To: Audit, Scrutiny and Petitions Board

On: 1 June 2015

Report by: Chief Auditor

Heading: Internal Audit Annual Report 2014 - 2015

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 2014-15 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.

2.   **Recommendations**

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

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
2014-2015

**Finance & Resources
Internal Audit**

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Renfrewshire Council
Internal Audit Annual Report
1 April 2014 – 31 March 2015

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 for whom Renfrewshire is the host authority:
- 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

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 2014/2015

3.1 The internal audit plan for 2014/2015 was approved by the Audit, Scrutiny and Petitions Board on 31 March 2014. 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 2014/15 audit plan included:

- reviews of key financial systems, including payroll and treasury management;
- a review of procurement activity across a number of service areas;
- during 2014/15 the service commenced a pilot project relating to improving our counter fraud activity aimed at minimising the risk of financial loss from fraud.

(2)   Organisational Change

It is recognised that national priorities and the requirement for financial stability has influenced the scope and pace of change within the council in recent years. There are significant challenges for governance and control in delivering an integrated health and social care partnership which, if not effectively managed, will not deliver the required outcomes. The council's internal organisational change programme, designed to deliver significant financial savings, also presents challenges and risks which need to be effectively managed to deliver the required outcomes. Internal audit has a role in relation to these major change programmes in providing consultancy advice on governance, internal control and risk management.   Therefore, the 2014/15 audit plan included:

- a review of planning and implementation arrangements for strategic council decisions;
- participation in project work aimed at delivering national priorities, including health and social care integration;
- participation in internal project work aimed at improving operational practices, including the better council change programme;

(3)   Welfare Reform agenda

A number of changes associated with welfare reform were implemented during 2013/14. Therefore, the 2014/15 audit plan included:
- a review of discretionary housing payments and the council tenant assistance fund.

(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 plan for 2014/15 included:
- a review of the business support arrangements for child and adult protection;
- 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, using a nationally developed self assessment checklist;

- participation in the community safety and public protection steering group.

(5) Security and management of information

The council's information governance and information asset management arrangements need to be sufficiently robust to preserve the integrity, security, availability and confidentiality of the council's information. The 2014/15 audit plan will included:

- a review of laptop encryption;
- a review of web content filtering policies;
- partnership working with ICT Services to address thematic reviews of key internal controls.
- participation in major governance and review groups, including the information security group and information management and governance group.

(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 plan for 2014/15 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) Asset Management

Strategic asset management is essential to making successful investment decisions and requires clarity about why assets are held, how well they are performing, what property, equipment and systems are needed to operate efficient services, and what will be needed to secure best value from council assets. The 2014/15 audit plan will included:

- a review of the arrangements in place for ensuring statutory compliance;
- a best value review of building security 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 2014/15, a number of investigations were conducted, the most significant investigations related to loss and theft of cash at council establishments. Other investigations included allegations relating to grant monies paid to a voluntary organisation, a discrepancy relating to ICT stock records and a breach of the council's information security policy. Relevant recommendations were made to tighten existing controls; including, a corporate review of the arrangements for the administration of grants to third parties.

4. Summary of Internal Audit Works

4.1 Appendix 1 details the assurances arising from the internal audit work carried out in line with the 2014/15 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 All planned work as detailed in the 2014/2015 audit plan was undertaken and those assignments not finalised by 31 March 2015 are prioritised in the first quarter of the current year.

5. Internal Audit Resources

5.1 For the year to 31 March 2015, there was an establishment of 7.6 FTE staff. The actual staffing complement fluctuated during the year to accommodate vacancies and unplanned leave. 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 2014/15 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 2014/15

Type of Audit	Planned Days	Actual Days	Variance	
			Days	%
Best Value	50	21	(29)	(58%)
Audit Planning and Reporting	106	103	(3)	(3%)
ICT Audit	130	86	(44)	(34%)
Contract Audit	45	25	(20)	(44%)

Financial Services	27	14	(13)	(48%)
Follow Up Audit	80	80	0	0%
Investigations	100	120	20	20%
Performance Measurement	15	15	0	0%
Regularity / Compliance	135	114	(21)	(15%)
Systems Audit	373	368	(5)	(1%)
Contingency / Post report	167	124	(43)	(26%)
Total Operational Days	**1228**	**1070**	**(158)**	**(13%)**
Audit Administration	127	103	(24)	(19%)
Service Development	84	72	(12)	(14%)
Service Management	58	43	(15)	(26%)
Training	100	80	(20)	(20%)
Total Non-operational Days	**369**	**298**	**(71)**	**(19%)**
Gross Available Days	**1597**	**1368**	**(229)**	**(14%)**
Operational %	**77%**	**78%**		
Management of Counter Fraud (including co-ordination of NFI), Risk Management and Insurance	96	41	(55)	(57%)

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

1) **Best Value**

A best value review of corporate communications (25 days) has been deferred to 2015/2016 due to other service pressures within the Communications Team. One further audit was still in progress at the year end and will be finalised during the beginning of 2015/16. Contingency time within the 2015/16 audit plan has been allocated to complete this task.

