
NORTH AYRSHIRE COUNCIL

28 May 2019

Audit and Scrutiny Committee

Title: Internal Audit Annual Report 2018-19

Purpose: To provide the Committee with an annual report on the work of Internal Audit during 2018-19 and provide an opinion on the governance, risk management and internal control environment of the Council.

Recommendation: The Committee is asked to note the content of the annual report and the opinion of the Senior Manager on the Council's governance, risk management and internal control environment.

1. Executive Summary

- 1.1 The Internal Audit Annual Report attached at Appendix 1 provides information on the work carried out during the period of the 2018-19 audit plan.
- 1.2 It is the opinion of the Senior Manager (Internal Audit, Risk and Fraud) that reasonable assurance can continue to be placed on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.

2. Background

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor prepares an annual report on the activities of Internal Audit to demonstrate performance and that the report should contain a view on the soundness of the Council's governance, risk management and internal control frameworks. The Annual Report for 2018-19 is attached at Appendix 1 and outlines the role of Internal Audit, the performance of the section during the year and the key audit findings. It also contains the annual audit assurance statement.
- 2.2 The report gives information on the actual performance against the agreed plan. Overall, 689 days of audit work took place, which was 32 days less than budgeted. Paragraph 2.7 of the annual report details the actual time spent on each category of audit work.

- 2.3 At 31st March, one draft report was with the client Service for agreement and a further 8 planned audits were still being worked on and will be completed during the first quarter of 2019-2020.
- 2.4 Section 3 of the Annual Report provides information on the most significant findings. Each of these audits, along with all other audit reports published, were reported to the Audit and Scrutiny Committee and the full reports made available to Elected Members.
- 2.5 All audit findings during the year support and inform the opinion by the Senior Manager (Internal Audit, Risk and Fraud) on the adequacy of the Council's governance, risk management and internal control environment. Each audit is given an assurance category, and these inform the overall level of assurance. The Public Sector Internal Audit Standards require this opinion to be given each year through an annual assurance statement. This is included within the annual report at section 6.
- 2.6 The opinion in the annual assurance statement also contributes to the Annual Governance Statement which is published as part of the Council's annual accounts and is elsewhere on the Audit and Scrutiny Committee agenda for approval.
- 2.7 Based on the audit work carried out, the opinion of the Senior Manager (Internal Audit, Risk and Fraud) is that reasonable assurance can continue to be placed on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.

3. Proposals

- 3.1 It is proposed that the Committee notes the content of the annual report and the opinion of the Senior Manager on the Council's governance, risk management and internal control environment.

4. Implications/Socio-economic Duty

Financial:	None.
Human Resources:	None.
Legal:	None.
Equality/Socio-economic Duty:	None.
Children and Young People:	None.
Environmental & Sustainability:	None.
Key Priorities:	The work of Internal Audit helps to support the efficient delivery of the strategic priorities within the Council Plan 2015-2020.
Community Benefits:	None.

5. Consultation

- 5.1 Council Services are consulted on the findings of Internal Audit throughout the year. No specific consultations have taken place in relation to this annual report.

Laura Friel
Executive Director (Finance and Corporate Support)

For further information please contact **Paul Doak, Senior Manager (Internal Audit, Risk and Fraud)**, on **01294-324561**.

Background Papers

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INTERNAL AUDIT ANNUAL REPORT

2018-19

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North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

INTERNAL AUDIT ANNUAL REPORT 2018-19

1 Introduction

- 1.1** The Executive Director (Finance and Corporate Support) (the Council's Section 95 Officer) has overall responsibility for Internal Audit in North Ayrshire Council. The Senior Manager (Internal Audit, Risk and Fraud) reports directly to the Executive Director on all audit matters, with the right of access to the Chief Executive and the Chair of the Audit and Scrutiny Committee on any matter. These rights of access help ensure the organisational independence of Internal Audit.
- 1.2** During 2018-19, the section operated in conformance with the 'Public Sector Internal Audit Standards (PSIAS)'. The Standards define the way in which the Internal Audit section should be established and undertake its functions. The section complied with the PSIAS requirement for an external assessment during every five-year cycle; this was undertaken by Falkirk Council in 2017 through the peer-to-peer review network of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG).
- 1.3** The Internal Audit section also operated under an 'Internal Audit Charter' which was refreshed and approved by the Audit and Scrutiny Committee in January 2018.
- 1.4** One of the requirements of the PSIAS is the publication of an annual report. The aim of this annual report is to give an overview of the work carried out during 2018-19. Some information is provided on the resources available to Internal Audit and the performance of the section.
- 1.5** Finally, the report provides an assurance statement on the overall adequacy and effectiveness of the Council's governance, risk management and internal control frameworks.

