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

STRATEGIC FINANCE   **18 JUNE 2019**

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 1 of 2019/20.

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

- **2018/19 Audit Plan progress**: The audit plan is complete.

- **2019/20 Audit Plan progress**: The audit plan is currently on track.

- **Individual Audits undertaken**: Six audits have been completed during the period. Of these audits, none are rated as high, two as substantial, two as reasonable and two 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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STRATEGIC FINANCE   **18 JUNE 2019**

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 1 against a number of areas;

- 2018/19 Audit Plan progress
- 2019/20 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 March 2019. Four audits are currently in progress and these will be reported to a future Committee.

Audits Completed
- Land & Asset Disposal
- Self-Directed Support
- Early Years Provision
- Off-Payroll Working
- School Fund Governance
- Traffic Regulation Orders

Audits in Progress
- Following the Public Pound
- Care Home Provision
- Additional Support Needs
- Oban Airport

4.2   In addition to those already in progress indicative audits planned for Quarter 2 2019/20 are:

- Business Continuity Planning
- Health & Safety
- School attendance
- Cleaning in Council Premises
- Winter Maintenance
- Building Standards
- Normal Operating Procedures/Emergency Action Procedures (Live Argyll)

4.3   **Additional updates from Quarter 1:**

- The Chief Internal Auditor completed the first draft of the Governance and Accountability BV3 submission which has been presented to the Strategic Management Team and Chief Officer Group. The CIA is now working with colleagues in Strategic Finance to help complete the Use of Resources BV3 theme and continues to attend the BV3 Working Group chaired by Head of Improvement & HR.

- We have continued to progress the Money Skills Argyll (MSA) and roads resurfacing scrutiny reviews. For the MSA review four scrutiny panels have taken place and the draft report has been prepared and will be considered by the Audit and Scrutiny Committee. For the roads review four scrutiny panels have also taken place and findings are currently being to inform the draft report. A panel attendee from The Improvement Service gave positive feedback on our approach to scrutiny commenting that it is very innovative.

- The 2019/20 Scrutiny plan has been drafted. Proposed topics were assessed against the agreed prioritisation process and the plan will be considered by the Audit and Scrutiny Committee.

- We attended the year end lighting stocktake for the Lochgilphead stores depot and the completed stock sheets were passed to finance for valuation.

- We support Audit Scotland in providing a summary of fraud activity identified within the Council. Returns are submitted on an annual basis and this was completed during April 2019. This exercise will be undertaken on a quarterly basis in future.

- Our new trainee accountant has started in post and has been provided with in-house training on internal audit and scrutiny. She has also started her studying for the CIPFA qualification.

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.

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. Issues identified are detailed in table 1 below:

Table 1: Continuous Monitoring Findings

Auditable Area	Areas Tested	Issues Identified	Management comment / action
General Ledger – Suspense Accounts	Inactive suspense accounts	There were three suspense accounts with no transactions in 2018/19, two of which had not had any suspense entries for a number of years.	The codes for the inactive suspense accounts have been disabled.
Creditors - Identification of potential duplicate or erroneous payments.	Review of potential duplicate reports.	There is currently a backlog of duplicate reports to be reviewed. As at 20 March 2019 reports had been analysed up to 21 December 2018. Officers advised this was due to resources being focused on the Oracle upgrade and staff absence.	Backdated duplicate reports have now all been checked and the process is up to date.
Expenditure Bank account reconciliation	Reconciling items	Bank reconciliations are carried out on a regular basis and are subject to secondary review however there are a number of historic reconciling items relating to payroll. Some entries date back to beginning of 2017. The Creditors supervisor sends an email to the payroll team every month to make them aware of the entries. Reviewing these lines adds a significant amount of time to the monthly reconciliation process.	A number of the 2018/19 transactions have now been cleared and the large list of "old" Payroll unreconciled items which amounts to around £40k has been passed to Strategic Finance with a view to these being written off in 2018/19. The net result of this has increased the difference in the bank reconciliation and this is also likely to be written off. Payroll have provided assurance that, from 1 April 2019, they will meet on a monthly basis with all items reconciled in a timeous fashion.
Budget Monitoring - Engagement records and frequency of meetings.	Engagement records were reviewed for completeness and frequency of meetings in line with risk category.	Engagement meetings are regularly taking place, however, as so many cost centres are reviewed at any one time, it is not always possible to identify if a particular cost centre has been discussed in line with the risk category. Additionally meetings are recorded inconsistently.	The risk category applied to cost centres and the approach that is currently taken is something that requires to be reviewed and updated. The aim is to have this completed by 30 September 2019.

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 4.

