

To: Audit, Risk and Scrutiny Board

On: 29 May 2018

Report by: Chief Auditor

Heading: Summary of Internal Audit Reports for period 1 January to 18 May 2018

1. Summary

1.1 In line with the Public Sector Internal Audit Standards, Internal Audit must communicate the results of each engagement to the Board. To comply with this requirement Internal Audit submits regular reports on the findings and conclusions of audit engagements to the Audit, Risk and Scrutiny Board.

1.2 Appendix 1 provides details those audit engagements completed during the period 1 January to 18 May 2018 with the overall assurance rating and the number of recommendations in each risk category. The committee summary for each report is also attached. For each audit assignment where recommendations have been made, the relevant managers have put action plans in place to address the issues raised.

1.3 In addition to the reports listed in the Appendix, Internal Audit has an ongoing commitment to:

- A range of corporate and service initiatives;
- Progressing of information security matters in partnership with ICT and Legal Services;
- The regular provision of advice to departmental officers;
- The provision of internal audit services to the associated bodies for which Renfrewshire Council is the lead authority and to Renfrewshire Leisure Ltd and Renfrewshire Health and Social Care Integrated Joint Board;

- Co-ordination of the Council's corporate risk management activity;
 - Management of the counter fraud team;
 - Management of the risk management and insurance team.
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2. **Recommendations**

- 2.1 Members are invited to consider and note the Summary of Audit Findings reported during the period from 1 January to 18 May 2018.
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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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Appendix 1

Renfrewshire Council

Internal Audit Service

Update for Audit, Risk and Scrutiny Board

Final Audit Reports issued from 01 January – 18 May 2018

Category	Service	Engagement	Assurance Rating	Recommendation Ratings			
				Critical	Important	Good Practice	Service Improvement
Investigation	Environment & Communities	School – Catering Investigation	Note 1	3	4	1	
	Chief Executive's Service	PACE Theatre Company Grants	Note 1		2	1	
	Development & Housing	Project Grant Funding	Note 1		2	1	
Assurance	Development & Housing	Contract Management (Economic Development)	Reasonable		1	1	
	Corporate	External funding Applications	No Assurance		3		
		Corporate Purchase Cards	Reasonable		1	5	
	Finance & Resources	Housing Benefit & Council Tax Reduction	Substantial			1	
		Corporate Health & Safety	No Assurance	4	6	1	

Note 1 – No assurance rating can be given in respect of investigation assignments

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.

Recommendation Rating	
Service Improvement	Implementation will improve the efficiency / housekeeping of the area under review.
Good Practice	Implementation will contribute to the general effectiveness of control.
Important	Implementation will raise the level of assurance provided by the control system to acceptable levels.
Critical	Addresses a significant risk, impacting on the objectives of the area under review.

Internal Audit Report

Environment & Communities

School – Catering Investigation (C0243/2018/019)

C0243/2018/019

Date: April 2018

COMMITTEE SUMMARY

Audit Objectives

Management reported an allegation of misappropriation in relation to catering income at a Primary School. It was alleged that teaching staff were paying for meals which were not being recorded through the cash register.

The objectives of the audit were to:

- Ascertain whether there is any substance to the allegation.
- Ensure income recorded through the cash registers is accurately recorded on the catering forms.
- Ensure that all income is banked intact and timeously.
- Confirm that there is adequate segregation of duties in relation to catering income collection.

Audit Scope

1. Ascertained whether there is any CCTV within the catering area. It was confirmed that there was no CCTV.
2. Interviewed the appropriate catering staff along with a sample of Teaching staff at the Primary School.
3. Confirmed from the documentation that there are no adult meals recorded as paid for during the periods 1-7.
4. Reviewed the documentation and confirmed that the amounts recorded had been banked timeously. For a sample period during periods 1-7, confirmed that the Catering documentation agreed to the till readings, the till readings ran in order and the total amounts collected had been correctly recorded on the documentation.

Key Audit Assurances

1. Income recorded through the cash registers is generally accurately recorded on the catering documentation.
2. Income is banked intact and timeously.

Key Risks

Procedures for recording catering income are inadequate due to a lack of segregation of duties.

