INTERNAL AUDIT SUMMARY OF ACTIVITIES

1. EXECUTIVE SUMMARY

1.1 The objective of the report is to provide a summary of Internal Audit activity and progress during Quarter 4.

1.2 Core activities together with a progress update statement are shown below.

- **2017/18 Audit Plan progress**: The audit plan is currently on track.

- **Individual Audits undertaken**: 4 audits have been completed during the period. Of these audits, are all rated as Substantial. There are a further 5 audits currently in progress.

- **Continuous Monitoring Programme Testing**: A number of auditable units are subject to continuous testing. Management have responded to previous quarter notifications and there are no outstanding issues.

- **Performance indicators**: Current status is green / on track.

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STRATEGIC FINANCE   **20 MARCH 2018**

INTERNAL AUDIT SUMMARY OF ACTIVITIES

2. INTRODUCTION

2.1 The objective of the report is to provide an update on Internal Audit activity during Quarter 4 against a number of areas;

- 2017/18 Audit Plan progress
- Individual audits undertaken
- Continuous monitoring programme testing
- Internal Audit development plan
- Performance indicators

3. RECOMMENDATIONS

3.1 Members are requested to review and endorse this report.

4. DETAIL

4.1 Audits completed to February are detailed in Table 1. At the time of writing there are five Quarter 4 audits in progress which will be reported to the June meeting of the Committee.

Table 1: Summary of audits performed in quarter 4 2017/18

Audit Name	Level of Assurance	High Actions	Medium Actions	Low Actions
Earmarked Reserves	Substantial	0	0	3
Catering - Compliance with Nutritional guidelines	Substantial	0	2	2
Rural Resettlement Fund	Substantial	0	1	1
Leisure Management	Substantial	0	3	2
Trading Standards (June committee)	In progress	-	-	-
Waste Management *(June Committee)*	In progress	-	-	-
ICT SLAs and System Development *(June Committee)*	In progress	-	-	-
Psychological Services *(June Committee)*	In progress	-	-	-
Street Lighting *(June Committee)*	Due to start March 18	-	-	-

4.2   Indicative audits planned for the Quarter 1 2018/19 are shown in table 2 below.

Table 2: Audits scheduled for Quarter 1 2018/19

Quarter 1
Community Empowerment Act
ALEO - LiveArgyll
General Data Protection Regulation
Equality & Diversity
Purchasing Cards

4.3   **Additional updates from Quarter 4;**

- The previous self-assessment against PSIAS has been reviewed and updated. No material weaknesses have been identified. Areas for improvement, and their current status, are summarised below.

Improvement	Current Status
Regular programme of development team meetings	Implemented – three audit development days held in 2017/18 Q4 and they are to be held quarterly in 2018/19.
Chief Internal Auditor (CIA) to attend SMT and DMTs on a regular basis	Implemented – CIA attends SMT and DMTS regularly
IA Charter and manual to be updated to be better aligned to the PSIAS and also reflect changes to working practice	Ongoing – CIA to provide revised documents to Audit & Scrutiny Committee in June 2018
Revise the audit universe to reflect new service plans with risk profiles more clearly aligned to auditable units.	Ongoing – CIA to provide revised Audit Universe to Audit & Scrutiny Committee in September 2018
Ensure a more consistent approach to the management of operational risk registers.	Ongoing – CIA working with DMTs to revise approach to risk management (see below)
Review current access to audit drive on council network for appropriateness.	Complete – CIA has reviewed and amended access rights.

- The CIA has been involved in the review and update of the risk management manual and risk registers. This work is ongoing with a completion date of June 2018.

- The CIA attended a meeting with the LiveArgyll General Manager, Chair of LiveArgyll and Chair of the Finance & Audit Sub Committee on the 26 January. It was agreed at this meeting that LiveArgyll audit reports would be provided to the Chair and Sub-Committee Chair for their review and comment before they are presented to the Audit & Scrutiny Committee.

- The CIA has finalised the scrutiny framework to ensure there is a clear and transparent method for assessing potential scrutiny topics. The framework is

included as a separate agenda item.

4.4   Our continuous monitoring programme is generally focused on transactional type activity. Standard audit tests are applied which are relevant to each auditable unit. Control design tests look at whether the controls in place adequately address the potential risk event.

Control effectiveness is assessed in one of four categories as set out below.

Control Assessment	Definition
Effective	Indicates minimum uncontrolled risk due to strong controls in place which are operating effectively.
Satisfactory	Control mitigations are in place however refinement opportunity exists to further reduce risk and/or enhance compliance.
Improvement Needed	Residual risk exists which place some system objectives at risk. Indicates a need for improvement in either control design and/or compliance.
Weak	Significant residual risk exists with weaknesses identified in control design and/or compliance.

4.5   A follow up process is in place whereby management are advised of continuous monitoring findings and, where appropriate, requested to take remedial actions. There are currently no outstanding follow-up points arising from previous quarters testing. Table 3 below summarises activity to date outlining issues arising and provides an overall level of control effectiveness with follow up detail.

