

To: Audit, Scrutiny and Petitions Board

On: 6 June 2016

Report by: Chief Auditor

Heading: Internal Audit Annual Report 2015 - 2016

1. Summary

- 1.1 The Public Sector Internal Audit Standards require the Chief Auditor to prepare a report, at least annually, to senior management and the Board on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan.
 - 1.2 The annual report must also provide an annual audit opinion on the overall adequacy and effectiveness of the Council's internal control environment, and include details of any significant risk exposures and control issues, including fraud risks, governance issues, and other matters that can be used to inform the governance statement.
 - 1.3 The Annual Report for 2015-16 is attached at Appendix 1 and outlines the role of Internal Audit, the performance of Internal Audit, the strategic and operational issues which influenced the nature of the work carried out, the key audit findings, and contains the annual audit assurance statement.
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2. Recommendations

- 2.1 Members are invited to consider and note the contents of the Annual Report.
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Implications of the Report

1. **Financial** - None
2. **HR & Organisational Development** - None
3. **Community Planning –
Safer and Stronger** - effective internal audit is an important element of good corporate governance.
4. **Legal** - None
5. **Property/Assets** - None
6. **Information Technology** - None
7. **Equality & Human Rights**
 - (a) The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** – None
9. **Procurement** - None
10. **Risk** - The summary reported relates to the delivery of the risk-based internal audit plan.
11. **Privacy Impact** – None

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Annual Report 2015-2016



Finance & Resources Internal Audit

June 2016

Renfrewshire Council
Internal Audit Annual Report 2015/2016

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Renfrewshire Council

Internal Audit Annual Report

1 April 2015 – 31 March 2016

1. Introduction

- 1.1 The Director of Finance and Resources has overall responsibility for Internal Audit in Renfrewshire Council. The Chief Auditor reports directly to the Director of Finance and Resources. In accordance with the principles of good corporate governance, regular reports on internal audit work and performance are presented to the Audit Panel and to the Audit, Scrutiny and Petitions Board.
- 1.2 The purpose, authority and responsibility of the internal audit activity is defined in the internal audit charter, approved by the Audit, Scrutiny and Petitions Board; and provides that the Chief Auditor has independent responsibility for the conduct, format and reporting of all Internal Audit activity and findings.
- 1.3 The Service operates in accordance with the Public Sector Internal Audit Standards which defines Internal Audit's role 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."
- 1.4 The Standards define the basic principles for carrying out internal audit. They establish the framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations. The basis for the evaluation of internal audit performance to drive improvement planning is also set out.
- 1.5 The Standards require the Chief Auditor to prepare a report, at least annually, to senior management and the Board on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. The annual report must also provide an annual audit opinion, on the overall adequacy and effectiveness of the Council's internal control environment. It must include details of any significant risk exposures and control issues, including fraud risks, governance issues, and other matters that can be used to inform the governance statement.
- 1.6 The aim of this report is to provide an opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control and provide a summary of the work undertaken during the year to support that opinion. The report also provides details of the performance of

the Internal Audit service during the past year, and the results of the quality assurance and improvement programme.

- 1.7 In addition to the work carried out in relation to council services, we also provide an internal audit service to the following organisations:
- Renfrewshire Leisure Limited
 - Renfrewshire Valuation Joint Board
 - Clyde Muirshiel Park Authority
 - Scotland Excel
 - North Strathclyde Community Justice Authority
 - Glasgow and Clyde Valley Strategic Development Planning Authority
 - Health and Social Care Partnership – Integration Joint Board
- 1.8 The outcome of the audit assignments undertaken for these organisations is reported separately as part of the annual report which also contains an assurance statement to their Boards.

2. Responsibilities of Management and Internal Audit

- 2.1 It is the responsibility of the Council's managers to ensure that the management of the areas under their control is adequate and effective and that their services have a sound system of internal control which facilitates the effective exercise of the organisation's functions and which includes arrangements for the management of risk.
- 2.2 Internal Audit is not a substitute for effective control exercised by management as part of their responsibilities. Internal Audit's role is to independently assess the adequacy of the risk management, internal controls and governance arrangements put in place by management and to undertake sufficient work to evaluate and conclude on the adequacy of those controls for the period under review.

3. Internal Audit Activity during 2015/2016

- 3.1 The internal audit plan for 2015/2016 was approved by the Audit, Scrutiny and Petitions Board on 30 March 2015. The plan was risk-based and took into account the outcomes of the service and corporate risk evaluation processes, the significant changes in council operations over the period, and the impact of developments in national policy and regulation. The plan also took into account key external audit reports including the Annual Audit Plan for the council. Set out below are the significant risks which influenced the content of the plan and the nature of the work undertaken in recognition of these. The key audit findings relied upon for the assurance statement are detailed in section 4 of this report.