Internal Audit Report

Environment & Communities

School – Catering Investigation (C0243/2018/019)

C0243/2018/019

Date: April 2018

Overall Audit Opinion

There is no evidence to substantiate the allegation made. While the Auditor is satisfied that the allegation was made in good faith, it is the Auditor's opinion that the allegation is unreliable as it was based on a third hand conversation where the 2 original officers have different recollections of their conversation.

Management Commentary

1. Catering Managers and Supervisors will be reminded of the procedures they should be following for the selling of catering goods and collection of catering income.
2. Refresher training on the contents of the Financial Procedures manual will be included within the regular catering managers' meetings and in the next Catering Managers' training day. This will then be cascaded to all staff by Catering Managers.

Internal Audit Report

Chief Executive's Service

PACE (C0243/2018/051)

C0243/2018/051

Date: December 2017

COMMITTEE SUMMARY

Audit Objectives

Following press reports that the Executive Director of Pace Theatre Company had been dismissed "following a financial probe", the Chief Executive requested that Internal Audit undertake a review to ensure that Council grant funding had been appropriately spent by the organisation. The objectives of this investigation were to ensure that:

1. Council grant funding allocated to the group could be adequately accounted for;
2. Arrangements are in place and being adhered to address outstanding debt owed to the Council and Renfrewshire Leisure Ltd;
3. Any identified weaknesses, in the internal control environment, relating to the grant allocation were addressed.

Audit Scope

1. Met with representatives from the Pace Theatre Company and obtained evidence of grant expenditure and plans for any unspent grants.
2. Reviewed the grant applications and conditions of grant to confirm that adequate checks were in place on the applications received.
3. Reviewed the outstanding debt and the payment arrangements in place, to confirm that the arrangements are being adhered to.

Key Findings arising from the investigation

1. The auditor is satisfied that the Culture, Events and Heritage Fund (CEHF) and the Education grant have been spent in line with the grant applications.
2. The Local Area Committee (LAC) grant is currently unspent. The auditor was provided with assurances that this grant would be spent in line with the grant application.
3. The Company has a significant amount of outstanding debt to the Council and Renfrewshire Leisure Ltd. Previous payment plans had not been adhered to. However, the auditor is satisfied that in recent months payments have been made as expected and assurances have been provided to the auditor that this will continue with a view to clearing the debt as soon as possible.

Overall Audit Opinion

The auditor is satisfied that Council grant funding has been adequately accounted for. A weakness was identified in relation to the lack of checks undertaken to confirm the grant applicant is not indebted to the Council. Recommendations have been made to address this

Internal Audit Report

Chief Executive's Service

PACE (C0243/2018/051)

C0243/2018/051

Date: December 2017

and to ensure that the assurances provide by the Company are complied with.

Management Commentary

1. Both the grant spend and debt repayments being made by PACE are being closely monitored by Council officers
2. A system is being put in place to check if any organisation has any outstanding debts with the Council and their repayment history prior to any grant award being made.

Development & Housing Service

Charity Grant Investigation (C0243/2018/017)

C0243/2018/017

Date: April 2018

COMMITTEE SUMMARY**Audit Objectives**

In October 2017, Internal Audit were informed that allegations had been made by an individual relating to the misuse of grant funding received by a Charitable Project from Renfrewshire Council. The Charity had received 2 grants, totalling £11,424.14 from the Council. The objectives of this investigation were to ascertain the circumstances surrounding the allegations made and their validity, to ensure that any allocated council grant funds could be accounted for and to identify and address any weaknesses in the internal control environment relating to the council grant funding process.

Audit Scope

1. Meetings were held with relevant council officers and Charity trustees and members to establish background information and to obtain explanations for any arising issues.
2. Documentation to support grant expenditure was obtained and reviewed.
3. Site visits were made to the charities premises to physically view items purchased and to establish the extent of building works and technical capabilities.