2 Planned and Actual Activity during 2018-19

- 2.1** The Internal Audit plan for the period 1st April 2018 to 31st March 2019 was approved by the Audit and Scrutiny Committee in March 2018.
- 2.2** From the total of 721 planned days, 624 days (87%) were budgeted as 'productive' and allocated for carrying out audit work. A further 97 days (13%) were budgeted for 'non-productive' time: management and strategy, attendance at meetings, administration and staff training and development. Time is determined as 'productive' or 'non-productive' in line with definitions produced by CIPFA.
- 2.3** During 2018-19, 689 work days took place; this was 32 days less than budgeted. One member of the audit team changed their working hours early in the year which resulted in a small reduction in the available resource.
- 2.4** There were 597 actual 'productive' days during 2018-19 and 92 'non-productive' days. At 87% of total actual days, this meant productive days were in line with the target.
- 2.5** This was in line with 2017-18, when productive days were also 87% of the total. The target for 2019-2020 has remained at 87%; based on experience in recent years, this is considered the optimum level of performance.

2.6 Two audits were withdrawn from the plan during the year with Audit and Scrutiny Committee approval – these related to ‘Procurement and Accounts Payable’ and ‘Community Benefits in the planning process’. Every other audit within the approved plan for 2018-19 was either completed during the year or was in progress at 31st March 2019; one draft report was with the client Service for agreement and a further 8 planned audits were still being worked on and will be completed within the first quarter of 2019-20.

2.7 Budget and actual days, together with the variance from budget, are shown against the main themes from the audit plan in the table below. A full analysis of the time spent on individual audits is provided at pages 7 to 11 of this annual report.

	Budget Days	Actual Days	Variance
Key Corporate Systems	50	39	11 days under
Other Systems	245	261	16 days over
ICT auditing	20	4	16 days under
Governance	55	45	10 days under
Performance Monitoring	15	20	5 days over
Regularity Audits	50	54	4 days over
Following the Public Pound	22	26	4 days over
Other Work	145	148	3 days over
Investigations/Contingencies	22	0	22 days under
TOTAL	624	597	27 days under

2.8 Audits of Key Corporate Systems were 11 days under budget; this was due to the withdrawal of the audit relating to ‘Procurement and Accounts Payable’ referred to at 2.6 above.

2.9 Other Systems audits were 16 days over budget – several audits required additional work, particularly those on Business Continuity and Commercial and Industrial Rents, although this was partly offset as a number of audits remained ongoing at 31st March.

2.10 The ICT audit was under budget as fieldwork was still in progress at the end of March.

2.11 Governance audits were 10 days under budget; this was due to the withdrawal of the audit relating to ‘Community Benefits in the planning process’ referred to at 2.6 above.

2.12 There was no requirement for the investigations/contingencies budget of 22 days during 2018/19.

2.13 In line with the Council’s defalcation procedures, all instances of suspected fraud and irregularity should be reported to Internal Audit. These are investigated by the specialist Corporate Fraud team and a separate report has been prepared on the work of that team.

3 Main Findings

3.1 Detailed below are the most significant findings from the audit work finalised during 2018-19.

3.2 Movers process

A review was carried out of the process around employees who change jobs within the Council, to ensure that controls were in place to ensure that they could only access systems and network folders that were required for their new roles.

Only limited assurance could be provided as it was found there is a significant risk that employees will continue to have access to personal and sensitive information which they do not require.

An action plan was accepted which will significantly reduce the risk and which is being implemented during 2019/2020.

3.3 Charging for Social Care services

The Director of Health and Social Care requested that an audit be carried out to identify whether all service users that should be getting charged for services were being charged.

It was identified that a number of service users, particularly on Arran, were not routinely being referred for financial assessments and some service users were not being billed due to resourcing issues.

The Health and Social Care Partnership is implementing an action plan which will address these issues.

3.4 Customer Services

This audit from the 2017/18 was concluded early in the 2018/19 financial year.

Concerns were identified around the user access controls for the Council's Customer Relationship Management system and a number of actions were implemented by Customer and Digital Services to address these issues.

3.5 Accounts Payable duplicate payments

A number of data analysis tests are conducted on the Council's Accounts Payable system on a bi-annual basis.

During 2018/19, this work identified a number of duplicate payments to suppliers with substantial combined value – however, these were not significant as a proportion of the overall payments made in the year. Internal Audit has worked with Corporate Procurement to identify the causes and reduce the level of duplicate payments moving forward.

3.6 These findings, together with those from other audits carried out, contribute to the assurance statement in section 6 of this report.

