

To: Audit, Risk and Scrutiny Board

On: 28 May 2019

Report by: Chief Auditor

Heading: Internal Audit Annual Report 2018 - 2019

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 2018-19 is attached 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** - None
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
12. **COSLA Implications** - None

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Annual Report 2018-2019



Finance & Resources Internal Audit

May 2019

Renfrewshire Council

Internal Audit Annual Report 2018/2019

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Renfrewshire Council
Internal Audit Annual Report
1 April 2018 – 31 March 2019

1. Introduction

- 1.1 Internal Audit is an independent and objective assurance and consulting activity designed to add value and improve the operations of Renfrewshire Council. It assists Renfrewshire Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.
- 1.2 The Chief Auditor will report functionally to the Audit, Risk and Scrutiny Board and administratively (i.e. day to day operations) 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, Risk and Scrutiny Board.
- 1.3 The purpose, authority and responsibility of the internal audit activity is defined in the internal audit charter, approved by the Audit, Risk and Scrutiny Board; and provides that the Chief Auditor has independent responsibility for the conduct, format and reporting of all internal audit activity and findings.
- 1.4 The service operates in accordance with the Public Sector Internal Audit Standards (PSIAS). 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.
- 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
- Clydeplan
- Renfrewshire 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 2018/2019

- 3.1 The internal audit plan for 2018/2019 was approved by the Audit, Risk and Scrutiny Board on 19 March 2018. 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. The 2018/19 audit plan included:

- review of the contract management arrangements for home care services;

- review of key financial controls in place over the most significant financial processes, in order to provide an opinion on the financial internal control environment in place;
- time to participate in internal project work which supports the better council change programme.

(2) Information Governance

Legislative changes came into force during 2018/19 and placed new duties on the council in relation to the information it holds on individuals. There are significant financial penalties for organisations that do not comply with the new duties. The 2018/19 audit plan included time for:

- compliance with the General Data Protection Regulations (GDPR);
- information security within Education establishments.

(3) Public Protection

Public protection is a wide-ranging agenda relating to the protection of vulnerable people, communities, businesses and organisations. The council's community safety and public protection role. The 2018/19 audit plan included a review of the procedures for trading standards.

(4) Asset Management

If the council's significant assets are not of the right complement or fit for purpose, there is a risk around the safety and effectiveness of council services and efficiency of resources. The council has a duty to ensure its assets are safe and fit for purposes for employees and service users. The 2018/19 audit plan included reviews of:

- roads inspection and monitoring arrangements;
- arrangements for cloud services.

(5) Serious Organised Crime, Insider Threat and Corporate Fraud

The council has measures in place to strengthen its resilience to the threats posed by serious and organised crime, corruption and fraud. The 2018/19 audit plan includes time for:

- a review of corporate systems access;
- participation in the council's integrity group;
- co-ordination of the National Fraud Initiative;
- revision of counter fraud and corruption policies and procedures.

3.2 In line with the council's procedures, instances of suspected theft, fraud or irregularity are to be reported to internal audit. Depending on the nature of the allegations, they are investigated either by the internal audit service or by the Corporate Counter Fraud service. All referrals were evaluated and investigated as appropriate.

3.3 During 2018/19, Internal audit conducted a number of investigations, service management has undertaken disciplinary procedures and strengthened

internal controls where necessary. The outcome of each investigation is reported to the Audit, Risk and Scrutiny Board.

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 2018/19 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, Risk and Scrutiny Board, at its meeting on 21 January 2019 approved cancelling one audit engagement “Disclosure Checks – Review Arrangements” and reallocating those resources to follow up of previous recommendations.
- 4.3 All other planned work as detailed in the 2018/2019 audit plan was undertaken and those assignments not finalised by 31 March 2019 are prioritised in the first quarter of the current year.

5. Internal Audit Resources

- 5.1 For the year to 31 March 2019, the audit plan was based on an establishment of 6.25 full time equivalent employees plus 60 days to be provided from other service providers. The actual staffing complement during the year was 6 full time employees.

6. Review of Internal Audit Activity

- 6.1 The Audit Plan for 2018/19 set out our risk-based plans across a range of audit categories, the results of which have been reported quarterly to Audit, Risk and Scrutiny Board. Table 1 below compares the actual days spent on each category of audit work against that planned for the year.

