

To: Audit, Risk and Scrutiny Board

On: 24 May 2021

Report by: Chief Auditor

Heading: Internal Audit Annual Report 2020 - 2021

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 2020-21 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 annual report relates to the delivery of the risk-based internal audit plan.
11. **Privacy Impact –** None
12. **COSLA Implications –** None
13. **Climate Risk** - None

Author: Andrea McMahon



Annual Report 2020-2021



Renfrewshire Council Internal Audit

May 2021

Renfrewshire Council

Internal Audit Annual Report 2020/2021

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Renfrewshire Council
Internal Audit Annual Report
1 April 2020 – 31 March 2021

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 reports 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 their 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 2020/2021

- 3.1 The internal audit plan for 2020/2021 was approved by the Audit, Risk and Scrutiny Board on 16 March 2020. The plan was risk-based and took into account the outcomes of the service and corporate risk evaluation processes, any 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 their Annual Audit Plan for the council.
- 3.2 The continued restrictions arising from the pandemic and the changing risk profile of the council, necessitated a comprehensive review of the original audit plan and the Audit, Risk and Scrutiny Board, at its meeting on 23 November 2020, approved revisions including cancelling four audit engagements, adding a review of corporate purchase cards and reallocating those resources to supplement the contingency budget.
- 3.3 All other planned work as detailed in the 2020/2021 audit plan was undertaken and those assignments not finalised by 31 March 2021 are prioritised in the first quarter of the current year.

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.

(1) Financial Sustainability

The council is continuing to face significant financial pressures. Consequently, the financial sustainability risk remains very high and continues to be subject to significant and regular scrutiny. The council has developed a range of projects to deliver transformational change to service delivery and savings. Work undertaken during 2020/21 included:

- Reviews of key processes now operating in the Business World environment, specifically the review of creditors was completed and a planned review of payroll, has commenced and will be completed early in the 2021/2022 audit year; and
- A review of the processes for committing to major capital expenditure.

(2) Public Protection

Public protection is a wide-ranging agenda relating to the protection of vulnerable people, communities, businesses and organisations. The 2020/21 audit plan included a review of the arrangements for memorial safety.

(3) Community Empowerment

Legislative changes arising from the Community Empowerment (Scotland) Act 2015, places a wide range of requirements on local authorities. The Act is intended to empower community bodies through the ownership or control of land or buildings and by strengthening the voice of communities in the planning and delivery of public services. The 2020/21 audit plan included time for reviewing local partnerships and participatory budgeting.

(4) ICT Resilience

As a major component of council service provision, it is important to ensure that there are adequate and robust arrangements in place to recover from major disruptions to ICT availability. A planned review of disaster recovery arrangements which was due to be undertaken by an external contractor had to be postponed due to the current pandemic.

(5) Regeneration

The Council has plans for regeneration throughout Renfrewshire. The provision of high quality affordable housing is a key component of this and is an integral part of the regeneration strategy. The 2020/21 audit plan included time for reviewing the contract management and monitoring arrangements relevant to the housing investment strategy.

(6) Brexit

The UK left the European Union on 31 January 2020 and the council has extensive planning arrangements in place with key partners. During 2020/21, there have been no new or amended statutory duties and no specific impact on the council's internal control procedures, as such no specific internal audit work was undertaken during the year.

(7) Covid 19 Pandemic

As the global pandemic continued and the council adapted its ways of working including revised governance arrangements and services being provided remotely, potentially impacting on internal control and authorisation processes. Therefore, following the comprehensive review of the audit plan, the revised plan included a review of the emergency governance arrangements in place and a review of corporate purchase cards. Contingency time was augmented to assist those services responsible for disbursement of business support grants were provided with advice to mitigate the fraud risk inherent with those grants.

- 3.2 In line with the council's procedures, instances of suspected theft, fraud or other irregularity are 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. Both Corporate Counter Fraud and Internal Audit undertook work in relation to potential and actual fraudulent grant activity and are continuing to liaise with the police on those cases referred to them.
- 3.3 During 2020/21, Internal audit conducted a number of investigations in relation to employee conduct and service management has undertaken disciplinary procedures and strengthened internal controls where necessary.
- 3.4 The outcomes of all investigation reviews are reported to the Audit, Risk and Scrutiny Board.

4. Summary of Internal Audit Work

- 4.1 As a result of the Covid-19 pandemic, the internal audit team has worked full time from home and progressed planned audit assignments which we able to undertake remotely. The team also provided advice and support where necessary to council services.
- 4.2 Appendix 1 details the assurances arising from the internal audit work carried out in line with the revised 2020/21 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.

5. Internal Audit Resources

- 5.1 For the year to 31 March 2021, the audit plan was based on an establishment of 6.00 full time equivalent employees plus a trainee and 60 days to be provided

from other service providers. Due to the Covid-19 pandemic, the actual staffing complement was reduced due to some staff undertaking other duties and no audit engagements were outsourced as was planned.

