

# Report

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| Report to:       | <b>Risk and Audit Scrutiny Forum</b>                        |
| Date of Meeting: | <b>24 January 2018</b>                                      |
| Report by:       | <b>Executive Director (Finance and Corporate Resources)</b> |

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| Subject: | <b>Internal Audit Activity as at 29 December 2017</b> |
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Update the Risk and Audit Scrutiny Forum on progress by, and performance of the Internal Audit service in the period to 29 December 2017

## 2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that progress and performance is noted
- (2) that revisions to the 2017/2018 Plan are endorsed

## 3. Background

3.1. Findings from internal audit assignments are reported to the Forum throughout the year. The last progress report to the Forum was in November 2017. This reported on work completed in the period 1 September to 13 October 2017. This report covers all work completed in the period 14 October to 29 December 2017. Performance information is also included.

## 4. Performance

4.1. As at 29 December 2017, approximately 90% of the 2017/2018 Audit Plan has been started. The other key performance indicators reflecting quality, on time and within budget for the period to 30 November 2017 are summarised in Appendix One together with explanations. 77% of draft reports have been delivered on time and 87% within budget against targets of 80% respectively. Quality continues to be monitored through internal quality control procedures.

4.2. Client contributions to the delivery of the audit plan take the form of responding to draft reports, agreeing to closing meetings and signing reports quickly once agreed. 74% of audit assignments were concluded to a signed action plan within four weeks of the issue of a draft report against a target set of 80%.

4.3. Forum members are asked to note performance.

## 5. Findings

5.1. Appendix Two lists all assignments completed in the period 14 October to 29 December 2017.

5.2. Forum members are asked to note findings.

## 6. Progress against Strategy

- 6.1. The Public Sector Internal Audit Standards (PSIAS) requires progress against the audit strategy to be monitored and reported to the Forum as part of regular monitoring reports that are presented at each meeting.
- 6.2. Delivery of the strategy will be evidenced by completion of the 2017/2018 Plan and this will be monitored through the performance indicators regularly reported to the Forum. Any subsequent changes to the Plan will be presented to the Forum which will include an assessment as to the impact such changes would have on the delivery of the overall audit strategy.

## 7. Review of 2017/2018 Audit Plan

- 7.1. PSIAS also requires a review of the current year's Audit Plan on a regular basis to allow adjustments to be made to the Plan in response to changes in the organisation's business, risks, operations, programmes, systems and controls.
- 7.2. In addition to these ongoing reviews, during 2017, External Audit highlighted an expectation that the annual Internal Audit Assurance report should be considered by the Forum at the same meeting as the draft annual Governance Statement. Historically, the Internal Audit opinion on the adequacy of financial and operational controls expressed within the draft Governance Statement each year was drawn from annual Internal Audit Assurance report albeit this audit report was not presented in full until a subsequent meeting of the Forum.
- 7.3. To formally evidence that the annual Internal Audit Assurance report informs the draft Governance Statement, moving forward, the Internal Audit plan will now be concluded to draft report stage by 31 March as opposed to the existing 30 April timescale. This will facilitate the earlier preparation of the annual Internal Audit Assurance report allowing this to be presented to the Forum by the end of June each year at the same time as the draft Governance Statement.
- 7.4. Resource planning at the outset of 2017/2018 assumed a cut-off date of 30 April 2018. As a result of a change to this date, it is necessary to realign the planned programme of work to reflect the revised completion date of 31 March 2018. Noted in the table below are three assignments that were planned to be completed in 2017/2018 but it is now proposed are completed in 2018/2019. For each of these three assignments, deferring to 2018/2019 either accommodates other inspections and reviews or will support better audit output.

| Assignment Number | Assignment Title               | Reason  |
|-------------------|--------------------------------|---|
| I342058           | Community Payback Order review | Deferred to 2018/2019 to accommodate planned Care Inspectorate visit commencing January 2018                      |
| I342061           | Mobile Working                 | Deferred to 2018/2019 to allow related audit work to be completed and new procedures and practices to be embedded |
| I350063           | Financial Strategy             | Deferred to 2018/2019 to allow a fuller review of long term strategy  |

7.5. This proposed deferral of assignments from the 2017/2018 Audit Plan to 2018/2019, alongside the management of existing assignments will allow the amended year end timescale to be met. These amendments are considered to comply with the overall audit strategy and will have no impact on the ability to express an opinion within the Annual Assurance report for 2017/2018.