Table 1

Type of Audit	Planned Days	Actual Days	Variance	
			Days	%
Governance	163	155	(8)	(5%)
Assurance	421	401	(20)	(5%)
Contingency	351	328	(23)	(7%)
Audit Planning & Reporting	111	121	10	9%
Total Operational Days	1046	1005	(41)	(4%)
Training	89	79	(10)	(11%)
Strategic Management	28	19	(9)	(32%)
Team Administration	97	89	(8)	(8%)
Development	70	42	(28)	(40%)

Total Non-operational Days	284	229	(55)	(19%)
Gross Available Days	1330	1234	(96)	(7%)
Operational %	79%	81%		
Management of Risk Management and Insurance and Corporate Counter Fraud including the co-ordination of NFI	30	30	0	0%

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

1) Development

Anticipated development of the audit management software included in the plan for 2018/19 have been deferred into the 2019/2020 audit plan, with non-operational time being diverted towards operational activities.

7. Quality Assurance and Improvement Activity

7.1 Internal audit measures performance against a range of measures set annually by the Director of Finance and Resources. The Audit, Risk and Scrutiny Board received quarterly reports on progress and performance during the year. Table 2 shows the actual performance against targeted performance for the year.

Table 2

Internal Audit Performance 2018/19		
Performance measure	Target 2018/19	Actual 2018/19
% completion of audit plan for the year*	95%	95.6%
% engagements completed by target date	95%	98.8%
% engagements completed within time budget	95%	96.4%

* 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.

7.2 Actual performance for the year, is above the target performance level.

7.3 The Chief Auditor is required to develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit including conformance with the PSIAS. All actions arising from the external quality assessment have been completed during 2018/19.

8. Implementation of Audit Recommendations

- 8.1 During 2018/19, 288 recommendations were followed up, with 87% of all recommendations being completed. The implementation status of the recommendations across each service area is detailed in Table 3 below.

Table 3

Implementation of Audit Recommendations 2018/19					
Service	No. Followed up	Complete	Partially Complete (new date)	Not Implemented (new date)	Redundant
Adult Services	5	5 (100%)	N/A	N/A	N/A
Chief Executive's	48	32 (67%)	4 (8%)	12 (25%)	N/A
Children's Services	24	21 (88%)	N/A	2 (8%)	1 (4%)
Environment & Infrastructure	87	81 (94%)	N/A	2 (2%)	4 (4%)
Finance & Resources	108	97 (90%)	4 (4%)	4 (4%)	3 (2%)
Communities, Housing & Planning	16	15 (94%)	1 (6%)	N/A	N/A
Total	288	251 (87%)	9 (3%)	20 (7%)	8 (3%)

9. Performance of Non-Audit Activities

9.1 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.

9.2 Corporate Counter Fraud

The Corporate Counter Fraud team report to the Chief Auditor, the aim of the team is to raise awareness to promote an anti-fraud culture and investigate instances of suspected 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. The outcomes for the year are detailed on Table 4 below.

Table 4

Corporate Counter Fraud Performance 2018/19	
Financial Outcomes	2018/19 (£)
Cash savings directly attributable to preventative counter fraud intervention	267,926
Cash recoveries in progress directly attributable to counter fraud investigations	734,440
Notional savings identified through counter fraud investigation, (e.g. housing tenancy and future council tax)	1,787,831
Non-Financial Outcomes	2018/19
Housing properties recovered	6
Housing applications amended/cancelled	13
Blue badge misuse warning letters issued	39
Licences revoked	1

9.3 The National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error.


Internal audit is responsible for the co-ordination of the exercise which is undertaken every second year. The Council's data, as required by the NFI, was submitted in October 2018, the resulting matches were received in February 2019 and investigation of those matches is progressing on a priority basis. The outcomes arising from the exercise are regularly reported to the Audit, Risk and Scrutiny Board.

10. External evaluation of Internal Audit

- 10.1 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 service.
- 10.2 External audit plan to place formal reliance on the work of internal audit in relation to our review of Non-Domestic Rates for the annual audit of the 2018/19 financial statements.

11. Audit Assurance Statement

- 11.1 Internal audit has performed its work in accordance with the role defined in paragraph 1.4. 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.
- 11.2 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.
- 11.3 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.
- 11.4 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.
- 11.5 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 2018/19;
 - (ii) the results of investigative work in 2018/19;
 - (iii) management self assessment of internal control, risk management and governance arrangements;
 - (iv) management action to respond to audit recommendations to mitigate the risks areas highlighted in this report;
 - (v) the regular review of the Local Code of Corporate Governance.

