

To: Audit, Risk and Scrutiny Board

On: 28 August 2017

Report by: Chief Auditor

Heading: Review of the Adequacy of Internal Audit for the period to 31 March 2017

1. Summary

- 1.1 As part of their audit work, External Audit carry out an annual review of the adequacy of internal audit, as part of the assessment of the control environment.
 - 1.2 For 2016/17, they reported that “overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS). However there are areas where we have identified recommendations for improvement”
 - 1.3 The full letter, including the action plan relating to the improvement recommendations, is attached for reference at Appendix 1 to this report.
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2. Recommendations

- 2.1 Members are asked to note the content of the 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** - None
8. **Health & Safety** – None
9. **Procurement** - None
10. **Risk** - Conformance with the PSIAS mitigates the risk of the Internal Audit Service being ineffective.
11. **Privacy Impact** – None
12. **COSLA Implications** - None

Author: Karen Campbell – 01416187016

Sandra Black
Chief Executive
Renfrewshire Council
Renfrewshire House
Cotton Street
Paisley
PA1 1UJ

15 June 2017

Dear Sandra

Renfrewshire Council
Review of the Adequacy of Internal Audit for the period to 31 March 2017

The internal audit provision provided by the in house team is an integral part of 'operational management arrangements' and the effectiveness of internal audit is considered to be an important factor in our evaluation of the control environment and assessment of audit risk.

We are required to comply with International Standard on Auditing 610 (Using the work of Internal Auditors) and Audit Scotland's Code of Audit Practice ("the Code"). As part of the assessment of the control environment in each period's planning arrangements, we are required to:

- carry out a review of Renfrewshire Council's internal audit arrangements
- report on any deficiencies that are identified
- seek management's agreement to remedy any deficiencies that are identified.

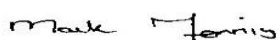
Audit findings

We have completed our assessment of internal audit. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS). However there are areas where we have identified recommendations for improvement and these are detailed in the Action Plan included in Appendix 1.

We have taken a substantive approach to the 2016/17 audit which reduces the level of controls testing carried out. As a result, we will not be placing formal reliance on the controls work undertaken by internal audit. We will review internal audit reports that are relevant to our work to help with our understanding of the systems and processes at Renfrewshire Council but these will not be used to support our opinion in the financial statements.

Should you have any queries please do not hesitate to contact me.

Yours sincerely



Mark Ferris
Senior Audit Manager

cc Andrea McMahon (Chief Auditor)
Alan Russell (Director of Finance and Resources)

Appendix 1: Action Plan

No. Action Point		Agreed Action	Responsible Officer	Target Date
Financial Codes and Fraud Policies Update				
1	Internal audit is responsible for updating the Corporate Fraud Policy and the Financial Codes. Updates to both documents have still to be completed. There is training and supporting policies in place to assist staff while the updates are taking place. However, there is a risk that some staff may not be fully aware of the fraud and financial management procedures if they have not attended training or read all the supporting policies.	The Counter Fraud Policy and Strategy is currently being updated to reflect changes to processes. Once finalised it will be submitted to the Audit, Risk and Scrutiny Board for approval. The Financial Codes will be updated to reflect the current governance arrangements.	Chief Auditor	November 2017
Completion of Internal Audit Plan				
2	A review of the 2016/17 Internal Audit Plan was undertaken. Four audits have been carried forward into 2017/18 as continuance audits. This is a higher number of audits carried forward than prior years. These have been budgeted for as contingency audit activity within the 2017/18 Internal Audit Plan. Internal audit completed 91.8% of the 2016/17 plan against a target of 95%. There is a risk that the contingency time required to complete the continuance audits will reduce the flexibility to address unforeseen workload pressures during 2017/18.	While the number of continuance audits carried forward at the year end was higher than in previous years, Internal Audit has additional flexibility in the budget to buy in additional resource if necessary. Furthermore, the Annual Internal Audit Plan is designed to be flexible to deal with emerging priorities and amendments to the plan are approved by the Audit, Risk and Scrutiny Board.	No further action.	
PSIAS Compliance				
3	Overall, internal audit is compliant with PSIAS. However, there are areas where improvements could be made and additional	The Internal Audit Plan for 2018/2019 will include reference to resource management	Chief Auditor	March 2018

No.	Action Point	Agreed Action	Responsible Officer	Target Date
	<p>information reported to fully comply with PSIAS guidance:</p> <p>2030 Resource Management: – the Internal Audit Plan should provide information on how the appropriateness of the internal audit function was assessed when developing the plan.</p> <p>2050 Coordination: – the Internal Audit Plan should include additional information on the approach to using external sources of assurance to deliver the plan.</p>	and any known plans to rely on other sources of assurance.		
Effectiveness of Audit, Scrutiny and Petitions Board and Level of Reporting				
4	<p>In our Annual Audit Plan we reported an audit risk on the effectiveness of the Audit, Scrutiny and Petitions Board, the council's audit committee (audit risk 6).</p> <p>We are pleased to note that following the 2017 elections, the council has reviewed the remits of its committees and established an Audit, Risk and Scrutiny Board and to operate a separate petitions committee.</p> <p>Internal audit provides summary reports which do not contain all of the information necessary to provide effective scrutiny. This issue was also raised in the external review of internal audit by West Lothian Council.</p> <p>There is a risk that the level of information reported does not allow effective scrutiny of the results of the work undertaken by Internal Audit.</p>	<p>Following a benchmarking exercise of other Local Authority reporting arrangements and discussion with Senior Management and the Convenor of the Audit, Risk and Scrutiny Board; for each audit engagement the Board will receive details of the overall assurance level, the number of recommendations in each category and a committee summary for each report issued.</p> <p>The reporting arrangements for follow-up will be improved following completion of the 2017/2018 programme of follow up work.</p>	<p>Chief Auditor</p> <p>Chief Auditor</p>	<p>September 2017</p> <p>March 2018</p>