Key Issues arising from the investigation

The following issues were identified during the course of the audit investigation:

1. Grant funding of £9,450.00 was applied for in August 2016 and £9,424.14 was received by the charity from Renfrewshire Council in May 2017 even though Charity Trustees were aware that they were being pursued by the courts for non-payment of water rates totalling over £11,000.00. This information was not shared with Renfrewshire Council at that time. In order to protect Council interests, the Council requested that unspent Grant, at the time of the audit, of £2,000 be returned to the Council.
2. The Council became concerned when a request was made to allow all the Charities assets to be transferred to a newly founded charitable company to circumvent the assets being seized by the courts.
3. An invoice dated March 2017 was received by the Charity from a company (which the Charities chairperson was a director of at the time the invoice was produced) requesting payment for items that had not been supplied at the date on the invoice. After examination of all relevant documentation, it was identified that a cumulative total of £2,000.00 has been paid for goods/services that have not been supplied.
4. We were informed that following a risk assessment in August 2017, it was recommended that the design of the project's new unit be reconsidered. This recommendation was accepted by the Charities committee resulting in funds granted from Renfrewshire Council being expended on items that differed from the original grant application. There was no approach made to Renfrewshire Council to

Development & Housing Service

Charity Grant Investigation (C0243/2018/017)

C0243/2018/017

Date: April 2018

obtain authorisation for these changes.

5. Grant funding of £2,000.00 was applied for in September 2015 and paid over to the Charity in March 2016. £377.10 of this grant was not spent and should therefore have been returned to Renfrewshire Council.
6. Not all of the expected checks were undertaken by Council officers prior to the grant funding being paid by Renfrewshire Council.

Overall Audit Opinion

It is the auditor's opinion that the allegations made can be partly substantiated. Examination of the records highlighted that the Charity were aware they were being pursued by Business Stream for non-payment of rates when they applied for grant funding, they have paid for goods they had not received and they had not wholly followed the Conditions of Grant. Furthermore, the review identified that there was a lack of appropriate checks within the Council processes surrounding payment of grants. It is a matter of concern to the auditor that in total, £2,377.10 of council funding has been paid to the Charity for which there is no supporting evidence.

Management Commentary

1. Following further discussions with the Charities Trustees, the Director of Development and Housing Services and the Chief Auditor remain concerned regarding the legitimacy of the invoice submitted to the Council against which the release of the grant funding was made. The Chief Auditor has advised OSCR of the findings arising from the audit.
2. The, Chief Auditor, in consultation with the Director of Development and Housing has written to the Charity to advise that our continued concern precludes the Council from returning to the Charity the £2,000 of grant funding that was returned to the Council.
3. Management has agreed to enhance the checking procedures for payment of grant funding to include all relevant checks.

Internal Audit Report

Development and Housing

Contract Management (Economic Development) (A0014/2018/002)

A0014/2018/002

Date: February 2018

COMMITTEE SUMMARY

Audit Objectives

The objectives of the audit were to ensure that for the Adult Employability Services contract:

- Roles and responsibilities for contract management are clear and understood;
- Regular contract management meetings are held with the supplier of the services and attended by the relevant officers;
- Performance measures have been defined in contract terms;
- Performance measures included in the contract are reflected in the contract management scorecard and these are discussed regularly;
- There is evidence of underperformance being appropriately managed;
- Defined payment terms and rates are being checked for accuracy before payment.

Audit Scope

1. Interviewed the appropriate staff, evaluated the contract management arrangements in place for this contract and identified any possible improvements.
2. Prepared and undertook a series of tests to confirm the adequacy and effectiveness of the contract management arrangements identified for the contract selected for review.

Key Audit Assurances

1. Roles and responsibilities for contract management are clearly stated in the invitation to tender which includes defined performance measures.
2. Regular meetings are scheduled with the supplier's officers to discuss performance.
3. Invoices received are checked against defined payment terms and rates before payment.

Key Risks

Improvement actions were not agreed at an early stage with the service provider, thus delaying the implementation of these actions.

Overall Audit Opinion

The audit has provided a reasonable level of assurance over the contract management arrangements for the Economic Development Adult Employability Services contract. The auditor has recommended that actions to improve areas where targets are not being met should be agreed earlier with the service provider.

Internal Audit Report

Development and Housing

Contract Management (Economic Development) (A0014/2018/002)

A0014/2018/002

Date: February 2018

Management Commentary
Regular monitoring will be undertaken of the agreed improvement actions and additional review meetings will be arranged with the Contractor to discuss progress.

Internal Audit Report

Corporate

External Funding Applications (A0036/2016/001)

A0036/2016/001

Date: May 2018

COMMITTEE SUMMARY

Audit Objectives

The objectives of this audit were to:

- Ascertain and assess the adequacy of corporate oversight arrangements for external funding applications.
- Ensure that adequate approval processes are in place before funding is applied for or accepted.