## **8. Independent Review of Compliance with PSIAS**

8.1. This review has now concluded and the draft output issued in January 2018. There are no significant items arising from the review. A final report will now be presented to the Forum in March 2018.

## **9. Internal Audit Plan 2018/2019**

9.1. In 20 September 2017, alongside the 2017/2018 Audit Plan, a strategic plan for 2018/2019 and 2019/2020 (see Appendix Three) was presented to the Forum. These plans were subsequently approved by Executive Committee on 27 September 2017. Consultation meetings are being convened with Resources and External Audit during January 2018 to confirm the content of the 2018/2019 Plan continues to be appropriate and relevant.

9.2. The Forum should also consider this plan of work for 2018/2019 and advise the Audit and Compliance Manager by 2 February 2018 of any significant areas that they consider are not covered by the Plan.

## **10. Employee Implications**

10.1. There are no employee issues.

## **11. Financial Implications**

11.1. At present a breakeven position is forecast to the end of the financial year for the Internal Audit section.

## **12. Other Implications**

12.1. The main risks to the delivery of the Audit Plan are vacancies and team up-skilling requirements, unforeseen service demands and delays with client sign-off. These are mainly mitigated by coaching and training, regular meetings and escalation processes as well as inclusion of contingency time within the annual plan.

12.2. There are no implications for sustainability in terms of the information contained in this report.

## **13. Equality Impact Assessment and Consultation Arrangements**

13.1. There is no requirement to equality assess the contents of this report.

13.2. Heads of Service are consulted on each and every audit assignment.

**Paul Manning**

**Executive Director (Finance and Corporate Resources)**

29 December 2017

## **Link(s) to Council Values/Objectives**

- ◆ Objective – Governance and Accountability

**Previous References**

- ◆ Internal Audit Plan 2017/2018 to RASF 7 March 2017
- ◆ Progress report to RASF 14 June 2017
- ◆ Progress report to RASF 20 September 2017
- ◆ Internal Audit Plan 2017/2018 to RASF 20 September 2017
- ◆ Progress report to RASF 1 November 2017

**List of Background Papers**

- ◆ Figtree extracts of Action Plans

**Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

Yvonne Douglas, Audit and Compliance Manager

Ext: 2618

(Tel: 01698 452618)

E-mail: [yvonne.douglas@southlanarkshire.gov.uk](mailto:yvonne.douglas@southlanarkshire.gov.uk)

Key audit performance indicators as at 30 November 2017

Appendix One

| Indicator   | Numbers | Percentage | Target | Comment   |
|---|---------|------------|--------|---|
| Assignments delivered within budget                                   | 27/31   | 87%        | 80%    |   |
| Draft reports delivered within 6 weeks of file review                 | 20/26   | 77%        | 80%    | Marginally below target. Anticipate target will be met by 31 March 2018.  |
| 2017/2018 Audit Plan completed to draft by 31 March 2018 <sup>1</sup> | 13/72   | 18%        | 100%   | Approximately 90% of 2017/2018 Audit Plan has been started and plans are in place to deliver this programme of work by the revised deadline of 31 March 2018. |
| Internal Audit recommendations delivered on time                      | 39/40   | 98%        | 90%    |   |
| Client to agree findings and actions within 4 weeks of draft issue    | 17/23   | 74%        | 80%    | Improving performance month on month. Anticipate that target will be met by 31 March 2018.  |

