![Renfrewshire Council logo]

To: **Audit, Risk and Scrutiny Board**

On: **24 August 2020**

Report by: **Chief Auditor**

Heading: **Internal Audit Annual Report 2019 - 2020**

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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 2019-20 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.

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
2019-2020

**Renfrewshire Council
Internal Audit**

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Internal Audit Annual Report
1 April 2019 – 31 March 2020

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 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 2019/2020

3.1 The internal audit plan for 2019/2020 was approved by the Audit, Risk and Scrutiny Board on 18 March 2019. 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 their 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) Brexit

The UK left the European Union on 31 January 2020 and the council has extensive planning arrangements in place with key partners. During 2019/20, 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.

(2)   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 2019/20 included:

- A review of key processes now operating in the Business World environment, specifically the review of the general ledger was completed and a planned review of payroll, has commenced and will be completed early in the 2020/2021 audit year;
- Review of the newly introduced online payment processes within schools.
- A review of the quick quote procurement process;
- Participation in internal project work which supports the Right for Renfrewshire programme, as required.

(3)   Information Governance

The General Data Protection Regulations 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. Work undertaken during 2019/20 included:

- A review of compliance with payment card industry standards;
- A review of information security within adult social care establishments.

(4)   Public Protection

Public protection is a wide-ranging agenda relating to the protection of vulnerable people, communities, businesses and organisations. The 2019/20 audit plan included a review of the arrangements in place for undertaking employee disclosure checks.

(5)   Serious Organised Crime, Cyber Security and Counter Fraud

The council needs to protect its business resources from the threats posed by serious and organised crime, corruption and fraud. A planned review of cyber security arrangements which was due to be undertaken by an external contractor had to be postponed due to the current pandemic.

(6)   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. Work commenced in 2019/20 to review of the governance arrangements for community asset transfers.

The Council has ambitious plans to develop Renfrewshire's cultural assets and investment in securing the cultural legacy with an enhanced events and marketing programme to support regeneration across the area. Work undertaken included:

- A review of contract management and monitoring arrangements for community benefits; and
- A review of the governance arrangements for events management.

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.

3.3   During 2019/20, 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   At the request of the Director of Finance and Resources, two investigations were undertaken in relation in relation to capital and revenue budgetary control within Environment & Infrastructure. Subsequently, project management, oversight, communications and clarification of roles and responsibilities in relation to capital projects have been strengthened, and no further action is required. Recommendations in relation to revenue monitoring are being progressed by management.

3.5   The Director of Environment & Infrastructure also requested a review of overtime payments within Roads Services. This review highlighted capacity pressures to fulfil the roads function and a need to review resource allocation to ensure they efficiently meet the requirements of the service and a need to address over reliance on specific employees.

3.6   The outcomes of all investigation reviews are 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 2019/20 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 16 March 2020 approved cancelling two audit engagements relating to the Community Learning Service and the administration of grants and reallocating those resources to supplement the contingency budget.

4.3 All other planned work as detailed in the 2019/2020 audit plan was undertaken and those assignments not finalised by 31 March 2020 are prioritised in the first quarter of the current year.

4.4 Following the outbreak of coronavirus- Covid19, the Scottish Government announced various emergency relief packages which are being administered by Local Government. Some of these measures carry a risk of fraud and internal audit and corporate counter fraud have been working with services to ensure that our internal control checks are as robust as possible while ensuring that the reliefs can be processed as quickly as possible. There is also ongoing engagement with the Cabinet Office through Audit Scotland to develop mechanisms for post payment checks.

5. Internal Audit Resources

5.1 For the year to 31 March 2020, the audit plan was based on an establishment of 6.00 full time equivalent employees plus 60 days to be provided from other service providers. The actual staffing complement during the year was as planned throughout the year.

6. Review of Internal Audit Activity

6.1 The Audit Plan for 2019/20 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	128	103	(25)	(20%)
Assurance	399	349	(50)	(13%)
Contingency	345	357	12	3%
Audit Planning & Reporting	119	115	(4)	3%
Total Operational Days	**991**	**924**	**(67)**	**(7%)**
Training	74	74	0	0%
Strategic Management	30	24	(6)	(20%)
Team Administration	94	94	0	0%
Development	69	27	(42)	(61%)
Total Non-operational Days	**267**	**219**	**(48)**	**(19%)**
Gross Available Days	**1258**	**1143**	**(115)**	**(18)**
Operational %	**79%**	**81%**		
Management of Risk Management and Insurance and Corporate Counter Fraud	80	62	(18)	(23%)

including the co-ordination of NFI				

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

1) Governance

The planned review in relation to the administration of grants was approved for cancellation from the audit plan.

2) Development

Anticipated development of the audit management software included in the plan for 2019/20 have been deferred.

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 2019/20

Performance measure	Target 2019/20	Actual 2019/20
% completion of audit plan for the year*	95%	95.4%
% engagements completed by target date	95%	96.9%
% engagements completed within time budget	95%	98.5%

* 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. The review did not identify any areas of non-conformance that require to be addressed.