Signed 

Chief Auditor

Date 28 May 2019

Audit Engagement	Risk Area	Assurance Level	Conclusion
Payroll - Salary Sacrifice Schemes	Assurance	Limited	<ul style="list-style-type: none"> The audit identified a lack of controls specifically in relation to suspense account reconciliations and processes when employees terminate their employment or leave salary sacrifice schemes.
Procurement Cards & Stock Control - Catering	Assurance	Limited	<ul style="list-style-type: none"> The audit has identified a lack of controls specifically in relation to stock control and PCard access to the cash purchase category. Furthermore, procedures in place regarding cards being shared amongst staff and timeous approval of transactions have not been adhered to. Recommendations have been made including the need to provide comprehensive training to officers.
Inspection & Monitoring	Assurance	Limited	<ul style="list-style-type: none"> The audit reviewed the arrangements in place for specific inspection arrangements within Environment and Infrastructure Services. The review identified the need for a full review of the service including the resources available and completion of the supporting policies in line with good practice.
Housing Statutory Inspections	Assurance	Reasonable	<ul style="list-style-type: none"> The audit provided a reasonable level of assurance in relation to Housing Statutory Inspections. Recommendations were made to establish an appropriate level of gas post inspections and to complete remedial work following electrical inspections more quickly.
Transformation Programme	Assurance	Reasonable	<ul style="list-style-type: none"> The Transformation Programme comprises projects which vary in size, scale and flexibility. The Council's Project Management Framework encompasses a simple, consistent but tailorable project management methodology, aligned to industry standards (PRINCE2). Whilst this framework is generally fit for purpose, gaps have been identified by the Programme Management Unit and it is therefore undergoing a review. A recommendation has been made to provide guidance

			for an Agile approach which is now being used in relevant IT projects. There is currently no guidance to direct project managers to the most suitable methodology and no internal guidance for the delivery of a project under an Agile approach. Project initiation procedures and controls are robust and were found to be operating effectively and the management of current projects was found to also be undertaken effectively with regular and transparent status reporting. Areas for improvement were identified in relation to project closure procedures where lessons learned have not been fully utilised for the benefit of other projects. Benefits realisation has been limited to those benefits outlined in the initial scope and other benefits may therefore not have been recognised and utilised.
Performance Indicators	Governance	Reasonable	<ul style="list-style-type: none"> The processes in place for the preparation for the PI's chosen for review were reasonable although issues were identified in verifying the accuracy of some of the selected PI's to source data and there was no evidence that all the PIs were checked by an independent officer.
Education Establishments Management – Staff and Pupil information	Governance	Reasonable	<ul style="list-style-type: none"> The audit review provided reasonable assurance over arrangements in place for the security of information at schools. Management need to evaluate the risks and decide on the appropriateness of the use of externally hosted websites in consultation with ICT Services.
Members Expenses	Assurance	Reasonable	<ul style="list-style-type: none"> The recent changeover from E5 to Business World has raised an issue with respect to the retention of, and access to claim backup information. However, assurances have been provided to Internal Audit that these issues are being addressed. The audit identified that the controls in place to ensure that the provisions of the payment scheme as it relates to members' expenses and allowances are properly implemented. There is also an adequate checking process established to ensure correct payments are

			made and there are satisfactory controls in place to ensure that members' expense claims contain sufficient detail to support the amounts claimed.
Home Care – Contract Management	Assurance	Reasonable	<ul style="list-style-type: none"> The audit review provided substantial assurance that care at home services provided by contractors are being adequately monitored by CPU and Adult Services. However, we have made recommendations in relation to the awareness of procedural documentation and the administration of the service aim of a two-year rolling programme for the quality assessment of providers be maintained.
Trading Standards	Assurance	Reasonable	<ul style="list-style-type: none"> The Audit identified that whilst there are processes in place covering the actions taken by Trading Standards in terms of complaints and trader advice, records maintained to evidence work in these areas could be improved upon. In addition, the arrangements for the preparation of Performance Indicators may benefit from a review.
Energy Management	Assurance	Reasonable	<ul style="list-style-type: none"> The processes in place for energy management were reasonable although issues were identified with retaining evidence for calculations of reductions in energy consumption. Also, there should be consistency between the information used to calculate baseline figures and actual consumption figures when measuring changes in energy consumption.
Payroll	Assurance	Reasonable	<ul style="list-style-type: none"> The audit identified that reasonable procedures are in place for employee new starts and terminations. Appropriate segregation of duties and independent checks are in place. Some issues were identified in relation to service departments not notifying payroll services on time to effect correct payments to some employees, this issue is known to management.
Administration of Grants	Assurance	Reasonable	<ul style="list-style-type: none"> The audit identified that reasonable arrangements were in place for the award of grants in Children's Services during the financial year 2018/19. Recommendations