<sup>1</sup> Amended from 30 April 2018 (see 7.2)

| Job no.           | Assignment name                         | Draft Issue | Final Issue | Assurance Info  |
|-------------------|---|-------------|-------------|---|
| <b>Prior Year</b> |   |             |             |   |
| I614068           | Employee Single Person Discount         | 24/10/2017  | 02/11/2017  | Match of Council datasets identified those who could be receiving Single Person Discount in error. Referred to Service for further investigation with detailed update on outcome of investigations to be reported to Internal Audit by agreed date. |
| I676085           | Allegation Grant Funds                  | 22/11/2017  | 22/11/2017  | Allegation unsubstantiated during initial research phase.   |
| I212009           | Follow Up Procedural Checks on Expenses | 16/05/2017  | 13/12/2017  | Good progress with 4/4 actions implemented.   |

| <b>2017/2018</b> |  |            |            |  |
|------------------|--|------------|------------|--|
| I672121          | Operational Practices within Social Work Service | 12/10/2017 | 12/10/2017 | Review of area practices. This confirmed that operational procedures have been prepared and were to be implemented at the beginning of November 2017. Internal Audit were satisfied that, in the interim, there was reasonable evidence of fair and equitable processes based on sample testing for a specific period in time. Social Work Resources provided detailed information to Internal Audit regarding operational practices which, in principle, appeared to be fair. Further follow up work instructed in this area. |
| I674127          | Private Work                                     | 26/10/2017 | 26/10/2017 | Allegation of private work undertaken in Council time. Unsubstantiated as work was established   |

|         |                   |            |            |   |
|---------|-------------------|------------|------------|---|
|         |                   |            |            | to be appropriate and approved in advance of work being completed.  |
| I676113 | Contract Review   | 14/08/2017 | 15/11/2017 | Adequate assurance was obtained regarding contract payment arrangements and that sufficient funds should be available to cover the remaining project costs. |
| I672108 | Private Work      | 17/11/2017 | 17/11/2017 | Allegation substantiated around use of hired vehicle by contractor for private work. Contract not renewed.  |
| I674120 | School Cash Theft | 21/11/2017 | 22/11/2017 | Money stolen during holiday period through forced entry to the safe. New safe ordered and good practice guidance re key and cash holding re-issued.         |

## Proposed 2018/2019 Plan

| Lead Resource            | Audit assignment  | Outline Scope  | Expected days |
|--------------------------|---|--|---------------|
| All                      | Corporate audit activity                                | Undertake programme of corporate work.   | 60            |
| All                      | General contingency                                     | Conclude all audits. Respond to requests for unplanned work, including advice and guidance to Resources.                                   | 50            |
| All                      | Fraud Plan  | Deliver of a programme of anti-fraud reviews and undertake investigations as required.   | 230           |
| All                      | Compliance Plan   | Undertake a programme of audits to comply with best practice/PSIAS.  | 40            |
| All                      | Top risks   | Undertake a programme of work to provide assurance around controls covering top risks.   | 150           |
| Finance and Corporate    | Procurement and Commercial Improvement Programme (PCIP) | Review evidence gathered for the assessment in conjunction with the PCIP team.   | 15            |
| Community and Enterprise | Waste Contract  | Testing of residual waste contract.  | 40            |
| Finance and Corporate    | Universal credits                                       | Procedural check to obtain assurances that housing benefits are being stopped timeously where a person has moved over to Universal Credit. | 30            |
| Finance and Corporate    | IT Audit  | Continue the rolling programme of audits in relation to Cyber Security.  | 40            |
| Finance and Corporate    | Self Service Controls                                   | Testing of controls around self-service of personnel tasks.  | 30            |
| Community and Enterprise | Job costing   | Test job costing methodology to ensure robust.   | 35            |
| Finance and Corporate    | ICON Income Management System and Treasury Management   | Undertake programme of routine tests around controls (including External Audit testing).   | 30            |
| Finance and Corporate    | Arm's Length External Organisations (ALEOs)             | Review SLC ALEO arrangements in context of Audit Scotland report (published Spring 2018).  | 25            |
| All                      | Budgetary Control                                       | Review budgetary control processes to ensure effective and controls robust.  | 30            |