(1) Financial Stability

The impact of the on-going financial pressures continued to be one of the most significant corporate risks facing the council. The council has been proactive in identifying savings to reduce the anticipated funding gap resulting

from anticipated reductions in grant and the demand led cost pressures. Internal audit reviewed the risk control measures in place over a number of key financial systems to provide assurance over the financial management arrangements. The 2015/16 audit work included:

- reviews of key financial systems, including capital accounting, payroll, council tax and debt management;
- a review of financial compliance with authorisation procedures;
- during 2015/16 the service established a corporate counter fraud team with the aim of improving fraud awareness, investigating fraudulent activity and minimising the risk of loss from fraud.

(2) Transformational Change – Better Council Programme

The current strategic and transformational change agenda makes for a highly complex and challenging environment. The Better Council change programme has been designed to deliver significant financial savings. The 2015/16 audit work included:

- contingency time to participate in internal project work which supports the better council change programme, as required, including initial scoping of the Enterprise Resource Planning project.

(3) Regeneration and Investment

Supporting and growing businesses and creating jobs are vital to both the economic and social well-being of Renfrewshire. Getting the right infrastructure and investment in place for the economic development of our towns and villages is vital to promote sustainable growth in our economy. Therefore, the 2015/16 audit work included:

- a review of the arrangements for compliance with the conditions of external funding agreements supporting the delivery of the Heritage Strategy;
- a review of the arrangements for roads maintenance.

(4) Public protection

The Council has a public protection role relating to child and adult protection and offending behaviour. Effective partnership working with key agencies such as the police is critical to ensuring risk to and from individuals is effectively managed. The audit work for 2015/16 included:

- a review of community payback orders;
- contributing to the council's integrity group assessment of the risks arising from serious and organised crime and the arrangements in place to protect the council.

(5) Organisational Development and Workforce Planning

Workforce planning and organisation development are complex activities. Restructuring arising from the better council change programme and other governance and organisational developments will change the shape and size of the organisations workforce. Supporting and developing people through a

period of change and innovation is a major priority. A number of Audit Scotland best value reviews have highlighted that workforce planning is underdeveloped in some councils. The 2015/16 audit work, therefore included:

- a review of workforce planning arrangements;
- a review of supporting attendance arrangements.

(6) Governance and control

Governance arrangements are important and provide an essential framework for decision-making. The council has in place a local code of corporate governance based on the CIPFA/SOLACE framework. The internal audit function needs to deliver assurance over the council's key controls, risk management and corporate governance framework in order to be in a position to provide those charged with governance with the annual assurance statement. The audit work for 2015/16 included:

- support for members with the provision of training on good governance, internal control and risk management;
- examination of a number of the council's key financial controls;
- an annual review of the local code of corporate governance;
- examination of compliance with specific elements of the local code of corporate governance.

(7) Communications

Effective information flow, across services and with our employees, provided through well timed communications can result in increased employee commitment, good crisis response management, better service delivery, more engaged consultation, better policy development and improve the organisation's reputation. The 2015/16 audit work included:

- a review of internal corporate communication arrangements.

- 3.2 In line with the council's defalcation procedures, instances of suspected fraud or irregularity are to be reported to internal audit. All referrals were evaluated and investigated as appropriate. Where there was evidence of wrongdoing, the matters were referred for internal disciplinary action and/or police investigation.
- 3.3 During 2015/16, a number of investigations were conducted, the most significant investigations related to loss and theft of cash at council establishments and misuse of a corporate purchase card. Other investigations included allegations breaches of the council's information security controls and assistance with an investigation into examination practices undertaken by Children's Services. Relevant recommendations were made to tighten existing controls; including, a corporate review of the arrangements for the administration of corporate purchase cards.

4. Summary of Internal Audit Work

- 4.1 Appendix 1 details the assurances arising from the internal audit work carried out in line with the 2015/16 audit plan which supports the annual assurance statement. These include the conclusions in relation to the overall system of internal control, risk management and governance arrangements.
- 4.2 The Audit, Scrutiny and Petitions Board approved the following amendments to the approved audit plan, at its meeting on 30 November 2015:
- A planned audit review of programme management was cancelled.
 - Time scheduled for reviewing the process of making and implementing strategic council decisions was realigned to support internal audit involvement in the design and implementation of the new Enterprise Resource Planning system which is central to the work ongoing on the Council's Corporate Support Model.
- 4.3 All other planned work as detailed in the 2015/2016 audit plan was undertaken and those assignments not finalised by 31 March 2016 are prioritised in the first quarter of the current year.