			were made to strengthen the evidencing of the checks made.
Key Financial Controls	Assurance	Reasonable	<ul style="list-style-type: none"> The audit identified that debtors and creditors invoices were raised correctly but were delayed in being issued/paid on some occasions. Recommendations were made in the report to address issues with feeders not being reconciled to the Business World ledger and suspense accounts not being cleared. If implemented, these will help strengthen the controls in place.
Non Domestic Rates	Assurance	Reasonable	<ul style="list-style-type: none"> The audit identified satisfactory arrangement for the billing and collection of non-domestic rates. Improvements were identified in relation to completion of sample checks on reliefs awarded and reconciliation process being undertaken timeously.
Risk Management	Governance	Substantial	<ul style="list-style-type: none"> Overall, the Council has established a robust and effective framework for the management of risk. An effective governance structure is in place to manage the Council's risk profile with regular monitoring and review by the Audit, Risk and Scrutiny Board, the Corporate Risk Management Group, the Risk Management Alliance and the Service Reps. In addition, the Risk Manager effectively co-ordinates risk management activities throughout the Council. Risks and their corresponding control measures have been comprehensively documented within Strategic, Corporate and Service level risk registers and there is an appropriate scoring methodology in place to assess and prioritise the risks. The only area identified for improvement related to obtaining assurance that control measures in place are effectively mitigating/treating the risks. The assurance mapping exercise which was carried out by external consultants did not appear to have a direct link with the Council's risks. It has, therefore, been recommended that for any future assurance mapping exercise, management ensure that

			the Council's risks at that point in time are used as the main driver for the exercise.
Education Funding – Pupil Equality Funding	Assurance	Substantial	<ul style="list-style-type: none"> The audit identified that suitable arrangements are in place to ensure that PEF funds are spent appropriately. Progress has been made in initiating PEF plans in the first year of PEF funding. The audit did not find any significant weaknesses The processes for PEF monitoring arrangements to enable the impact of this additional funding to be measured had just been agreed upon and therefore we were unable to assess the sufficiency of the process which is to be followed.
LEADER Programme	Assurance	Substantial	<ul style="list-style-type: none"> The audit has identified that satisfactory arrangements are in place for managing the External Funding Applications through the LEADER Programme system. As a result, there were no audit recommendations.
Homeless Services – Homeless Procedures Management	Assurance	Substantial	<ul style="list-style-type: none"> The audit has identified that satisfactory arrangements are in place for processing homeless applications and taking actions to prevent homelessness. As a result, there were no audit recommendations arising from this review.
Client Charges – Financial Accounting	Assurance	Substantial	<ul style="list-style-type: none"> The arrangements in place for residential care charging and payments are satisfactory. The audit has identified that the staff time taken to process the ISP payment run may be excessive and that lack of confirmation from providers that payments made are correct is not always followed up.
Performance Management Framework City Deal	Governance	Substantial	<ul style="list-style-type: none"> The audit has identified that satisfactory performance management arrangements are in place for City Deal in Renfrewshire. We have recommended that City Deal management should continue to seek clarification as to tolerance levels for reporting to the PMO for Renfrewshire projects.

GDRP	Governance	Substantial	<ul style="list-style-type: none"> The audit has identified that satisfactory arrangements are in place to comply with the General Data Protection Regulation 2018. Recommendations have been made to ensure that the requirement to carry out Data Privacy Impact Assessments (DPIA's) is documented in Project Management guidance and that the system used to record DPIA's is updated to include references to relevant legislation and record the approval of each DPIA.
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Assurance Level	
Substantial Assurance	<ul style="list-style-type: none"> There is a sound system of internal control designed to achieve the objectives of the area being reviewed. The control processes tested are being consistently applied.
Reasonable Assurance	<ul style="list-style-type: none"> The internal control processes are generally satisfactory with some areas of weakness being identified that could put some objectives of the area being reviewed at risk There is evidence that the level of non-compliance with some of the control processes may put some of the objectives of the area being reviewed at risk.
Limited Assurance	<ul style="list-style-type: none"> Weaknesses in the system of internal controls are such as to put the objectives of the area being reviewed at risk. The level of non-compliance puts the objectives of the area being reviewed at risk.
No Assurance	<ul style="list-style-type: none"> Control processes are generally weak with significant risk to the achievement of the objectives of the area being reviewed. Significant non-compliance with control processes leaves the processes/systems open to error or abuse.