6. Review of Internal Audit Activity

- 6.1 The Audit Plan for 2020/21 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	113	63	(50)	(44%)
Assurance	433	315	(118)	(27%)
Contingency	344	324	(20)	(6%)
Audit Planning & Reporting	119	146	27	27%
Total Operational Days	1009	848	(161)	(16%)
Training	62	26	(36)	(58%)
Strategic Management	26	13	(13)	(50%)
Team Administration	94	108	14	15%
Development	82	84	2	2%
Total Non-operational Days	264	231	(33)	(13%)
Gross Available Days	1273	1079	(194)	(15%)
Operational %	79%	79%		
Non-Audit – Including Management of Risk Management and Insurance and Corporate Counter Fraud including the co-ordination of NFI	80	152	72	90%

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

1) Governance

The planned reviews of disciplinary procedures and the administration of medicines in schools were approved for cancellation from the audit plan by the Audit, Risk and Scrutiny Committee in November 2020. 2

2) Assurance

The planned reviews of corporate health and safety and cash transactions in Children's Services were approved for cancellation from the audit plan by the Audit, Risk and Scrutiny Committee in November 2020. A planned review of payroll within Renfrewshire Leisure was also cancelled following discussion with their management team. ICT reviews, which are traditionally outsourced have been carried forward into 2021/22 due to Covid restrictions.

3) Audit Planning & Reporting

More planning activity was undertaken than is usual due to the impact of the pandemic which resulted in the audit plan being completely reviewed in conjunction with service departments and an amended plan was approved by the Audit, Risk and Scrutiny Board in November 2020.

4) Training

Planned training activity did not take place due to Covid restrictions and home working arrangements, these are planned to go forward in 2021/22.

5) Non-Audit

The additional time spent on non-audit activities includes more management time being devoted to counter fraud work in relation to government business support grants and time spent by team members on duties such as call handling in the early stages of the pandemic.

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 2020/21		
Performance measure	Target 2020/21	Actual 2020/21
% completion of audit plan for the year*	95%	94.5%
% engagements completed by target date	95%	98.4%
% engagements completed within time budget	95%	100%

* 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 The percentage completion of the revised audit plan is marginally below the target set for the year. This was due to a period of unplanned leave in March 2021. The actual performance for the year for the two other indicators, 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. The review did not identify any areas of non-conformance that require to be addressed.
- 7.4 External Audit's review of the internal audit service concluded that overall the service operates in accordance with the PSIAS.

8. Implementation of Audit Recommendations

- 8.1 During 2020/21, 140 recommendations were followed up, with 76% 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 2020/21					
Service	No. Followed up	Complete	Partially Complete (new date)	Not Implemented (new date)	Redundant
Adult Services	2	2 (100%)	N/A	N/A	N/A
Chief Executive's	16	12 (75%)	4 (25%)	N/A	N/A
Children's Services	13	9 (70%)	2 (15%)	2 (15%)	N/A
Environment & Infrastructure	38	29 (76%)	8 (21%)	1 (3%)	N/A
Finance & Resources	68	53 (78%)	10 (15%)	5 (7%)	N/A
Communities & Housing	3	2 (67%)	N/A	1 (33%)	N/A
Total	140	107 (76%)	24 (17%)	9 (7%)	N/A

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, during 2020/21 the team worked full time from home. The aim of the team is to raise awareness to promote an anti-fraud culture and investigate instances of suspected fraud

against the Council, such as council tax reduction fraud, tenancy fraud and other corporate fraud. Two out of the 3 members of the Counter Fraud Team were seconded for a period to the Local Assistance Team which was established to assist Renfrewshire residents during the pandemic. The team was returned to full capacity in January 2021. The outcomes for the year are detailed on Table 4 below.

The usual jointly working arrangements with the DWP in place to investigate potential high value fraud cases which involve both benefits payments and council tax reduction, had been suspended by the DWP for most of the year as their local fraud officers have been seconded to undertake other duties, but it is our understanding that their compliance teams are dealing with some fraud work and plans are currently being put in place to enable fraud investigations to recommence. We continue to refer cases worthy of investigation to them for their consideration.