4 Audit Resources

- 4.1** The Internal Audit section is directly managed by the Team Manager (Internal Audit), who reports to the Senior Manager (Internal Audit, Risk and Fraud). The Senior Manager is responsible for Internal Audit, as well as Corporate Fraud, Risk Management, Insurance, Health and Safety and the Directorate Performance Management team within Finance and Corporate Support.
- 4.2** As well as the Team Manager, the team consisted of one full-time and one part-time Internal Auditor as well as a part-time Computer Auditor.
- 4.3** All staff within the section hold a relevant qualification, either through an institute which is part of the CCAB (Consultative Committee of Accountancy Bodies) or the IIA (Institute of Internal Auditors).

5 Performance

- 5.1** During 2018-19, Internal Audit provided quarterly updates on work carried out to the Council's Audit and Scrutiny Committee. Elected Members had the opportunity to discuss all Internal Audit reports and question either the Senior Manager or relevant officers from Council services. All Elected Members have access to full copies of all Internal Audit reports on a confidential basis through the Council's intranet.
- 5.2** The Council's performance management system, Pentana, is utilised to follow-up on audit recommendations. Officers with responsibility for implementing recommendations are required to update the Pentana system and updates are provided to the Audit and Scrutiny Committee on a quarterly basis. Where actions are overdue, officers may be required to attend the Committee to update Elected Members on plans to ensure that actions are implemented.
- 5.3** Internal Audit issues customer feedback questionnaires at the end of each audit assignment. This is designed to gather feedback from those who assisted with the audit and aims to help measure the effectiveness of audit work, ensuring it is targeted to best effect.
- 5.4** A range of performance indicators is used to monitor performance within the section and these are detailed in full on page 12, along with the two previous years' actual figures. These are tracked by the Team Manager on a quarterly basis and are discussed with all audit staff to review performance and identify opportunities for development.
- 5.5** Most importantly, the section continues to achieve its percentage of productive time as noted at 2.4 above.
- 5.6** Actual performance against the 'audits complete in budgeted days' indicator is significantly below target. This reflects the completion of individual audit assignments rather than the audit plan as a whole; other assignments which have been under budget have compensated.
- 5.7** Most of the audits which have been over budget have been only marginally so, although significant additional time was spent on Payroll and Accounts Payable transaction testing and audits of Business Continuity and Commercial and Industrial Rents, where the budgeted time was insufficient for the audit work required. The

budget has been increased in the five-year plan for the next time these audits are carried out. A change to the format of the audit report has been implemented for 2019-2020 which will reduce the time taken to prepare the reports and assist with keeping more audits under budget.

- 5.8** The Internal Audit section also calculates 2 annual performance indicators which are required by the CIPFA Directors of Finance group. These are as follows:

	2016-17	2017-18	2018-19
Productive days achieved per audit plan	72.2%	107.3%	95%
Cost of Internal Audit per £1m of net expenditure	£564.61	£497.05	tbc

- 5.9** The 'productive days achieved per the audit plan' were slightly lower in 2018-19 than 2017-18; as noted at 2.3 above, one member of staff reduced their working hours slightly during the audit year. In 2017-18, the Council was ranked 4th from 32 authorities.
- 5.10** The 'cost of Internal Audit per £1m of Council net expenditure' cannot be calculated until the closure of the Council's 2018-19 accounts. This will be reported as part of the Council's performance reporting arrangements at a later date. Based on the 2017-18 performance, the Council was ranked 2nd from 32 authorities and the cost was significantly below the Scottish average of £906.82. The Council was ranked 3rd in 2016-17.

6 Assurance statement

- 6.1** This statement on the adequacy and effectiveness of the frameworks of governance, risk management and internal control is based on the audit work performed during 2018-19 as reported above. It also draws on the experience of audit work carried out in earlier years as well as assurances received from management and external audit findings.
- 6.2** Internal Audit staff have carried out work, both on a corporate basis and within each of the Service groups and, subject to the comments in section 3 above, the conclusion drawn from that work was that most of the anticipated governance, risk management and internal control frameworks were in place and operating effectively.
- 6.3** Where Internal Audit identified opportunities for improvement, the responses received from managers continued to be positive and there was commitment to implementing Internal Audit's recommendations.
- 6.4** On this basis, it is my opinion that reasonable assurance can be placed on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.

Paul Doak
Senior Manager (Internal Audit, Risk and Fraud)
7th May 2019.

