ARGYLL AND BUTE COUNCIL   **AUDIT AND SCRUTINY COMMITTEE**

STRATEGIC FINANCE   **25 SEPTEMBER 2018**

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 2 of 2018/19.

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

- **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, four as substantial, one as reasonable and none 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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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 2 against a number of areas;

- 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 since the previous Committee in June 2018. Four audits are currently in progress and these will be reported to a future Committee. Three audits that were originally scheduled to be presented to this meeting have been rescheduled to December's committee and one (Planning fees) schedules for December has been brought forward to this Committee. This will not affect the completion of the overall audit plan.

Audits Completed

- Community Empowerment Act
- Members Services
- ALEO – LiveArgyll Governance
- Equality & Diversity
- Adult Learning
- Planning Fees

Audits in Progress

- Organisational Culture
- School Funds Review
- Environmental Services
- LEADER
- Marine Services (scope extended to all four ferry services)
- Off Payroll Working
- Oban Airport

4.2 In addition to those already in progress indicative audits planned for Quarter 3 2018/19 are:

- Financial Planning
- CareFirst
- Housing Benefit & Council Tax Reduction
- Waste Management

4.3 **Additional updates from Quarter 2:**

- The CIA has completed the review relating to the correspondence received by Audit Scotland on the governance, performance monitoring and procurement arrangements associated with the Alcohol & Drug Partnership. The report is included as a separate agenda item.

- The FTF consortium have concluded our External Quality Assessment (EQA). This is included as a separate agenda item.

- Scrutiny Training was provided to members of the Audit and Scrutiny Committee, Internal Audit and a number of other officers on the 27 and 28 August. Scrutiny work is due to commence in Q3. The first scrutiny review scheduled is Money Skills Argyll.

- The CIA has created an audit universe document that will be used to inform the selection process on what service areas are included in future years audit plans.

- 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 provided by officers in relation to Self-Directed Support and Corporate Governance. Sessions on Roads Maintenance and Early Years are scheduled for future meetings. We are grateful to those officers who have agreed to give up their time and share their experience with the team.

- Audit Scotland recently published a report on a high profile fraud incident within another Scottish local authority. As previously reported Internal Audit developed three strands of additional test areas in order to minimise the risk of Argyll & Bute Council being vulnerable to a similar fraud. Progress has been made for each of these strands and a summary of this work will be reported to the Audit and Scrutiny Committee in December.

- The CIA received a request from Strathclyde Partnership for Transport (SPT) to complete and sign a closedown certificate for the Helensburgh Park and Ride Project. By signing this certificate the CIA is confirming that the terms and conditions of the grant have been complied with and that the project can be financially closed down. Supporting documentation, including invoices, was reviewed for appropriateness, ledger downloads were analysed to

ensure expenditure was incurred in line with the proposed nature of the grant and compliance testing was carried out on general grant conditions such as reporting and the retention of documents. Testing identified that expenditure incurred by the Council was £2,381.69 less than the overall £380,000 grant received from SPT, this was due to an invoice included in the 2016/17 claim also being included in the 2017/18 claim in error. This error was identified to relevant Council and SPT Officers and the over claim has subsequently been repaid to SPT.

- The CIA received an additional request from SPT to complete a Certificate of Accuracy for the ferries concessionary fares reimbursement claim. The supporting evidence was reviewed and the Certificate of Accuracy was completed and returned to SPT. This testing identified two issues:

    - For financial year 2017/18 SPT increased the concessionary fares by £0.10 however the Council did not update their ticket machines to reflect this increase. As a consequence passengers continued to be charged the previous fare until April 2018 resulting in a loss of £170.80 revenue due to the Council.
    - Only two days data was included in the claim for the Lismore ferry for March 2018 as the ticket machine data download malfunctioned. This resulted in a loss of compensation for the Council as they cannot evidence the number of concessionary fares sold for a period of 29 days.

    An audit of marine services is scheduled for quarter 3 and further review of these issues will be included in this audit. This will be reported to the December committee.

- Internal Audit have revised their approach to the audit of Oban Airport to provide a more consistent and complete approach to our programme of compliance testing against the Aerodrome Manual and the Rescue and Firefighting Service Manual.

- Every year a small number of Statutory Performance Indicators (SPI's) are required to be returned by Councils as part of the Local Government Benchmarking Framework (LGBF). A sample of data provided to the Improvement Service must be reviewed by Internal Audit and submitted by 31 August each year. Internal Audit was provided with the full set of data from which to select indicators for review on 02 August. As large variances were reported in the attendance figures for Swimming Pools, Indoor and Outdoor Leisure facilities and museums, these indicators were selected for review. Attendance data was provided by Council run facilities, those run by LiveArgyll and from third party providers who receive financial support from the Council. The data provided from a mix of systems and manual records were found to be presented accurately and appropriately estimated where actual attendance figures were not available.

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. Due to the volume of CM tests carried out the decision has been made to report by exception only. Table 1 below summarises activity to date where there were issues identified and provides detail of findings and management commentary. In addition to the areas noted in the table below continuous monitoring testing was carried out on Council Tax, VAT, General Ledger, Budgeting, Creditors and Debtors in the last quarter. No control weaknesses were identified from this testing.