2) **ICT Audit**

Resources had been allocated on the plan to provide advice to support the renewal process for accreditation to the Public Service Network (15 days). The Council maintained its accreditation, and there has been no requirement for Internal Audit involvement this year. The Senior ICT Auditor was seconded to ICT to progress the asset management project. Therefore, no further time was allocated to the audit plan for the planned ICT partnership working (15 days). One further audit (10 days) was still in progress at the year end, contingency time within the 2015/16 audit plan has been allocated to complete this task.

3) **Contract Audit**

Each year, internal audit reviews aspects of the council's major investment programmes. During 2014/15, the time on this category was used to maintain an oversight of the arrangements being put in place for the City Deal project.

As those arrangements were still being developed during the year, less time than planned was allocated to this category.

4) Investigations

This category of audit activity by its nature is unplanned and as a result of the number of investigations being undertaken during the year a higher than anticipated level of resource allocation was required.

5) Contingency

This category of audit activity by its nature is unplanned and a lower than anticipated level of resource allocation was required during the year.

6) Non-operational and Management of operational activities

A lower than anticipated level of resource was required during the year to co-ordinate the National Fraud Initiative. Vacancies and the absence of a member of the management team resulted in less time being spent on the management of operational activities and training.

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 2014/15		
Performance measure	**Target 2014/15**	**Actual 2014/15**
% of audit assignments completed by target date	95%	96.8%
% of audit assignments completed within time budget	95%	96.8%
% of audit reports issued within three weeks of completion of audit field work	95%	96.2%
% completion of audit plan for the year*	95%	95.2%

*   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. The Chief Auditor undertook a self

assessment against the standards during 2013/14 and throughout the year the improvement actions identified have been progressed, including the review of the risk assessment and planning methodology and the Chief Auditor's performance appraisal. All outstanding actions will be completed with the implementation of the upgraded audit management software.

7.3   Implementation of Audit Recommendations

The implementation rate of audit recommendations is a measure of operational culture and audit effectiveness.   During 2014/15 428 recommendations were followed up.   Of these 332 (78%) have been implemented, 47 (11%) are either partially implemented or ongoing, 43 (10%) were not implemented by the due date and revised target dates for implementation have been provided and will be followed up in 2015/16, 6 (1%) 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 28 surveys had been issued during the 2014/15 year, and 13 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 rests with internal audit. 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 2014/15 was 90 which exceeds the target level of 84. £433,891 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.

During 2014/15, a corporate counter fraud pilot project commenced. The aim of the pilot project is to enhance the council's response to the risk of non-benefit fraud. The pilot is predominantly focussed on the prevention and detection of tenancy fraud as this is recognised as the highest local authority fraud exposure. Other aspects of the pilot include Scottish Welfare Fund fraud and enhancing the council's use of data matching to detect other revenue

fraud. The results of the pilot will be reported to the Audit, Scrutiny and Petitions Board later in the year.

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. External audit plan to place formal reliance on the work of internal audit in relation to the annual audit of the 2014/15 financial statements in the following areas:
*   Non Domestic Rates;
*   Treasury Management; and
*   Payroll

8.2 Customer Service Excellence Award

In April 2015, our Customer Services Excellence Standard accreditation was reviewed and our accreditation renewed as part of a wider Corporate accreditation.

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 2014/15;
(ii)　　the results of investigative work in 2014/15;
(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　*Andrea McMahon*

Chief Auditor

Date　　1 June 2015

Audit Engagement	Risk Area	Assurance Level	Conclusion
SEEMIS – Education Management Information System (Security and control application review)	Operational Control	No Assurance	• It should be noted that the audit scope was severely limited due to the lack of information which we could acquire from the Software supplier. • Key risks were identified in relation to user access, password security, audit trail, test backups and the contractual arrangements in relation to data security. undertaken. • Management has taken steps to engage with the supplier and ensure there is suitably skilled staff in place to undertake the systems administration functions and take forward the agreed recommendations.
Procurement (Fuel Cards)	Financial Control	Limited	• Key risks related to the establishment of upper thresholds for the use of cards and improvements required in relation to the availability, accuracy and scrutiny of management information.
Administration of Grants	Financial Control	Limited	• The key risk identified relates to the lack of a uniform and consistent approach to grants administration across the Council which has resulted in a consequential loss of strategic oversight. The generic issues identified during this review are being addressed through a corporate review of the approach to grants administration.
Asset Management (Statutory Compliance)	Operational Control	Limited	• The key risks relate to lack of clarity regarding the roles and responsibilities of site responsible officers for undertaking the checks and retaining the evidence of those checks and the interface with the Corporate Landlord Team. Furthermore,