Audit Scope

1. Attempted to identify the main services that apply for external funding through interviews with the relevant officers and through access to the financial ledger.
2. Ascertained the corporate arrangements in place for approval, monitoring, control and oversight of external funding applications.
3. Contacted other Local Authorities to establish their arrangements for applying for external funding and considered whether any improvements could be made to Renfrewshire Council's arrangements.

Key Audit Assurances

Renfrewshire Council has a Scheme of Delegated Functions that outlines the approval process in relation to external grant funding.

Key Risks

1. There is no specialist resource in place responsible for ensuring that external funding opportunities are maximised for the council and consequently potential grant income may be unexploited.
2. Some external funding providers may only provide one pot of grant funding to individual organisations e.g. Renfrewshire Council. Given that there is no real corporate oversight or central funding register in place, funding may be granted to a lower priority project rather than the most relevant project.
3. There is no Corporate External Funding Strategy in place and therefore funding applications may not be appropriately focused and aligned to corporate objectives.

Overall Audit Opinion

There is a lack of corporate oversight in relation to external funding applications and the auditor cannot therefore provide any assurance in this regard. Implementation of the recommendations contained in this report will enable a corporate approach to external funding applications which should ensure that funding is targeted at priorities in line with strategic objectives.

Management Commentary

A new post of External Funding Officer will be created as a corporate council resource, who will be responsible for preparing an External Funding Strategy to outline the Council's approach to applying for external funding and for also establishing an External Funding Application Register for Council funding applications.

Internal Audit Report

Corporate

Corporate Purchase Cards (A0032/2018/001)

A0032/2018/001

Date: March 2018

COMMITTEE SUMMARY

Audit Objectives

The objectives of the audit were to:-

1. Ascertain that spend is in line with the Corporate Purchasing Card (Pcard) Guidelines in terms of:-
 - frequent transactions are below £499.99
 - transactions between £500 and £1999.99 are for one-off purchases
 - there are no transactions over £2000
 - Pcards are not used to purchase ICT goods or services
 - there is no preferred method of purchasing already in place for suppliers/goods
2. Ascertain the main suppliers of goods and services purchased using the Pcard identifying areas of off contract spend and to consider if best value would be achieved by establishing contracts with these suppliers.

Audit Scope

Reviewed and analysed Pcard expenditure data for financial year 2016/2017 obtained from the Pcard banking website.

Details of current procurement contracts in place were obtained and reviewed.

Sample testing was carried out on Pcard transactions to meet the audit objectives.

Pcard logs and supporting documentation were examined as appropriate.

Key Audit Assurances

Frequent transactions are in the main below £499.99, in line with the intended use of Pcards.

Key Risks

There may be security/compatibility implications if Pcards are used to purchase IT goods or services that do not have prior approval from ICT Services.

Value for money may not be achieved if non-contract purchases are made with Pcards.

Observation without recommendation

The supplier Amazon was found to have the largest non contracted spend via Pcard in the financial year 2016/2017. Due to the time taken to ascertain the details of items purchased in each transaction and the large variation of items identified as being purchased during testing, the auditor was unable to identify any large areas of spend where there is already a preferred method of purchase.

Internal Audit Report

Corporate

Corporate Purchase Cards (A0032/2018/001)

A0032/2018/001

Date: March 2018

Overall Audit Opinion

Whilst there are adequate procedures in place covering the purchase of goods with Pcard, issues were identified regarding compliance with some areas of these procedures such as recurring mid value transactions, purchase of IT equipment and high value orders where the Pcard purchase method is not recommended. The audit also identified areas of non-contract spend that would benefit from further review by the Corporate Procurement Unit. Recommendations have been made within the report to address the weaknesses identified and once implemented these should strengthen the controls in place and provide a greater robustness in the process.

Management Commentary

1. The PCard Procedures have been updated to reflect the audit recommendations.
2. PCard holders have been reminded via an email of their roles and responsibilities regarding the issues raised in the audit report.

