

SCOTLAND EXCEL

To: SCOTLAND EXCEL JOINT COMMITTEE

Date: 30 June 2017

Report by
Chief Auditor

INTERNAL AUDIT ANNUAL REPORT 2016/17

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 2016/17, 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
2016-2017**

**Renfrewshire Council
Finance & Resources
Internal Audit**

June 2017

Scotland Excel

Internal Audit Annual Report 2016/2017

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Scotland Excel

Internal Audit Annual Report

1 April 2016 – 31 March 2017

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 2016/17 relating to Scotland Excel;
- The outcome of Internal Audit reviews of supporting Renfrewshire Council corporate systems;
- Internal audit performance;
- Planned audit work for 2017/18;
- 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 2016/2017

- 3.1 The Annual Report for 2015/2016 was submitted to the Authority on 17 June 2016.
- 3.2 The following work was undertaken in relation to 2016/17 in line with the audit plan:
- Review of the governance arrangements within Scotland Excel;
 - Follow up of previous audit work.
- 3.3 The findings arising from Internal Audit reviews will be 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
Governance Arrangements	<ul style="list-style-type: none">• Substantial Assurance• The audit has provided a substantial level of assurance in relation to Scotland Excel's governance arrangements. It was recommended that it would be good practice for management to determine if there are any measures which could be undertaken to encourage further member participation in the strategic operations of Scotland Excel.

- 3.4 The implementation rate of audit recommendations is a measure of operational culture and effectiveness. During 2016/17, 4 recommendations

relating to Scotland Excel's activities were followed up. All 4 (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
Procurement (Tendering arrangements)	<ul style="list-style-type: none"> • Substantial Assurance • No key risks were identified, although some recommendations were made in relation to retention of records, updating procedures and segregation of duties.

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 Renfrewshire Council's Director of Finance and Resources. These are set out in the following table.

Table 3

Internal Audit Performance 2016/17

Performance measure	Target 2016/17	Actual 2016/17
% completion of audit plan for the year*	95%	91.8%

* 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.

- 4.2 Actual performance for the year is 3.2% below the target performance level. This was due to the actual level of resources available being lower than had been planned for, due to vacancies and maternity leave. The 95% targeted completion was achieved by the end of April 2017.
- 4.3 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 PSIAS. During 2016/17, an external quality assessment was undertaken, as required by the PSIAS once every five years. The

assessment was undertaken as a peer review by West Lothian Council and concluded that the internal audit service was well managed and effective. A small number of recommendations for improvement were made and these have been added to the quality assurance and improvement programme for implementation during 2017/18.

4.4 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.

4.5 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 2017/18

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 2017/18:

- A review of the Contact Management model,
- Follow up of previous audit work;
- Ad-hoc internal audit and risk management advice.

5.2 An annual report for 2016/2017 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.

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 2016/17 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.
- Management self assessment of internal control, risk management and governance arrangements.
- 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

30 June 2017