8. Implementation of Audit Recommendations

8.1 During 2019/20, 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 2019/20					
Service	**No. Followed up**	**Complete**	**Partially Complete (new date)**	**Not Implemented (new date)**	**Redundant**
Adult Services	3	3 (100%)	N/A	N/A	N/A
Chief Executive's	26	18 (69%)	8 (31%)	N/A	N/A
Children's Services	11	9 (82%)	N/A	2 (18%)	N/A
Environment & Infrastructure	38	35 (92%)	3 (8%)	N/A	N/A
Finance & Resources	93	69 (75%)	17 (18%)	3 (3%)	4 (4%)
Communities, Housing & Planning	9	8 (89%)	1 (11%)	N/A	N/A
Total	**180**	**142 (79%)**	**29 (16%)**	**5 (3%)**	**4 (2%)**

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 fraud against the Council, such as council tax reduction fraud, tenancy fraud and other corporate fraud. They also
jointly work with the DWP to investigate potential high value fraud cases which involve both benefits payments and council tax reduction, 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 2019/20	
Financial Outcomes	**2019/20 (£)**
Cash savings directly attributable to preventative counter fraud intervention	44,941
Cash recoveries in progress directly attributable to counter fraud investigations	58,427
Notional savings identified through counter fraud investigation, (e.g. housing tenancy and future council tax)	5,418,010
Housing Benefit Savings identified through other counter fraud work or through joint working with the DWP	96,644
Non-Financial Outcomes	**2019/20**
Housing properties recovered	7
Housing applications amended/cancelled	51
Blue badge misuse warning letters issued	50

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.
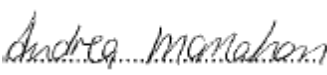
10. External evaluation of Internal Audit

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, payroll and the general ledger for the annual audit of the 2019/20 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 2019/20;
(ii)   the results of investigative work in 2019/20;
(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   *Andrea McMahon*

           Chief Auditor

Date   14 May 2020

Audit Engagement	Risk Area	Assurance Level	Conclusion
Supporting Attendance – Absence Management	Assurance	**Limited**	• The audit identified that, within the service area reviewed, there was insufficient evidence available to demonstrate that the council's Supporting Attendance at Work Policy was being followed consistently. Absences were not always recorded correctly and the expected evidence was not always available. The limited assurance rating should be taken in context of the scope of the review being restricted to a small number of service areas.
Cloud Services	Assurance	**Limited**	• The review identified that there was scope to improve the cloud security control environment, a number the areas identified were already known to management and work was underway to address. Recommendations were made in relation to formal Cloud Security Assessments for all contractors. We also identified processes that would benefit from completion and implementation of a formal framework for supplier assurance and performance.
Payment Card Industry Standards	Assurance	**Limited**	• The provision of limited assurance is in the context of the scope of the review being restricted to a small number of locations. Data was found to be stored securely although some improvements were required in relation to staff awareness training, and the processes for dealing with the physical equipment.
Procurement – Quick Quote process	Assurance	**Reasonable**	• The audit has identified that small number of improvements are required to the execution of the council's quick quote processes surrounding retaining evidence, approval of successful quotes and analysing spend to ensure the quick quote process is used when required.
Fostering and Kinship Payments	Assurance	**Reasonable**	• The audit provided for reasonable assurance over the payment processes. Recommendations were, however,

			made to ensure that adequate evidence is retained for all approval processes.
General Ledger	Assurance	**Reasonable**	• The audit highlighted that the guidance available to staff was satisfactory. Recommendations were made to strengthen the controls surrounding password access, transaction coding and journal entry authorisation.
ICT Fraud Controls	Assurance	**Reasonable**	• The audit review was undertaken during a period when the Council was transitioning between two financial systems. Recommendations were made to improve the robustness of controls in relation to monitoring and review of access privileges within some financial systems.
Housing Allocations	Assurance	**Reasonable**	• The audit provided reasonable assurance. A small number of recommendations were made in relation to declarations of interest and programmed checks on tenancies.
LEADER Programme	Assurance	**Substantial**	• The audit identified that satisfactory arrangements are in place for issuing, monitoring and managing the External Funding Applications through the LEADER grant funding programme.
Registration System	Assurance	**Substantial**	• The system in place for the registration of births, deaths and marriages within the council is operating satisfactorily.
Performance Indicators	Governance	**Reasonable**	• 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**	• 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.

Information Security – Adult Services	Governance	**Reasonable**	• The audit review provided reasonable assurance over arrangements in place for security of Adult Service's client information. Recommendations were made in relation to maintaining staff training up to date.
Children's Services Social Work Complaints	Governance	**Reasonable**	• The audit has provided reasonable assurance over the awareness and compliance with complaint handling procedures. Recommendations were made in relation to accurately logging complaints and the accuracy of the performance calculations.

Assurance Level	
Substantial Assurance	• 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	• 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	• 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	• 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.