

SCOTLAND EXCEL

To: SCOTLAND EXCEL JOINT COMMITTEE

Date: 17 June 2016

**Report by
Chief Auditor**

INTERNAL AUDIT ANNUAL REPORT 2015/16

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 Scotland Excel's internal control environment.
- 1.3 The Annual Report for Scotland Excel is attached at Appendix 1 and outlines the role of Internal Audit, the performance of the Internal Audit Team, the main findings from the internal audit work undertaken in 2015/16, and contains an audit assurance statement.

2. RECOMMENDATIONS

- 2.1 Members are invited to consider and note the contents of the Annual Report.
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Scotland Excel Internal Audit Annual Report 2015-2016

**Finance & Resources
Internal Audit**

June 2016

Scotland Excel

Internal Audit Annual Report 2015/2016

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Scotland Excel

Internal Audit Annual Report

1 April 2015 – 31 March 2016

1. Introduction

1.1 As host Authority, Renfrewshire Council provides an internal audit service to Scotland Excel. This includes:

- The compilation of an annual audit plan following consideration and evaluation of those areas of greatest risk in the organisation's operation, and consultation with the Director;
- Delivery of the planned audit assignments;
- Follow up of previous audit recommendations;
- Provision of any ongoing advice and support on audit and risk management related matters;
- Provision of an Annual Report and Assurance Statement, and presentation to elected members of Scotland Excel.

1.2 The Service operates in accordance with the Public Sector Internal Audit Standards which defines Internal Audit's role as:

".....an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

1.3 In line with the Standards, the purpose of this Annual Report is to report on:

- The outcome of the planned Internal Audit reviews 2015/16 relating to Scotland Excel;
- The outcome of Internal Audit reviews of supporting Renfrewshire Council corporate systems;
- Internal audit performance;
- Planned audit work for 2016/17;
- The annual assurance statement which provides an opinion on the overall adequacy and effectiveness of the organisation's internal control environment.

2. Responsibilities of Management and Internal Audit

2.1 It is the responsibility of management to ensure that for the areas under their control there is an adequate and effective 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 2015/2016

- 3.1 The Annual Report for 2015/2016 was submitted to the Authority on 12 June 2015.
- 3.2 The following work was undertaken in relation to 2015/16 in line with the audit plan:
- Review of the contract monitoring arrangements, focusing on the tender management stage of the procurement journey;
 - Follow up of previous audit work.
- 3.3 The findings arising from Internal Audit reviews are communicated to the Chief Officer's Management Group and the Executive Sub-Committee. A summary of the main findings are detailed in table 1 below.

Table 1

Audit Area	Conclusion
Contract Management Arrangements	<ul style="list-style-type: none"> • Satisfactory Level of Assurance • The systems in place for the management of contracts during the tender management stage of the procurement journey are satisfactory and no key risks were identified.

- 3.4 The implementation rate of audit recommendations is a measure of operational culture and effectiveness. During 2015/16, 5 recommendations relating to Scotland Excel's activities were followed up. All 5 (100%) have been fully implemented.
- 3.5 Internal Audit also carried out reviews of the main corporate systems operating within Renfrewshire Council which support Scotland Excel's activity. The main findings in relation to these are summarised in table 2 below and

Renfrewshire Council management have agreed to implement the audit recommendations made in relation to each review:

Table 2

Audit Area	Conclusion
Payroll	<ul style="list-style-type: none"> • Satisfactory Level of Assurance • No key risks were identified. A few good practice recommendations were made, which once implemented, will strengthen the overall effectiveness of internal control.
Corporate Governance (Review of adequacy and effectiveness)	<ul style="list-style-type: none"> • Satisfactory Level of Assurance • Internal Audit have reviewed the adequacy and effectiveness of the Code and confirmed that the Council complies with the requirements of the Local Code of Corporate Governance. In addition, it is evident that the Local Code has been subject to review and updating in line with national guidance and developments in best practice.
Insurance	<ul style="list-style-type: none"> • Reasonable Level of Assurance • Key risks related to closer monitoring arrangements with the external claims handlers and formalisation of the roles and responsibilities in relation to potential fraud.
Procurement & Creditors (Corporate Purchase Cards)	<ul style="list-style-type: none"> • Reasonable Level of Assurance • The key risks relate to record keeping and roles and responsibilities in relation to some areas require to be clarified. It has been recommended that a working group is established to review procedures.
Authorised Signatories	<ul style="list-style-type: none"> • Reasonable Level of Assurance • The majority of transactions tested were appropriately authorised. Recommendations were made to