Table 3: Continuous monitoring programme results:

Test Area	Controls Tested	Control Design	Control Effectiveness	Findings	Management Commentary
Payroll	Monthly payrun reports	Effective	Effective	One issue regarding no bank details on file.	Corrective actions taken. Bank details now on file.
NDR	Reconciliations and reliefs	Satisfactory	Satisfactory	All reconciliations reviewed were found to be correct; however minor errors were found in supporting spreadsheet.

From a sample of 90 reliefs reviewed, one had incorrect discount code applied, 3 had a missing field and 2 had no supporting documentation. | Spreadsheet has now been updated to reflect correct figures.

System has now been updated to reflect correct information and missing documentation provided. |

Test Area	Controls Tested	Control Design	Control Effectiveness	Findings	Management Commentary
Thomson Court	Establishment Visit	Satisfactory	Satisfactory	Key for cupboard containing petty cash was not held securely.	Key now kept in locked key safe box affixed to wall, access to which is responsibility of the senior member of staff on duty.
				No log or evidence of PECOS training undertaken by staff.	A training record will be established and maintained.
				Purchase order for recent acquisition of hoist missing	Purchase order and invoice now provided, reviewed and found to be correct.
Garelochhead Primary	Imprest	Effective	Effective	Receipts for school meals income are not numbered, coded or signed.	Receipt book has been purchased for use and will be numbered, coded and signed.
				Imprest has not been in use since February 2015.	Creditors have been notified to close the imprest account.
Creditors	Duplicate invoice testing Invoice Authorisation	Effective	Effective	Two invoice batches from a sample of 10 were not authorised in accordance with the contents of the Authorised signatory list on the HUB.	Awaiting management response

4.6 A follow up process for national reports is in place whereby management are advised of national reports published and asked to confirm what, if any, action is planned as a result of the report. Table 4 below details the National Reports issued during quarter 4.

Table 4: Issue of National Reports in Quarter 4:

National Report	Issued To	Detail	Management response/ Action taken
Local Government in Scotland – Financial Overview	• Head of Strategic Finance already aware of this report	"Councils are showing increasing signs of financial stress and face even tougher challenges	Report has been discussed at the Strategic Management Team

National Report	Issued To	Detail	Management response/ Action taken
		ahead, says the Accounts Commission."	and is included on the agenda for the March meeting of the Audit & Scrutiny Committee.
Private Finance Initiative (PFI) and PF2	• Head of Strategic Finance	"A briefing on the rationale, costs and benefits of the Private Finance Initiative; the use of and impact of PFI, and ability to make savings from operational contracts; and the introduction of PF2"	This report was considered by the Head of Strategic Finance and the Special Projects & Quality Improvement Manager. Both agreed that there was no further action required as a result of this report.
Early Learning & Childcare	• Acting Executive Director of Community Services	"Councils are preparing to provide 1,140 funded hours for all 3 and 4-year-olds - and eligible two year-olds - to improve outcomes for children and to support parents to work, study or train. Providing those hours will require a large increase in the number of childcare staff and changes to premises. This will be difficult to achieve in the time available"	The service have confirmed that they are currently taking action to address a number of the recommendations contained within the report, expressed in the Council's ELCC draft delivery plan for the implementation of 1140 hours of Early Learning and Childcare. This includes: - Argyll and Bute's Education Service is currently preparing the revised ELCC financial templates for submission to Scottish Government on 2 March 2018. The Services has provided Community Services Committee with regular update reports on the preparation and submission of the Council's Draft ELCC delivery plan, which aims to deliver on the aspirations of 1140 hours of ELCC for all eligible children by 2020. This is predicated on the

National Report	Issued To	Detail	Management response/ Action taken
			availability of the required financial resources: Capital and Revenue, as expressed in the Committee papers. - The draft delivery plan reflects the delivery of 1140 hours through a mixed provision including Local Authority, Partners Providers, Childminders and Social Enterprise models. The draft plan also takes account of the need for flexible provision to meet the needs of working parents and includes a full review and analysis of the workforce requirements to support the expansion programme. - Engagement through COSLA and other appropriate national bodies, e.g. ADES and SOLACE is routinely taking place to review and discuss matters pertaining to the ELCC policy ambitions. This engagement is supporting the Authority in reviewing all proposals and for revising advice to Elected Members.

4.7   National Fraud Initiative (NFI). Data matching involves comparing computer records held by one body against other computer records held by the same or another body to identify potentially fraudulent claims and payments to be identified. Note though that the inclusion of personal data within a data matching exercise does not mean that any specific individual is under suspicion. Where a

match is found it indicates that there may be an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. The Council is currently on track with the NFI upload timetable and, where matches have been identified, these are being reviewed. A reminder process is now in place to ensure that matches are reviewed on a timely basis.

