemented by management.

The main areas where actions agreed by management are still outstanding are as follows:

- Work has recently commenced to develop the Council's corporate ISMS governance arrangements and assess the risk associated with different types of information assets. Roles and responsibilities are being considered as part of this exercise.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Executive Director of Corporate Services and appropriate action agreed to address the matters raised.