

SCOTLAND EXCEL

To: SCOTLAND EXCEL JOINT COMMITTEE

Date: 12 June 2015

**Report by
Chief Auditor**

INTERNAL AUDIT ANNUAL REPORT 2014/15

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 2014/15, 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 2014-2015

**Finance & Resources
Internal Audit**

June 2015

Scotland Excel

Internal Audit Annual Report 2014/2015

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Scotland Excel

Internal Audit Annual Report

1 April 2014 – 31 March 2015

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 2014/15 relating to Scotland Excel;
- The outcome of Internal Audit reviews of supporting Renfrewshire Council corporate systems;
- Internal audit performance;
- Planned audit work for 2015/16;
- 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 2014/2015

- 3.1 The Annual Report for 2014/2015 was submitted to the Authority on 05 December 2014.
- 3.2 The following work was undertaken in relation to 2014/15 in line with the audit plan:
- Review of the contract monitoring arrangements, focusing on the initiation stage of the procurement journey;
 - A review and update of the authority's financial regulations and codes has been undertaken, to ensure that any revisions made to the Renfrewshire Council financial regulations and codes are incorporated as appropriate; The Regulations were approved in December 2014
 - 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 initiation 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 2014/15, 7 recommendations relating to Scotland Excel's activities were followed up. All 7 (100%) have been fully implemented.
- 3.5 Internal Audit also carried out reviews of the main corporate finance 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
<i>System of Internal Financial Control</i>	
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.
Treasury Management	<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.

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 2014/15		
Performance measure	Target 2014/15	Actual 2014/15
% of audit assignments completed by target date	95%	96.8%
% of audit assignments completed within time budget	95%	96.8%
% of audit reports issued within three weeks of completion of audit field work	95%	96.2%
% completion of audit plan for the year*	95%	95.2%

* 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 undertook a self assessment against the standards during 2013/14 and throughout the year the improvement actions identified have been progressed, including the review of the risk assessment and planning methodology and the Chief Auditor's performance appraisal. All outstanding actions will be completed with the implementation of the upgraded audit management software.

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. Customer Satisfaction

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 28 surveys had been issued during the 2014/15 year, and 13 were returned. Returned survey forms showed that 100% of auditees were satisfied with the service provided against a target of 100%.

In April 2015, our Customer Services Excellence Standard accreditation was reviewed and our accreditation renewed as part of a wider Renfrewshire Council Corporate accreditation.

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 2015/16

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 contract monitoring arrangements,
- Follow up of previous audit work;
- Ad-hoc internal audit and risk management advice.

5.2 An annual report for 2014/2015 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. In this context, it is considered that the Scotland Excel's system of internal control is operating in a satisfactory manner as evidenced by:-

- The results of the audit work in 2014/15 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 12 June 2015