Table 1: Continuous monitoring programme results:

Test Area	Controls Tested	Control Effectiveness	Findings	Management Commentary
Payroll	High Gross Pay	Not Satisfactory	An instance of high gross pay was identified through routine audit testing. Following investigation by the payroll team it was identified that this was a redundancy payment, however the amount paid to the individual was an overpayment.	A recovery process has been put in place, with the overpayment being recovered over a period of 24 months. Payroll and Pensions have implemented a new secondary check control to reduce the risk of a similar error occurring in future. In response to this issue, Internal Audit will amend their continuous monitoring schedule to include the new control and are increasing the sample sizes for payroll CM in 2018/19.

Test Area	Controls Tested	Control Effectiveness	Findings	Management Commentary
My View Expenses Testing	Expenses Testing	Satisfactory	From an original sample of 50 claims, 14 claims were submitted without receipts to support the amount claimed. HR confirmed that the receipt field has been made mandatory on the MyView system. All 14 issues were prior to the implementation of this field. A further sample of 25 claims was tested and there was only one issue identified, with a user not submitting a valid receipt for claim. Valid receipts were attached to all subsequent claims for this individual.	Due to the low error rate for the additional sample this was not formally reported to management. As a response to this Internal Audit have increased sample sizes for expenses testing going forward.

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 2.

Table 2: Issue of National Reports in Quarter 2:

National Report	Issued To	Detail	Management response/ Action taken
National Fraud Initiative in Scotland 2016/17	• Presented to Audit & Scrutiny Committee as a separate agenda item.	Scotland's public finances have been boosted after a data-sharing exercise identified nearly £19 million of fraud and error across the public sector.	To be discussed as a separate agenda item.

4.7   National Fraud Initiative (NFI). As discussed at the June A&SC meeting, the most recent cycle of NFI activity has now been concluded with the new data set due to be available in January 2019. Therefore the usual table update on matches progressed has been removed as there has been limited activity since the last committee. This will be reintroduced for March 2019 meetings onwards.

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 3: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
PSIAS Assessment	Completed EQA is attached to this meeting under a separate agenda item.	Complete	September 2018
Audit risk universe	Existing audit risk universe has been updated to reflect new service plans and better associate risk profiles to auditable units.	Complete	September 2018
Review current terms of reference (TOR) template	Review current TOR template to bring in line with new report template and include additional information suggested by the EQA review. In particular it is recognised the TOR could provide a clearer link between the risks identified and the control objectives designed to provide assurances over those risks.	Complete	October 2018
Prepare SMT paper on minor areas for consideration from EQA review	EQA report highlighted some minor areas for consideration which the CIA has agreed to take to the SMT for discussion. These include: 1. Explicit reference of how internal audit contribute to best value 2. Consideration of how the Committee get their assurances over health and social care integration 3. Committee Chair input into CIA performance 4. CIA job description not recognising the IIA qualification	On Track	November 2018
Response to high profile	Internal Audit have developed additional test areas in order to	On track	December 2018

Area For Improvement	Agreed Action	Progress Update	Timescale
fraud report	minimise the risk of the Council being vulnerable to a similar fraud that occurred in another Scottish local authority. Progress has been made and will be concluded and reporting to the December meeting of the committee.		
Review format and content of annual internal audit plan	Review the format and content of the annual internal audit plan to more overtly reference an alignment between key risks faced by the Council and the planned audit activities. In particular, where relevant, there will be a clear alignment between identified audit assignments and the Council's strategic and/or operational risk register and a three year projection to show proposed future coverage of key strategic risks. The 2019/20 plan will also provide a summary of the key risks which were addressed by the 2018/19 internal audit plan. Consideration should also be given to aligning reviews to service plan challenges as per the 2017-2020 service plans.	On track	December 2018
Training and CPD	Two members of the team are currently training to gain further qualifications (CIPFA and IIA). Every member of the team are required to complete an annual Performance Review of Development which includes a development plan. 2018 PRDs were carried out in February 2018. Scrutiny training was carried out in August 2018.	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 – FQ2 18/19 (as at August 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	
YTD Position Year End Outturn	£62,112 £236,493	£62,089 £236,493	G ➡

BO28 Our processes and business procedures are efficient, cost effective and compliant (SF)

Annual Risk Assurance Statements completed by Services	Target	On Track	G ➡
	Status	On Track	
Risks Management Overview report approved	Status	On Track	G ⬆
	Target	On Track	
Review of Strategic Risk register	Status	On Track	G ⬆
	Target	On Track	
Annual Audit Plan approved by 31 March	Status	On Track	G ➡
	Target	On Track	
% of audits completed in audit plan	Status	100%	G ➡
	Target	100%	
% of audit recommendations accepted	Actual	100%	G ➡
	Target	100%	
% customer satisfaction with audit reports	Actual	100%	G ⬆
	Target	80%	

5. CONCLUSION

5.1 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 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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25 September 2018

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