

INTERNAL AUDIT SUMMARY OF ACTIVITIES

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1. EXECUTIVE SUMMARY

- 1.1 The objective of the report is to provide a summary of Internal Audit activity and progress during Quarter 1 of 2018/19.
- 1.2 Core activities together with a progress update statement are shown below.
- **2017/18 Audit Plan progress:** The audit plan is complete bar one report (SLA ICT) for which the fieldwork is complete and the report drafted. It is in the process of being cleared with management.
  - **2018/19 Audit Plan progress:** The audit plan is currently on track.
  - **Individual Audits undertaken:** Six audits have been completed during the period. Of these audits, one is rated as high, one as substantial, three as reasonable and one as limited.
  - **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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**2. INTRODUCTION**

2.1 The objective of the report is to provide an update on Internal Audit activity during Quarter 1 against a number of areas;

- 2017/18 Audit Plan completion
- 2018/19 Audit Plan progress
- Additional audit team activity
- Continuous monitoring
- Internal Audit development plan
- Performance indicators

**3. RECOMMENDATIONS**

3.1 Members are requested to review and endorse this report.

**4. DETAIL**

4.1 At the time of writing six audits have been completed (a combination of 2017/18 and 2018/19 audits) since the previous Committee in March 2018. One 2017/18 audit and three 2018/19 audits are currently in progress and these will be reported to the September 2018 Committee.

**Audits Completed**

- Trading Standards
- Waste Management
- Psychological Services
- Purchasing Cards
- General Data Protection Regulation
- Street Lighting

**Audits In Progress**

- ICT Service Level Agreements (SLAs)
- Organisational Culture
- Community Empowerment Act
- ALEO – LiveArgyll

4.2 In addition to those already in progress indicative audits planned for Quarter 2 2018/19 are:

- Environmental Services
- Equality & Diversity
- Financial Planning
- Adult Learning
- Members Services
- Planning Fees
- Operating Manual (Oban Airport)
- CareFirst
- Marine Services

4.3 **Additional updates from Quarter 1:**

- Audit Scotland have received correspondence raising concerns which have been grouped into three broad categories:
  - Governance of the Alcohol & Drug Partnership (ADP)
  - Performance monitoring relating to Addaction and Argyll and Bute Addiction Team (ABAT)
  - Procurement arrangements relating to Addaction and Children 1<sup>st</sup>.

It has been agreed with Audit Scotland that internal audit will carry out a review relating to this correspondence. The Chief Internal Auditor (CIA) has held preliminary discussions with Audit Scotland and is working in conjunction with them to agree an audit scope and work programme. The conclusions of the audit will be reported to the Audit and Scrutiny Committee once it is complete. Audit Scotland plan to rely on the work of internal audit and will reflect their conclusions in their 2017/18 annual audit report.

- The CIA has been involved in the review and update of the risk management manual and risk registers. The revised manual was reported to the SMT in March 2018 and the updated strategic risk register and 'red' risks from the updated operational risk registers were reported to SMT in April 2018. The risk manual was also reported to the Policy and Resources committee on 24 May 2018.
- The CIA has completed the External Quality Assessment (EQA) of East Lothian Council. Our EQA, being performed by the FTF consortium, is currently in progress. FTF have advised that, due to a series of unforeseen events involving one of their clients they have been unable to complete their review in time for the June Committee. Instead their report will be presented to the September Audit and Scrutiny Committee. (Refer to Appendix 1)
- The Scrutiny Manual has been approved by SMT and is included as a separate agenda item to this committee
- Audit Scotland recently published a report on a high profile fraud incident within another Scottish local authority. Internal audit have reviewed this report, and a further report issued by the local authority affected, and developed additional test areas in order to minimise the risk of Argyll & Bute Council being vulnerable to a similar fraud. A summary of this work will be reported to the Audit and Scrutiny Committee once it is completed.

- The review of the existing continuous monitoring programme has been completed and a new master file is now in use by the team.
- Internal Audit have further developed their approach to team development days by inviting services to present to the team on key topics to share knowledge, enhance the audit team's profile and build the team's understating of the key risks and issues facing services. To date sessions have been arranged which focus on Self Directed Support, Corporate Governance and Roads Maintenance. We are grateful to those officers who have agreed to give of their time and share their experience with the team.
- The CIA has met with the CIAs of West Dunbartonshire Council, East Lothian Council, East Ayrshire Council and Falkirk Council to discuss audit approaches and share resources and good practice. He has also attended a scrutiny committee at Falkirk Council and discussed their approach to scrutiny with the Falkirk Democratic Services Manager.