Table 2: Issue of National Reports in Quarter 1:

National Report	Issued To	Detail	Management response/ Action taken
Local Government in Scotland: Challenges and Performance 2019	Chief Internal Auditor	Scotland's councils are managing to improve and maintain most services. But Scottish Government funding to councils is likely to reduce in future; this, combined with increased demand and less flexibility over spending decisions, means councils need to think differently about how they deliver services to the public	Report being considered by the June 2019 Audit & Scrutiny Committee
How Council's work – Safeguarding public money: are you getting it right?	Chief Internal Auditor	Systems to prevent public money being lost to mistakes and fraud in Scotland's councils may be becoming strained, says Scotland's public spending watchdog for local government.	Report being considered by the June 2019 Audit & Scrutiny Committee
Best Value Assurance Report Stirling Council	SMT	Stirling Council's services largely perform well, and the council manages its resources effectively. It now needs to get better at identifying where and how it needs to change to meet future challenges.	Report considered by SMT on 29 April 2019
Best Value Assurance Report South Lanarkshire	SMT	South Lanarkshire Council demonstrates strong leadership, has a good approach to the way it manages its finances and has delivered improvements to many services. Now the council needs to ensure that service redesign is driven by engagement with local communities.	Report considered by SMT on 15 April 2019

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. Trade creditor matches have now been released and the Council is currently progressing matches as identified in the table below. A reminder process is in place to ensure that matches are reviewed on a timely basis.

Table 3: National Fraud Initiative Progress at 08/05/2019:

Operational Area	Total Matches	Recommended / High Risk Matches	Matches Complete	WIP	Match Description
CT to Elect Register	791	791	72	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	144	144	0	0	
CT to other Datasets	1152	1152	5	0	
Housing Benefits	413	59	24	1	HB records to records in other authorities / other datasets including student loans, payroll and pensions to identify undeclared income and capital.
Payroll	576	1	0	1	Payroll records to other datasets including other payrolls and pensions to ensure employee is not receiving additional income.
Blue Badges	141	111	141	0	Blue badge records to DWP data to identify deceased claimant with valid badge.
Private Residential Care Homes	48	28	46	0	Care home records to DWP data to identify deceased claimant with ongoing payments.
Housing Waiting list	377	28	34	41	Housing waiting list records to other organisations HBCTR and tenant data to identify undisclosed changes in circs or false info.
Personal Budgets	26	3	0	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	599	92	2	1	CTR records with records in other authorities / other datasets including; student loans, payroll and pensions to identify undeclared income and capital
Creditors	3572	179	38	0	Analyses Creditors data to identify possible duplicate vendors and payments, VAT errors or fraud and multiple vendors sharing a bank account.
Procurement	102	n/a	0	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 £
362	44	272	0	90	6571.20	2	3285.60

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 for the creation of a scrutiny report template and making improvements to the continuous monitoring programme. The rolling action in respect of staff development will be removed from reports going forward and committee will be notified of any additional development activity in the additional updates section.

Table 4: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Consider format for scrutiny reports	The MSA scrutiny report has been drafted and the agreed report format can be used as a template for future scrutiny reports with a caveat that they may be subject to change depending on suitability for each individual review.	Complete	May 2019
Sampling methodology	The internal audit team discussed and agreed a sampling methodology at the May 2019 team development meeting.	Complete	May 2019
Follow-up of External Audit Recommendations	We have agreed with Audit Scotland that Internal Audit will recommence follow-up of External Audit recommendations in conjunction with our current follow-up process.	On Track	June 2019
Conflict Of Interest Register	A register will be prepared to collate any potential conflicts of interest of the internal audit team.	On Track	July 2019
Review and streamline the continuous monitoring programme	Undertake a review of the revised continuous monitoring work programme following the completion of the first year. Identify areas for improvements and make changes where necessary.	On Track	August 2019
Local benchmarking indicators	The CIA has established a working group with the CIAs of four other local authorities who meet on a quarterly basis to share ideas and resources. The group are currently establishing a small suite of performance indicators which will be used for local benchmarking. Once these are finalised these will be reported to the Audit and Scrutiny Committee.	On Track	September 2019
Assurance mapping exercise	Carry out an assurance mapping exercise to ensure that Internal Audit plans are aligned to the Council's key risks, provide assurance that there is a comprehensive risk and assurance framework over the key risks and ensure there is no duplicated effort or potential gaps.	On Track	December 2019
Scrutiny lessons learnt	Prepare and submit a report to the Audit & Scrutiny Committee in March 2020 highlighting lessons learnt from the first two scrutiny reviews and identifying areas for improvement to be considered for future reviews.	On Track	March 2020

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 2019– 20 – FQ1 19/20 (as at May 2019)			
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	£174,402 £227,663	£179,153 £227,663	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	
Risk 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 complete and the 2019/20 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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