Table 4

Corporate Counter Fraud Performance 2020/21	
Financial Outcomes	2020/21 (£)
Cash savings directly attributable to preventative counter fraud intervention	328,020.00
Cash recoveries in progress directly attributable to counter fraud investigations	44,825.45
Notional savings identified through counter fraud investigation, (e.g. housing tenancy and future council tax)	271,092.99
Housing Benefit Savings identified through other counter fraud work or through joint working with the DWP	45,639.90
Non-Financial Outcomes	2020/21
Housing properties recovered	2
Housing applications amended/cancelled	16
Blue badge misuse warning letters issued	8


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 2020, the resulting matches were received in January 2021 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. Audit Assurance Statement

- 10.1 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.
- 10.2 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.
- 10.3 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.
- 10.4 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.
- 10.5 The audit plan is always intended to be flexible and as a result of the Covid 19 pandemic, the audit plan for 2020/21 was reassessed in light of restrictions on our ability to progress certain planned audit engagements and considering other areas of emerging risk. Additionally, the gross available days were reduced by 15% with some staff undertaking other duties and no audit engagements were outsourced as was planned . 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 2020/21;
 - (ii) the results of investigative work in 2020/21;
 - (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 24 May 2021

Audit Engagement	Risk Area	Assurance Level	Conclusion
Online payments – School Meals Income	Assurance	Limited	<ul style="list-style-type: none"> Online payments for school meals have not yet been rolled out to all schools. The purpose of the review was to identify lessons learned before further roll out. The audit identified that income generated through online payments should be more accurately recorded and monitored and reconciliations between banking and general ledger should be improved and carried out more regularly.
Community Empowerment – Community Asset Transfer	Governance	Limited	<ul style="list-style-type: none"> At the time of the review the processes being carried out in relation to Community Asset Transfers were not adequate in several areas on the requirements of the Community Empowerment (Scotland) Act 2015.
Community Benefits	Assurance	Reasonable	<ul style="list-style-type: none"> The audit has identified that there was an appropriate focus on community benefits in the Invitations to Tender for each contract tested and adequate oversight from the Community Benefits Forum. Recommendations were made to ensure that community benefit implementation plans are in place and that an appropriate escalation process is in place to follow up with suppliers when Community Benefits are not being delivered in accordance with these implementation plans.
Non-Domestic Rates	Assurance	Reasonable	<ul style="list-style-type: none"> The audit identified that satisfactory controls are in place for the billing and collection of NDR. However, evidence of some rates relief applications emails were not available and reviews of NDR reliefs are not being carried out as often as agreed.
Online payments – School funds	Assurance	Reasonable	<ul style="list-style-type: none"> The audit recommended that officers administering, and authorising, school fund expenditure should be reminded that all expenditure should only be for the benefit of pupils and that evidence to show what all expenditure was for should be retained. We also recommended that management should provide clear

Appendix 1

			guidance to officers administering school funds in relation to the extent to which they can accept cash payments as this was not consistent within the schools visited.
Payroll	Assurance	Reasonable	<ul style="list-style-type: none"> The audit identified that temporary changes to employee hours and temporary upgrades are generally actioned correctly. However, some employees with temporary changes of hours were not paid timeously and there was a lack of evidence of signed contracts for some secondments.
Disclosure Checks	Assurance	Reasonable	<ul style="list-style-type: none"> Arrangements were in place to undertake required PVG checks for employees, including those who transferred to regulated work. However, we identified that there was no evidence to show that records for keeping track of disclosure checks requested for employees and volunteers have been reviewed at regular intervals and that all employees disclosure checks undertaken have been recorded on Business World.
Fuel Purchases	Assurance	Reasonable	<ul style="list-style-type: none"> Improvements could be made to the levels of management scrutiny by both Fleet Services and council departments and card limits could further mitigate the risk of unauthorised transactions. Internal Audit agree with Fleet Services that they should continue with the next stage in the exercise to reduce the number of fuel cards in use in favour of the on- site fuel tanks at Underwood Road, by concentrating on vehicles allocated to Building Services.
Housing Assurance Statement	Assurance	Substantial	<ul style="list-style-type: none"> Based on sample check of the evidence used to demonstrate compliance, we would confirm that the Council complies with the Housing Regulator requirements of the Housing Assurance Statement.
LEADER Programme	Assurance	Substantial	<ul style="list-style-type: none"> The audit identified that satisfactory arrangements are in place for issuing, monitoring and managing the External Funding Applications through the LEADER grant funding programme.

Appendix 1

Local Partnerships – Participatory Budgeting	Governance	Substantial	<ul style="list-style-type: none"> The audit identified that a satisfactory system is in place for the participatory budgeting aspect of Local Partnerships.
Council Housing – New Build Programme	Assurance	Substantial	<ul style="list-style-type: none"> The audit has identified that satisfactory administrative arrangements are in place for management of the council's housing newbuild programme.
Emergency Governance Arrangements	Governance	Substantial	<ul style="list-style-type: none"> The audit has identified that satisfactory procedures were put in place to delegate decision making in response to the COVID 19 pandemic. The Emergencies Board minutes and delegated authority reports provide an audit trail of decisions taken, while other Boards were not meeting as usual. Decisions were taken at the correct level and actions were taken forward by the Emergencies Management Team.

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.