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 1 below summarises activity to date outlining issues arising and provides an overall level of control effectiveness with follow up detail.

**Table 1: Continuous monitoring programme results:**

Test Area	Controls Tested	Control Design	Control Effectiveness	Findings	Management Commentary
Payroll	Monthly payrun reports	Satisfactory	Satisfactory		

Test Area	Controls Tested	Control Design	Control Effectiveness	Findings	Management Commentary
Struan Lodge, Dunoon	Establishment Visit	Effective	Effective	N/A	N/A
Strone Primary	School fund compliance with circular 1.10.	Satisfactory	Satisfactory	<p>Head Teacher list of bank accounts not maintained.</p> <p>School constitution required updating.</p> <p>Receipt numbers were not recorded in the cash book.</p>	<p>List of bank accounts to be created and maintained going forward.</p> <p>School constitution will be updated.</p> <p>Receipt numbers are now recorded in cash book.</p>
Dunoon Youth Centre	Imprest check	Effective	Effective	N/A	N/A
Helensburgh IES Store	Stock control procedures	Effective	Effective	N/A	N/A

- 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 2 below details the National Reports issued during quarter 1.

**Table 2: Issue of National Reports in Quarter 1:**

National Report	Issued To	Detail	Management response/ Action taken
Audit of the City of Edinburgh Council	<ul style="list-style-type: none"> <li>Executive Director of Development &amp; Infrastructure</li> <li>Executive Director of Customer Services</li> </ul>	"All councils must learn lessons to maintain the safety of public buildings following Edinburgh school wall collapse"	No specific action required by Argyll and Bute Council
Councils' use of arms-length organisation's (ALEOs)	<ul style="list-style-type: none"> <li>Presented to Audit &amp; Scrutiny Committee as a separate agenda item.</li> </ul>	"ALEOs can bring benefits but need careful consideration."	To be discussed as a separate agenda item.

- 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 3: National Fraud Initiative Progress at 21/05/2018:**

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	227	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	420	3	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	346	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 £	Recovering	Recovering Value £
2850	7	2756	4	90	4,059	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 4: Internal Audit Development Key Actions:**

Area For Improvement	Agreed Action	Progress Update	Timescale
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. IA Charter and Manual was presented to the ASC committee in March 2018.	Complete	June 2018
Continuous monitoring	Review the current suite of controls reviewed under the continuous monitoring programme to identify whether it would benefit from revision. This review has been concluded and a master file has been created.	Complete	June 2018
Risk Management Manual	Review the current risk management manual and update where necessary. The RM manual was presented to SMT in March and P&R in May.	Complete	June 2018
PSIAS Assessment	Agree development actions arising from peer to peer review which is currently underway. Findings were scheduled to be reported to June ASC but now delayed till September ASC.	Delayed	September 2018
Audit risk universe	Review existing audit risk universe and update to reflect new service plans and better associate risk profiles to auditable units.	On track	September 2018
Response to high profile fraud report	Internal Audit have developed additional test areas in order to minimise the risk of the Council	On track	September 2018

Area For Improvement	Agreed Action	Progress Update	Timescale
	being vulnerable to a similar fraud that occurred in another Scottish local authority.		
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 2018– 19 – FQ1 18/19 (as at May 2018)			
TEAM RESOURCES			
PRDs IA Team G ➡	TARGET		Percentage of PRDs complete
	90%		100%
	Number of eligible employees FTE		Number of PRDs complete FTE
	5		5
Revenue Finance	BUDGET	ACTUAL	G  ➡
YTD Position	£10,479	£8,593	
Year End Outturn	£243,476	£243,476	
BO28 Our processes and business procedures are efficient, cost effective and compliant (SF)			
Risk Management policy, strategy and guidance manual reviewed.	Status	Complete	G ⬆
	Target	On Track	
Risks Management Overview report approved	Status	On Track	G ⬆
	Target	Complete	
Review of Strategic Risk register	Status	Complete	G ⬆
	Target	Complete	
% of audit recommendations accepted	Actual	100%	G ➡
	Target	100%	
% customer satisfaction with audit reports	Actual	100%	G ⬆
	Target	80%	

## 5. CONCLUSION

5.1 The 2017/18 Audit Plan is complete bar clearing one report with management



and the 2018/19 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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### **For further information contact:**

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## **APPENDICES**

- 1. Letter to Chair of Audit and Scrutiny Committee from FT Consortium