Table 5: National Fraud Initiative Progress at 06/03/2018:

Operational Area	Total Matches	Rec Matches	Matches Complete	WIP	Match Description
CT to Elect Register	924	924	924	0	CT records to Electoral Register/ other data sets to ensure discount awarded to only those living alone aged over 18, taking into account disregarded occupants.
CT rising 18s	99	99	99	0	
CT to other Datasets	1080	1080	32	0	
Housing Benefits	500	29	165	0	HB records to records in other authorities / other datasets including student loans, payroll and pensions to identify undeclared income and capital.
Payroll	740	146	150	4	Payroll records to other datasets including other payrolls and pensions to ensure employee is not receiving additional income.
Blue Badges	194	156	194	0	Blue badge records to DWP data to identify deceased claimant with valid badge.
Private Residential Care Homes	50	23	50	0	Care home records to DWP data to identify deceased claimant with ongoing payments.
Housing Waiting list	433	416	412	10	Housing waiting list records to other organisations HBCTR and tenant data to identify undisclosed changes in circs or false info.
Personal Budgets	19	1	19	0	Direct payment records to those in other authorities, DWP and pension records to identify individuals claiming from multiple authorities, undisclosed income or where the claimant has died and payments ongoing.
Council Tax Reduction	729	13	306	0	CTR records with records in other authorities / other datasets including; student loans, payroll and pensions to identify undeclared income and capital
Creditors	4831	240	342	0	Analyses creditors data to identify possible duplicate vendors and payments, VAT errors or fraud and multiple vendors sharing a bank account.
Procurement	176	68	68	0	Payroll records to Companies House and creditors data to identify employees who appear to have a personal interest in a company that the authority has traded with.

Overall Summary of Matches

Matches Complete	Work In Progress	Cleared	Frauds	Errors	Total Value £	Recov ering	Recovering Value £
2761	14	2667	4	90	4,216	3	4,059

4.8 The table below details progress against the actions points in our Internal Audit development plan. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards. Additional actions have been added in respect of self-assessment activity and making improvements to our internal documentation, report templates and refreshing the continuous monitoring programme.

Table 6: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Audit plan preparation	2018/19 Draft Plan submitted to December Audit & Scrutiny Committee	Complete	December 2017
Audit reporting	Review current internal audit report template and consider areas for improvement in terms of style and presentation.	Complete	March 2018
Audit fieldwork documentation	Further develop the risk control assessment document so it acts as a formal work programme which will provide greater assurance over audit completion and facilitate more comprehensive review.	Complete	March 2018
PSIAS Assessment	Agree development actions arising from Peer to Peer review scheduled quarter 4.	On track	March 2018
Continuous monitoring	Review the current suite of controls reviewed under the continuous monitoring programme to identify whether it would benefit from revision.	On track	June 2018
Internal Audit Charter & Manual	Review the current Internal Audit charter and manual and update to better align to PSIAS and reflect changes to working practice.	On track	June 2018
Risk Management Manual	Review the current risk management manual and update where necessary.	On track	June 2018
Audit risk universe	Review existing audit risk universe and update to reflect new service plans and better	On track	September 2018

Area For Improvement	Agreed Action	Progress Update	Timescale
	associate risk profiles to auditable units.		
Training and CPD	Formalise plans for internal audit training, including continuing professional development (CPD)	On track	On-going

4.9 Internal Audit scorecard data is available on pyramid. The indicators are currently showing as on track. The undernoted table is an extract of the key information.

Internal Audit Team Scorecard 2017– 18 – FQ4 17/18 (as at February 2018)			
TEAM RESOURCES			

		TARGET	Percentage of PRDs complete
PRDs IA Team		90%	100%
G ➡		Number of eligible employees FTE	Number of PRDs complete FTE
		3	3

Financial			
Revenue Finance	BUDGET	ACTUAL	G
YTD Position Year End Outturn	£190,911 £240,561	£154,423 £240,561	➡

BO28 Our processes and business procedures are efficient, cost effective and compliant (SF)			
Risk management policy, strategy and guidance manual reviewed.	Status	On Track	G
	Target	On Track	➡
Risks Management Overview report approved	Status	On Track to revised plan	G
	Target	Complete	⬇
Review of Strategic Risk register	Status	On Track	G
	Target	On Track	➡
Annual Audit Plan	Status	On Track	G
	Target	On Track	➡
Planned number of days continuous monitoring programme complete	Status	On Track	G
	Target	On Track	➡
Annual audit plan approved by 31 March	Status	On Track	G
	Target	On Track	➡
Effective participation in NFI – Data completion	Status	On Track	G
	Target	On Track	➡
% of audit recommendations	Actual	100%	G

accepted	Target	100%	→
% Recommendations followed up	Actual	100%	**G**
	Target	100%	→
Percentage qualified staff	Actual	40%	**R**
	Target	60%	→
% satisfaction rates from post audit surveys	Actual	94%	**G**
	Target	80%	↓
% customer satisfaction with audit reports	Actual	100%	**G**
	Target	80%	↑
Internal Audit Training days	Actual	55 days	**G**
	Target	50 days	↑

5. CONCLUSION

5.1 The 2017/18 Audit Plan is on track. Continuous monitoring testing undertaken during the period has provided an overall effective level of assurance in respect of control design and effectiveness.

6. IMPLICATIONS

6.1 Policy - Internal Audit continues to adopt a risk based approach to activity

6.2 Financial -None

6.3 Legal -None

6.4 HR - None

6.5 Equalities - None

6.6 Risk – None

6.7 Customer Service - None

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20 March 2018

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