5. Internal Audit Resources

- 5.1 For the year to 31 March 2015, the audit plan was based on an establishment of 8 FTE staff. The actual staffing complement fluctuated during the year to vacancies. Resources were used flexibly to recruit temporary staff and contract with the public and private sector to ultimately deliver the audit plan.

6. Review of Internal Audit Activity

- 6.1 The Audit Plan for 2015/16 set out our risk-based plans across a range of audit categories, the results of which have been reported to the Audit Panel and quarterly to Audit, Scrutiny and Petitions Board. Table 1 below compares the actual days spent on each category of audit work against that planned for the year.

Table 1

Internal Audit Activity 2015/16				
Type of Audit	Planned Days	Actual Days	Variance	
			Days	%
Governance	145	94	(51)	(35%)
Assurance	680	567	(113)	(17%)
Contingency	306	344	38	12%
Audit Planning & Reporting	107	98	(9)	(8%)

Total Operational Days	1238	1103	(135)	(11%)
Training	103	98	(5)	(5%)
Strategic Management	62	40	(22)	(35%)
Team Administration	123	111	(12)	(10%)
Development	83	15	(68)	(82%)
Total Non-operational Days	371	264	(107)	(29%)
Gross Available Days	1609	1367	(242)	(15%)
Operational %	77%	81%		
Management of Counter Fraud (including co-ordination of NFI), Risk Management and Insurance	113	91	(22)	(19%)

6.2 Material differences (over 20% and over 20 days) from the plan are explained below:

1) Governance

The time reallocated from the review of strategic council decisions to the planning and implementation of the Enterprise Resource Planning system was less than anticipated. In addition, time planned for the implementation of the corporate counter fraud team was less than anticipated.

2) Strategic Management

Less time was required for departmental and senior management team meetings than was planned for.

3) Development

Time was planned for development of the audit management system and the external quality assessment against the Public Sector Internal Audit Standards. Both were delayed until early 2016.

7. Quality Assurance and Improvement Activity

7.1 Internal Audit produces regular reports on its performance during the year against a range of measures set annually by the Director of Finance and Resources. These are set out in the following table.

Table 2

Internal Audit Performance 2015/16		
Performance measure	Target 2015/16	Actual 2015/16
% of audit assignments completed by	95%	96.9%

target date		
% of audit assignments completed within time budget	95%	97.7%
% of audit reports issued within three weeks of completion of audit field work	95%	99.3%
% completion of audit plan for the year*	95%	95.1%

* this measures the completion percentage as at 31 March. 100% of the plan is ultimately delivered through the finalisation of the outstanding elements in the new financial year.

The figures in table 2 show that all targets have been achieved.

7.2 The Chief Auditor is required to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit including conformance with the standards. During 2015/16, an assurance mapping exercise was undertaken with the assistance of consultants and a graduate intern. The resultant assurance map covering a number of key service areas will be used to better inform audit planning in future years. Further areas of assurance will be mapped during 2016/17. The upgraded audit management system has now been installed and will be brought into full use in the coming months.

7.3 Implementation of Audit Recommendations

The implementation rate of audit recommendations is a measure of operational culture and audit effectiveness. During 2015/16 249 recommendations were followed up. Of these 179 (72%) have been implemented, 42 (17%) are either partially implemented or ongoing, 19 (7%) were not implemented by the due date and revised target dates for implementation have been provided and will be followed up in 2016/17, 9 (4%) will not be implemented mainly as a result of changes to systems and processes which make the recommendation redundant.

7.4 Customer Satisfaction

Internal Audit issues customer satisfaction surveys at the conclusion of assignments. These measure the level of satisfaction with the way in which the audit was conducted and with the audit report's findings and recommendations. A total of 14 surveys had been issued during the 2015/16 year, and 8 were returned. Returned survey forms showed that 100% of auditees were satisfied with the service provided against a target of 100%.

7.5 Risk Management

The responsibility for co-ordinating risk management and insurance activity across the council lies with internal audit. Risk management performance is detailed in the risk management annual report.

7.6 Counter Fraud Team

Responsibility for benefit investigation also remained with internal audit until 1 March 2016, when it transferred to the Department for Work and Pensions Single Fraud Investigation Service (SFIS). The number of sanctions including joint sanctions with the Department for Work and Pensions and referral to the Procurator Fiscal is a measure of the effectiveness of the team. The total number of sanctions achieved during the 11 month period of 2015/16 was 91 which exceeds the annual target level of 90. £507,666 of overpayments was identified and arrangements are in place within the council to recover from the claimants, the Housing and Council Tax Benefit element of these overpayments.