Laptop Encryption	Operational Control	**Limited**	strategic oversight could be improved through the development of key performance indicators. • There are processes in place to ensure that all corporate laptops are encrypted. However, technical issues prevented the auditor from being able to provide independent assurance in this regard. Furthermore, a risk assessment is required in relation to laptops used on the education network to consider whether these should be encrypted or not.
Payroll (Service controls)	Financial Control	**Reasonable**	• The review considered the controls in place over the payment of teachers salaries including payments made to supply teachers. • The key risk relates to the on-going negotiations with the Scottish Negotiating Committee for Teachers to find a national solution to the implementation of some aspects of the revised pay and conditions model.
Non-domestic rates	Financial Control	**Reasonable**	• The key risk relates to actions required to ensure that historical reliefs remain valid.
Economic Development (Business Grants)	Financial Control	**Reasonable**	• The key risks relate to the accuracy of financial monitoring records and the absence of a mechanism to capture variations to original grant applications.
School Budgets – Directly Managed Resources	Financial Control	**Reasonable**	• The key risk relates to the use of purchase cards which is not currently in line with procedures.
Licensing	Operational Control	**Reasonable**	• The key risks relate to updating the review list on a timely basis and reconciling income collected to the registration system.

Child and Vulnerable Adult Protection (Arrangements for servicing child and adult review meetings and panels)	Operational Control	Reasonable	• The key risk relates to reviewing and issuing minutes of adult protection meetings within the national timescales.
Vehicle Maintenance Service	Operational Control	Reasonable	• The review considered the controls in place for inspection and MOT testing for council vehicles and the arrangements for inspection/MOT and payment for taxi and other external vehicles. • The key risks relate to the controls in place to ensure all council vehicles meet the required inspection timescales and a process requires to be put in place to reconcile cash collected to the number of third party inspections/MOTs performed.
Sales, Fees and Charges (charging owner occupiers for common repairs)	Operational Control	Reasonable	• The key risk relates to processes requiring to be strengthened to ensure that any increased costs are agreed with the owner occupiers to prevent the cost being incurred by the council.
Websense (Internet content filtering software)	Operational Control	Reasonable	• The key risks relate to there being no overarching policy in place which offers definitive guidance on acceptable usage for staff and students on the schools' domain, limited monitoring activity taking place with respect to internet usage and a need to improve the change control process for Websense.

CAMIS (repairs logging system)	Operational Control	**Reasonable**	• The key risks relate to controls over user access, the strength of password controls, feeder reconciliations and the use of error and exception reports.
Implementation of Strategic Council Decisions	Governance	**Reasonable**	• The review considered the arrangements in place for implementing the decisions arising from the Better Council Change Programme. • The timing of the review did not allow the auditor to fully assess many aspects of the programme and additional audit work will be considered in 2015/16 to provide further assurance to the Council. • From the work undertaken it was identified that opportunities for improvement exist in relation to ensuring there is sufficient project management capacity, better interaction with corporate finance and corporate HR functions and improving the consistency of the project management framework including risk management.
Payroll	Financial Control	**Satisfactory**	• No key risks were identified. A few good practice recommendations were made, which once implemented, will strengthen the overall effectiveness of internal control.
Treasury Management	Financial Control	**Satisfactory**	• No key risks were identified. A few good practice recommendations were made, which once implemented, will strengthen the overall effectiveness of internal control.
Implementation of Welfare Reform – Discretionary	Operational Control	**Satisfactory**	• No key risks were identified. A few good practice recommendations were made, which once implemented, will strengthen the overall

Housing Payments			
			effectiveness of internal control.
Corporate governance – Review of adequacy and effectiveness	Governance	**Satisfactory**	• 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.
Corporate governance (declarations of interest)	Governance	**Satisfactory**	• The Council's Code of Corporate Governance is being complied with by both Elected Members and Senior Officers in terms making voluntary declarations of interests for the purposes of identifying and avoiding conflicts of interest; and there is evidence to demonstrate compliance. • However, the audit review identified further measures to enhance the current procedures, including record management arrangements and formalisation of procedures to record declarations of interests for all employees.