	ensure that the database is brought up to date in relation to changes in service personnel and to restrict authorisations to appropriate levels of staff that have sufficient knowledge both of the operational requirement for the provision of the goods/services concerned and of the need for proper certification and control.
Corporate Governance (Employee Code of Conduct)	<ul style="list-style-type: none"> • Reasonable Level of Assurance • The employee code of conduct is currently being revised. Recommendations were made in relation to ensuring all employees sign for the revised code and there is a process to ensure on-going awareness.

4. Review of Internal Audit Performance

4.1 Internal Audit produces regular reports on its performance during the year against a range of measures set annually by the Director of Finance and Resources. These are set out in the following table.

Table 3

Internal Audit Performance 2015/16		
Performance measure	Target 2015/16	Actual 2015/16
% of audit assignments completed by target date	95%	96.9%
% of audit assignments completed within time budget	95%	97.7%
% of audit reports issued within three weeks of completion of audit field work	95%	99.3%
% completion of audit plan for the year*	95%	95.1%

* this measures the completion percentage as at 31 March. 100% of the plan is ultimately delivered through the finalisation of the outstanding elements in the new financial year.

The figures in table 2 show that all targets have been achieved.

4.2 The Chief Auditor is required to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit including conformance with the standards. The Chief Auditor is currently undertaking a self assessment exercise in preparation for the planned external quality assessment due to commence in May 2016.

4.3 External Audit

External Audit's review of the internal audit service concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

4.4 Customer Service

Internal Audit issues customer satisfaction surveys at the conclusion of assignments. These measure the level of satisfaction with the way in which the audit was conducted and with the audit report's findings and recommendations. A total of 14 surveys had been issued during the 2015/16 year, and 8 were returned. Returned survey forms showed that 100% of auditees were satisfied with the service provided against a target of 100%.

4.5 Risk Management

The responsibility for co-ordinating risk management activity across the council and its associated bodies lies with internal audit. Risk management performance is detailed in Renfrewshire Council's risk management annual report.

5. Planned Audit Work for 2016/17

5.1 Following a risk based assessment of the activities of Scotland Excel and consultation with the Director, the following internal audit work has been agreed for 2015/16:

- A review of governance arrangements,
- Follow up of previous audit work;
- Ad-hoc internal audit and risk management advice.

5.2 An annual report for 2015/2016 will also be provided to the Joint Committee.

6. Audit Assurance Statement

6.1 Internal Audit has performed its work in accordance with the role defined in paragraph 1.2. The audit work performed has been reported to the Director, and to the Joint Committee in this annual report. Where areas for

improvement in internal control have been identified appropriate recommendations have been made, and accepted for action by management.

- 6.2 In view of the continued challenges common to all public bodies, there will be a requirement for the council and the bodies for which it is host authority to exercise very close scrutiny over revenue spending, and this will continue to receive due internal audit attention.
- 6.3 It is not feasible for the system of internal control 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.
- 6.4 In this context, it is considered that a reasonable level of assurance can be placed upon the adequacy and effectiveness of the Scotland Excel's internal control, risk management and governance arrangements, as evidenced by:-
- The results of the audit work in 2015/16 in relation to the corporate systems which supported Scotland Excel's activities, and to specific work carried out in relation to those activities.
 - Management action in response to audit recommendations.
 - The regular review and updating of the Local Code of Corporate Governance by the Council in accordance with the CIPFA/SOLACE framework for corporate governance requirements, and of the corporate governance arrangements within Scotland Excel.

Signed.

Chief Auditor

Date

17 June 2016