Following the transfer of benefit investigation to SFIS, the Director of Finance and Resources agreed to retain a corporate counter fraud resource, within the Internal Audit Team. The aim of the team is to investigate non-benefit fraud such as council tax reduction fraud, tenancy fraud and other corporate fraud, as well as undertaking the role of being the Council's single point of contact with the DWP for all enquiries/information they require from the Council to enable them to undertake housing benefit investigations. A business plan has been prepared and agreed with the Director of Finance and Resources.

8. External evaluation of Internal Audit

8.1 External Audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. Audit Scotland, as external auditor, seeks to rely on the work of internal audit wherever possible, and as part of their planning process they carry out an assessment of the internal audit function. Their review of the internal audit service concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

8.2 External audit plan to place formal reliance on the work of internal audit in relation to the annual audit of the 2015/16 financial statements in the following areas:

- Non Domestic Rates;
- Self Directed Support Payments;
- Payment Authorisation; and
- External funding applications.

8.3 In respect of their wider governance and performance work, external audit will also consider the findings arising from internal audit work in the following areas:

- Local Government Benchmarking Indicators;
- Corporate Governance Framework;
- Workforce Planning.

9. Audit Assurance Statement

- 9.1 Internal Audit has performed its work in accordance with the role defined in paragraph 1.3. The audit work performed has been reported to senior managers and where areas for improvement in internal control have been identified appropriate recommendations have been made, and accepted for action by management.
- 9.2 In view of the continued challenges common to all local authorities, the Council recognises the need to exercise very close scrutiny over financial management and compliance with overarching governance arrangements, and will continue to take appropriate action to further strengthen control in these areas.
- 9.3 Internal audit contributes to the promotion of sound corporate governance in the Council. The scrutiny function within the council performed by the Audit Panel and the Audit, Scrutiny and Petitions Board further demonstrates strong commitment in this area.
- 9.4 It is not feasible for the system of internal control in the Council to be without any weakness. It is important to balance the risks involved in accepting systems limitations with the consequences if a problem emerges. Internal Audit recognises this and assesses this in its reporting mechanism.
- 9.5 In this context, it is considered that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control, risk management and governance arrangements, as evidenced by:-
- (i) the results of the planned audit work in 2015/16;
 - (ii) the results of investigative work in 2015/16;
 - (iii) management action to respond to audit recommendations to mitigate the risks areas highlighted in this report;
 - (iv) the regular review and updating of the Local Code of Corporate Governance by the Council in accordance with the CIPFA/SOLACE framework for corporate governance requirements.

Signed 

Chief Auditor

Date 6 June 2016

Appendix 1

Audit Engagement	Risk Area	Assurance Level	Conclusion
Building Security Arrangements	Operational Control	Limited	<ul style="list-style-type: none"> The control environment and the security measures in place varied across establishments. The audit identified scope for improvement in existing arrangements, to clearly define roles and responsibilities for security and increase the physical security measures already in place.
Self Directed Support	Financial Control	Limited	<ul style="list-style-type: none"> At the time of the review, the key risks related to the timeliness of annual financial assessments and financial reviews. Both were found to be significantly behind schedule.
Procurement (Supplier Management)	Operational Control	Reasonable	<ul style="list-style-type: none"> There is a formalised supplier management strategy in place. Key risks related to compliance with procedural guidance and completion and retention of relevant documentation.
Community Payback Orders	Operational Control	Reasonable	<ul style="list-style-type: none"> Key risks were identified in relation to some aspects of compliance with the National Standards in relation to breach proceedings and the recording of information on SWIFT.
School Assessment Procedures	Operational Control	Reasonable	<ul style="list-style-type: none"> The SQA's quality assurance criteria requires that all processes and procedures are extensively documented. It was the Auditor's opinion the majority of the procedures could be standardised across the authority. As such it was recommended that an authority wide quality manual should be developed.
ICT Service Desk	Operational Control	Reasonable	<ul style="list-style-type: none"> The audit has identified that satisfactory arrangements are in place for resolving service desk calls and communication with end users. Key risks relate to the accuracy and monitoring of performance indicators.