| <b>Lead Resource</b>                            | <b>Audit assignment</b>                                    | <b>Outline Scope</b>  | <b>Expected days</b> |
|---|--|---|----------------------|
| Community and Enterprise                        | Carbon Reduction Commitment (CRC)                          | Check that evidence requirements have been met including Chief Officer declaration, supporting organisational structure, meter data and registration, validity of estimates, accreditations and an issues and risk log. | 30                   |
| Community and Enterprise                        | Energy Efficiency Targets                                  | Establish progress with towards meeting Energy Efficiency targets.  | 30                   |
| All   | Electronic Documents and Records Management System (EDRMS) | Review effectiveness of new processes.  | 30                   |
| Education                                       | Attainment Scotland Fund/Pupil Equity Fund                 | Undertake an Impact Analysis to establish outcomes from spend.  | 30                   |
| Social Work                                     | Mobile Working   | Undertake a review of mobile working to ensure risks are managed and benefits are being realised.   | 25                   |
| <b>Estimated Number of Audit Days 2018/2019</b> |  |   | <b>950</b>           |

### Proposed 2019/2020 Plan

| <b>Lead Resource</b>  | <b>Audit assignment</b>  | <b>Outline Scope</b>   | <b>Expected days</b> |
|-----------------------|--------------------------|--|----------------------|
| All                   | Corporate audit activity | Undertake programme of corporate work.   | 60                   |
| All                   | General contingency      | Conclude all audits. Respond to requests for unplanned work, including advice and guidance to Resources. | 50                   |
| All                   | Fraud Plan               | Deliver of a programme of anti-fraud reviews and undertake investigations as required.                   | 230                  |
| All                   | Compliance Plan          | Undertake a programme of audits to comply with best practice/PSIAS.                                      | 40                   |
| All                   | Top risks                | Undertake a programme of work to provide assurance around controls covering top risks.                   | 150                  |
| Housing and Technical | Job costing              | Test job costing methodology to ensure robust.   | 35                   |

| <b>Lead Resource</b>                            | <b>Audit assignment</b>     | <b>Outline Scope</b>   | <b>Expected days</b> |
|---|-----------------------------|--|----------------------|
| Community and Enterprise                        | Waste Contract              | Testing of recyclic waste contract.  | 40                   |
| Finance and Corporate                           | IT Audit                    | Continue the rolling programme of audits in relation to Cyber Security.                  | 40                   |
| Finance and Corporate                           | Self Service Controls       | Testing of controls around self-service of finance tasks.                                | 30                   |
| Finance and Corporate                           | Payroll                     | Undertake programme of routine tests around controls (including External Audit testing). | 20                   |
| Finance and Corporate                           | Council Tax/Rates           | Undertake programme of routine tests around controls (including External Audit testing). | 20                   |
| Finance and Corporate                           | Debtors                     | Undertake programme of routine tests around controls (including External Audit testing). | 20                   |
| All   | Digital Maturity Assessment | Undertake an assessment of progress in delivering digital targets.                       | 40                   |
| Finance and Corporate                           | Cloud utilisation           | Establish extent of use and test controls that mitigate risks.                           | 30                   |
| Education                                       | Governance                  | Assess impact of revised governance structures and SLC controls to support.              | 40                   |
| Community and Enterprise                        | Planning                    | Review legislative changes and assess level of compliance.                               | 35                   |
| Education                                       | Purchasing Cards            | Test use and control of purchasing cards by Resource.                                    | 35                   |
| All   | Benefit Realisation         | Test improvement programme to establish if benefits have been realised.                  | 35                   |
| <b>Estimated Number of Audit Days 2019/2020</b> |                             |  | <b>950</b>           |