Internal Audit Report

Finance and Resources

Housing Benefit and Council Tax Reduction (A0071/2018/002)

A0071/2018/002

Date: April 2018

COMMITTEE SUMMARY

Audit Objectives

The objectives of the audit were to ensure that:

- There are adequate documented procedures in place which are up to date and comply with current legislation;
- Staff are appropriately trained and aware of procedures;
- Strategies have been established to encourage benefits take up and make services accessible;
- Information, documentation and advice are readily available to landlords;
- Data is held securely in compliance with the relevant legislation.

Audit Scope

1. Interviewed the appropriate staff, evaluated the controls in place for the housing benefit and council tax reduction scheme and identified any possible improvements to the system.
2. Prepared and undertook a series of tests to ensure the council tax valuation system is operating effectively and as described.

Key Audit Assurances

1. There are adequate documented procedures in place which comply with legislation;
2. A detailed training programme is in place to ensure that staff are aware of procedures;
3. A Benefits Take Up Officer encourages benefits take up and promotes benefit services;
4. Information, documentation and advice are available to housing association landlords;
5. Procedures are in place to hold customer data securely and protect it from unauthorised access.

Key Risks

There were no key risks identified during the audit.

Overall Audit Opinion

The audit has identified that satisfactory arrangements are in place for administering the housing benefit and council tax reduction scheme.

Internal Audit Report

Finance and Resources

Housing Benefit and Council Tax Reduction (A0071/2018/002)

A0071/2018/002

Date: April 2018

Management Commentary
Management agreed to implement the one good practice recommendation which was made.

Internal Audit Report

Finance and Resources

Corporate Health & Safety (A0091/2016/001)

A0091/2016/001

Date: March 2018

COMMITTEE SUMMARY

Audit Objectives

The purpose of the audit is to carry out a review of the arrangements in place for corporate Health and Safety.

Audit Scope

The scope of the audit covered testing of the controls in operation to ensure that:

- There were clearly defined and understood roles and responsibilities for health and safety, including risk identification;
- There were adequate and up-to-date policies and procedures in place which were readily available to those that need them;
- There was regular engagement with other service areas to ensure compliance with legislative requirements;
- There was a programme of health and safety audits and these were followed up adequately;
- There were adequate arrangements in place for reporting, accidents, incidents and near misses and these were adequately followed up; and
- Performance monitoring and reporting arrangements were appropriate.

Key Audit Assurances

In relation to the objectives covered by this audit review, no assurances can be given in relation to the arrangements in place during 2016/17, which was the period covered by the audit.

Key Risks

- Although there is a Health and Safety Policy in place, which details the high level governance arrangements including the roles and responsibilities of key officers, current practice does not follow the arrangements as set out in the policy at both a corporate and service level. There is a risk that health and safety activity may be uncoordinated, reactive and not subject to an appropriate level of scrutiny.
- The policy is also not being followed at an operational level with pro-active health and safety audit inspections not being undertaken as expected at a corporate level and there is inconsistency at a service level. This increased the risk that action is not taken in a timely manner to rectify any issues that would have been identified through the checking regime.
- There is a corporate process for logging incidents, however there is a lack of effective monitoring and follow up of the mitigating actions required. This increases the risk that remedial action is not taken in a timely manner.

Internal Audit Report

Finance and Resources

Corporate Health & Safety (A0091/2016/001)

A0091/2016/001

Date: March 2018

- Currently, performance information in relation to health and safety is not being prepared, monitored and reported consistently. Without adequate monitoring and reporting of both Corporate and Service health and safety performance, there is an increased risk that trends are not identified and remedial action taken where necessary and the arrangements are not subject to an appropriate level of scrutiny.

Overall Audit Opinion

Based on the audit work carried out the control environment has been assessed as unsatisfactory. The Auditor is concerned that the current governance arrangements may not be fit for purpose. Operational arrangements are not currently adequate and there is a lack of appropriate processes and scrutiny. Management need to review the governance and operational practice as a matter of priority.

Management Commentary

1. An independent strategic review is now ongoing of the corporate health and safety governance and operational arrangements.
2. A formal Corporate Health & Safety Team duty officer process has been developed, which includes a daily check of the systems to ensure any actions required as a result of an incidents are being effectively dealt with. All previous actions have now been reviewed.
3. KPIs will be developed for the Corporate Health & Safety Team and these will be agreed with the Director of Finance & Resources.