Appendix 1

Procurement (Corporate Purchase Cards)	Financial Control	Reasonable	<ul style="list-style-type: none"> The key risks relate to record keeping and roles and responsibilities in relation to some areas require to be clarified. It has been recommended that a working group is established to review procedures.
Non Domestic Rates	Financial Control	Reasonable	<ul style="list-style-type: none"> The key risks relate to actions required to ensure that historical reliefs remain valid and ensuring that documentation is held to support a clear audit trail with respect to reliefs and refunds.
HSCP Financial Assurance	Governance	Reasonable	<ul style="list-style-type: none"> The key risks relate to the need to continue to monitor the financial risks that have been identified through the due diligence process. A recommendation was made to ensure that the risk registers in this regard are comprehensive, transparent and regularly monitored.
Building Services Repairs	Operational Control	Reasonable	<ul style="list-style-type: none"> The key risk relates to authorisation processes and the use of management information in relation to progressing the job status on the repairs system.
Workforce Planning	Operational Control	Reasonable	<ul style="list-style-type: none"> Workforce planning is in the early stages. An organisational development strategy has been approved and a draft implementation plan has been prepared. Any delays in formalising the implementation plan could result in slippage against the required actions.
Corporate Communications	Governance	Reasonable	<ul style="list-style-type: none"> The review examined the arrangements in place for internal communication of the Better Council change programme. The key risk relates to inconsistencies across services in terms of the manner in which internal communications are addressed which could result in conflicting messages being delivered to employees.

Appendix 1

Authorised Signatories	Financial Control	Reasonable	<ul style="list-style-type: none"> The majority of transactions tested were appropriately authorised. Recommendations were made to ensure that the database is brought up to date in relation to changes in service personnel and to restrict authorisations to appropriate levels of staff that have sufficient knowledge both of the operational requirement for the provision of the goods/services concerned and of the need for proper certification and control.
Corporate Governance (Employee Code of Conduct)	Governance	Reasonable	<ul style="list-style-type: none"> The employee code of conduct is currently being revised. Recommendations were made in relation to ensuring all employees sign for the revised code and there is a process to ensure on-going awareness.
Sickness Absence	Operational Control	Reasonable	<ul style="list-style-type: none"> During the reporting period, 3 reviews were undertaken. The key risks relate to retention of evidence in relation to the procedures and the timeliness of corporate performance reports.
Petty Cash in Schools	Financial Control	Reasonable	<ul style="list-style-type: none"> The system to administer petty cash provides sufficient control when applied diligently. Recommendations were made in relation to allowable expenditure, alternative payment options and training.
Insurance	Operational Control	Reasonable	<ul style="list-style-type: none"> Key risks related to closer monitoring arrangements with the external claims handlers and formalisation of the roles and responsibilities in relation to potential fraud.
Business Continuity (Cloud Computing)	Operational Control	Reasonable	<ul style="list-style-type: none"> The scope of the review was to assess the draft Cloud Computing Checklist against available national guidance. Some improvement recommendations were made to enhance the robustness of the checklist.

Appendix 1

Planning Services (Building Control Income)	Financial Control	Satisfactory	<ul style="list-style-type: none"> No key risks were identified. One good practice recommendations were made, which once implemented, will strengthen the overall effectiveness of internal control.
Freedom of Information Requests	Governance	Satisfactory	<ul style="list-style-type: none"> No key risks were identified. A few good practice recommendations were made, which once implemented, will strengthen the overall effectiveness of internal control.
Capital Accounting	Financial Control	Satisfactory	<ul style="list-style-type: none"> No key risks were identified.
Payroll	Financial Control	Satisfactory	<ul style="list-style-type: none"> No key risks were identified. A few good practice recommendations were made, which once implemented, will strengthen the overall effectiveness of internal control.
Council Tax	Financial Control	Satisfactory	<ul style="list-style-type: none"> No key risks were identified. A few good practice recommendations were made, which once implemented, will strengthen the overall effectiveness of internal control.
Cash Collection and Banking	Financial Control	Satisfactory	<ul style="list-style-type: none"> No key risks were identified. A few good practice recommendations were made, which once implemented, will strengthen the overall effectiveness of internal control.
Corporate Governance (Review of adequacy and effectiveness)	Governance	Satisfactory	<ul style="list-style-type: none"> Internal Audit have reviewed the adequacy and effectiveness of the Code and confirmed that the Council complies with the requirements of the Local Code of Corporate Governance. In addition, it is evident that the Local Code has been subject to review and updating in line with national guidance and developments in best practice.

Debt Management	Financial Control	Reasonable	<ul style="list-style-type: none">• The key risk relates to the controls over debt suppression. Recommendations have been made in relation to roles and responsibilities, segregation of duties, and regular reviews of suppressed debts.
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