

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 of 2019/20.
- 1.2 Core activities together with a progress update statement are shown below.
- **2019/20 Audit Plan progress:** The audit plan is currently on track.
 - **Individual Audits undertaken:** Four audits have been completed during the period. Of these audits, three are rated 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.

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 the following areas:

- 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.

3.2 Members are requested to approve the delay of the 2020/21 scrutiny plan until a future meeting.

4. DETAIL

4.1 Five audits have been completed since the previous Committee in January 2020. Six audits are currently in progress and these will be reported to a future Committee.

Audits Completed

- Pupil Equity Fund
- Grounds Maintenance
- Fleet Management
- Information Asset Registers
- LiveArgyll Performance Management

Audits in Progress

- School Purchasing
- Logical Access
- Cybersecurity
- HSCP Contract Management
- Legionella Improvement Plan
- Interfaces / Reconciliations

4.2 In addition to those already in progress indicative audits planned for Quarter 1 2020/21 are:

- Scottish Welfare Fund
- Welfare Rights
- Management of Term Contracts

- Homelessness

Internal Audit Follow-up Process

- 4.3 The Internal Audit team currently follow up on open audit points on a monthly basis and issue a monthly report to the Strategic Management Team (SMT). This means the team are creating 16 follow up reports a year as they issue 12 to the SMT and four to the Audit and Scrutiny Committee. Whilst this ensures open audit issues are 'kept in view' it consumes considerable resource both for the internal audit team and the officers providing monthly updates. The Chief Internal Auditor (CIA) has implemented a revised quarterly follow up approach which will be aligned to the Audit and Scrutiny Committee timetable. This has no impact on the volume of reports to the Audit and Scrutiny Committee. Action points raised on future audit reports will have completion dates set to be quarter ends to align them with a quarterly follow up process. The quarterly process will still allow for an appropriate level of follow up and will free up resource to perform audit work.

Scrutiny

- 4.4 Work continues to progress on the 2019/20 scrutiny plan, briefings have taken place and panel meetings commenced for both the Economic Strategy and Strategic Housing Fund reviews. We are experiencing some difficulties securing suitable dates for future panel meetings and the team will keep working on this.
- 4.5 It has been agreed that the Pa/Secretarial Assistant from Financial Services will assist in making meeting arrangements and recording minutes of discussions on a trial basis. This was trialled at the latest panel meeting of the Economic Strategy scrutiny review held on 4 March 2020 and was successful.
- 4.6 A lessons learned report has been prepared and has been submitted as a separate report to this meeting.
- 4.7 As two reviews remain ongoing and another is yet to commence from the 2019/20 plan, we are asking the Committee to consider delaying the creation of the 2020/21 scrutiny plan to allow completion of the current plan. It is currently due to be considered by the Committee in June 2020.

4.8 Additional updates from Quarter 4:

- The CIA and Council Tax Review Officer attended a FraudHub demo presented by the Cabinet Office NFI Team. The system allows public sector organisations to share intelligence and help identify potential frauds using live datasets from which matches are identified for investigation. The Council is currently involved in NFI data-matching, it is a 2 yearly exercise which can be time consuming. The Fraudhub uses more accurate real-time information that is fed back to the Council regularly enabling quicker decision making. Fraudhub could be considered a system which would be beneficial once the new Corporate Fraud Team is established and may enhance processing of NFI information.
- We have been notified of a potential mismanagement of PTA funds in a primary school and are conducting a review of the circumstances and controls in place.
- We have introduced a new audit finding category called VFM (Value for

Money). This will be an observation which does not highlight an issue relating to internal controls or governance but represents a possible opportunity for the Council to achieve better VFM. This new category will first be reflected in the Fleet Management audit report and all reports from the June committee going forward.

- We support Audit Scotland in providing a summary of fraud activity identified within the Council. Senior officers were approached to advise of any activity that requires to be reported for the 29 February deadline, this resulted in a nil return.

4.9 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.

4.10 A follow up process is in place whereby management are advised of continuous monitoring findings and, where appropriate, requested to take remedial action. There are currently no outstanding follow-up points arising from previous testing. Due to the volume of continuous monitoring tests carried out the decision was 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
Debtors	10% review of new accounts by debtors team	The 10% review of new accounts does not take place as accounts are set up at department level and they will not have the documentation to check against. Any obvious errors are amended as identified.	We were previously advised the Debtors section was unable to carry out the required 10% check as they do not hold the backup information for new accounts created. The Council's Revenue and Benefit's Manager has now advised that debtors will be carrying out this check and will work out a way to implement this and carry out the 10% check with effect from Feb 2020.
Budgeting	Engagement records	Budget 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. We were previously advised that "The risk category applied to cost centres and the approach that is	In terms of recording the cost centres that have been discussed at engagement meetings, Finance Manager will raise this at the next meeting of the Financial Services Management Team and discuss a better approach to recording this information to ensure it is clear and consistent. However, we do need to make sure that

		currently taken is something that requires to be reviewed and updated. The aim is to have this completed by 30 September 2019”, however the issue remains ongoing.	it does not become an onerous task. Regarding the review of the risk categories attached to cost centres, this is actually already complete and is actioned within the system to take effect from 1 April 2020 as to make changes mid-year would cause confusion.
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4.11 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 4:

National Report	Issued To	Detail	Management response/ Action taken
Audit Scotland: Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models.	Acting Executive Director – Kirsty Flanagan	A £3.3 billion investment programme in Scotland’s infrastructure has enabled more public buildings and new roads to be built. But the Scottish Government needs to be clearer about how and when they use privately financed contracts.	No action to be taken
Audit Scotland Best Value Assurance Report: Highland Council	SMT via Corporate Support Manager	Highland Council must make significant savings and change the way it delivers services to ensure it can live within its financial means.	No specific action to be taken
National Audit Office: EU Exit: the Get ready for Brexit campaign	EU Withdrawal Tactical Team	This report has been prepared following Parliamentary interest in the campaign. It examines the management of the campaign, in particular: the preparation of the campaign, including the approval of the business case and budget, and procurement; governance and oversight; and the evidence available to the Cabinet Office on the effectiveness of the campaign.	Awaiting response
National Audit Office: Local authority investment in commercial property	Executive Director – Douglas Hendry	The report examines whether the framework allows for the management of risks to the financial sustainability of local authorities from investment in commercial property. We expect to have clear objectives for the system and enough information and assurance on its functioning. We also expect effective changes when required.	Awaiting response

4.12 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. A reminder process is in place to ensure that matches are reviewed on a timely basis.

Table 3: National Fraud Initiative Progress at 05/03/2020:

Operational Area	Total Matches	Recommended / High Risk Matches	Matches Complete	WIP	Match Description
CT to Elect Register	791	791	791	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 to other Datasets will not be progressed further due to poor quality data)
CT rising 18s	144	144	144	0	
CT to other Datasets	1152	1152	5	0	
Housing Benefits	426	83	42	0	HB records to records in other authorities / other datasets including student loans, payroll and pensions to identify undeclared income and capital.
Payroll	583	2	10	4	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	48	0	Care home records to DWP data to identify deceased claimant with ongoing payments.
Housing Waiting list	388	51	366	0	Housing waiting list records to other organisations HBCTR and tenant data to identify undisclosed changes in circs or false info.
Personal Budgets	26	3	26	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	624	119	10	2	CTR records with records in other authorities / other datasets including; student loans, payroll and pensions to identify undeclared income and capital
Creditors	3572	179	180	0	Analyses Creditors data to identify possible duplicate vendors and payments, VAT errors or fraud and multiple vendors sharing a bank account.

Operational Area	Total Matches	Recommended / High Risk Matches	Matches Complete	WIP	Match Description
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
1763	6	1671	0	92	£24,745.92	3	£24,745.92

4.13 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 fraud investigation training and updates to the terms of reference template and annual audit report.

Table 4: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Local benchmarking indicators	The CIA has established a working group with the CIAs of four other local authorities who meet to share ideas and resources. The group are establishing a suite of performance indicators which will be used for benchmarking. Once finalised these will be reported to the Audit and Scrutiny Committee.	Complete	December 2019
Update Internal Audit Manual	Update follow-up process to reflect change from monthly to quarterly exercise.	Complete	March 2020
Scrutiny lessons learnt	Prepare and submit a report to the Audit and Scrutiny Committee highlighting lessons learnt from early scrutiny reviews and areas for improvement for future reviews.	Complete	March 2020
Review and Update Internal Audit Charter	The Internal Audit Charter will be updated to: 1. reflect change of title of the Council's S95 Officer and executive directors. 2. amend the CIA's role in relation to investigating alleged frauds. 3. reference IA's register of interest which was introduced in Summer 2019.	Complete	March 2020
Add new audit finding category for VFM	Update the report template to include the new category of VFM.	Complete	March 2020
Counter Fraud Team	Approval for establishment of fraud team received, vacancies advertised.	On Track	June 2020
Annual Audit Report Content	Ensure 2019/20 Annual Audit Report includes a section incorporating 2019/20 performance and feedback.	On Track	June 2020

Area For Improvement	Agreed Action	Progress Update	Timescale
VC and conference facility	Progress plan to use former audit room at Whitegates as a video conference facility.	On Track	June 2020
Performance Information	The scorecard indicators in the IA Summary of Activities report need to be updated to reflect the service plan indicators. These will be reported to the Audit & Scrutiny Committee from June 2020 onwards.	On Track	June 2020
Update Scrutiny Manual and Framework	Update the Scrutiny Manual and Framework to reflect Audit and Scrutiny Committee Decisions resulting from the lessons learned report submitted to the March Committee.	On Track	June 2020

4.14 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 – FQ3 19/20 (as at December 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	
FINANCIAL			
Revenue Finance	BUDGET	ACTUAL	G
YTD Position	£171,131	£171,729	
Year End Outturn	£262,221	£262,221	
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	Complete	G ↑
	Target	Complete	
Review of Strategic Risk register	Status	Complete	G ↑
	Target	Complete	
Annual Audit Plan approved by 31 March	Status	On Track	G →
	Target	On Track	
Percentage of audit plan completed	Status	100%	G →
	Target	100%	
Percentage of audit recommendations accepted by management	Actual	100%	G →
	Target	100%	

% customer satisfaction with audit reports	Actual	100%	G ➔
	Target	100%	

5. CONCLUSION

5.1 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 Fairer Scotland Duty - None

6.5.1 Equalities – None

6.5.2 Socio-Economic Duty – None

6.5.3 Islands Duty - None

6.6 Risk – None

6.7 Customer Service - None

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