FINAL REPORT

PRODUCTIVE TIME - AUDIT PLAN

Key Corporate Systems	Audit Objective	Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Progress @ 31/03/19	Final Report issued	Report to Audit and Scrutiny
Procurement and Accounts Payable	Review controls within the Procurement and Accounts Payable section.	15	0	15	Audit withdrawn from plan.	n/a	n/a
General Ledger system	Review controls in the new Integra GL system.	15	19	-4	Finalised.	29/03/2019	28/05/2019
Income Collection	Carry out a review of the controls within the PARIS income collection system and within a range of income collection locations.	20	20	0	Finalised.	19/12/2018	29/01/2019
TOTAL AUDIT DAYS		50	39				

Other Systems	Audit Objective	Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Progress @ 31/03/19	Final Report issued	Report to Audit and Scrutiny
Members Allowances and Expenses	Consider the controls that are in place around the payment of allowances and expenses to the Council's elected members.	15	15	0	Finalised.	24/08/2018	25/09/2018
Regeneration	Carry out a review within the Regeneration section.	15	11	4	Fieldwork ongoing		
Revenues and Benefits	Review a range of controls within the Revenues and Benefits teams.	15	15	0	Finalised.	07/03/2019	26/03/2019
Business Continuity	Consider the adequacy of the Council's Business Continuity arrangements.	10	18	-8	Finalised.	19/12/2018	29/01/2019
Charging for Social Care Services	Carry out a detailed review of the application of the Council's Charging Policy for Social Care Services.	25	29	-4	Finalised.	31/01/2019	26/03/2019
Community based support	Review controls in relation to Community based support, with a particular focus on the use of the CM2000 system.	20	19	1	Fieldwork ongoing		
Aids and Adaptations	Review controls in relation to Aids and Adaptations within the Health and Social Care Partnership.	20	24	-4	Finalised.	13/02/2019	26/03/2019
Throughcare payments	Examine the controls around Throughcare payments within Finance and the Health and Social Care Partnership.	15	17	-2	Finalised.	18/06/2018	25/09/2018
Integration Joint Board audit days	Carry out audit work within the Health and Social Care Partnership as agreed by the Performance and Audit Committee of the Integration Joint Board.	15	11	4	Fieldwork ongoing		
Building Services stores controls	Examine the controls within the Building Services materials store.	10	11	-1	Fieldwork ongoing		
Facilities Management Commercial Income	Consider the controls around the collection of commercial income by Facilities Management.	15	16	-1	Fieldwork ongoing	29/04/2019	28/05/2019
Transportation	Review controls in the Transport Hub in relation to transportation, with a particular focus on the use of taxis.	15	19	-4	Finalised.	31/01/2019	26/03/2019
Roads stores controls	Examine the controls within the Roads materials store.	10	11	-1	Finalised.	09/10/2018	20/11/2018
Procurement and performance management of term contracts	Review the procurement and performance management of contracts by Property Management and Investment.	20	14	6	Fieldwork ongoing		
Sale of Council land and buildings	Review the sale of land and buildings by the Council.	10	8	2	Fieldwork ongoing		
Commercial and industrial rents	Review the governance arrangements and processes around commercial and industrial property rentals.	15	23	-8	Finalised.	08/10/2018	20/11/2018
TOTAL AUDIT DAYS		245	261				

ICT Auditing	Audit Objective	Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Progress @ 31/03/19	Final Report issued	Report to Audit and Scrutiny
Cyber resilience	Review the Council's cyber resilience arrangements.	20	4	16	Fieldwork ongoing		
TOTAL AUDIT DAYS		20	4				

Governance	Audit Objective	Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Progress @ 31/03/19	Final Report issued	Report to Audit and Scrutiny
Community Association accounts	Review the accounts and monitoring information submitted by a sample of Community Associations.	5	3	2	Finalised.	n/a	n/a
Community Benefits (planning process)	Consider the use of community benefits within the planning application process.	15	1	14	Audit withdrawn from plan.	n/a	n/a
Movers process	Review the controls around employees who move job within the Council, with a particular focus on access to personal and sensitive information.	20	25	-5	Finalised.	31/01/2019	26/03/2019
PVG and Disclosure checking	Carry out a review of the controls which are in place in relation to PVG and Disclosure checking.	15	16	-1	Draft report with Service	01/04/2019	28/05/2019
TOTAL AUDIT DAYS		55	45				

Performance Monitoring	Audit Objective	Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Progress @ 31/03/19	Final Report issued	Report to Audit and Scrutiny
Performance indicators	Provide assurance on the robustness and accuracy of a sample of indicators.	15	20	-5	Finalised.	31/10/2018	20/11/2018
TOTAL AUDIT DAYS		15	20				

Regularity Audits	Audit Objective	Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Progress @ 31/03/19	Final Report issued	Report to Audit and Scrutiny
Primary Schools	Review financial controls within the Council's primary schools using self-assessment audit questionnaires and investigate any concerns which arise.	30	31	-1	Finalised.	21/12/2018	29/01/2019
Accounts Payable transaction testing	Use computer audit software to interrogate the HR/Payroll system and examine any anomalies which arise.	10	11	-1	Finalised.	n/a	n/a
Payroll transaction testing	Use computer audit software to interrogate the Accounts Payable system and examine any anomalies which arise.	10	12	-2	Finalised.	n/a	n/a
TOTAL AUDIT DAYS		50	54				

Following the Public Pound	Audit Objective	Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Progress @ 31/03/19	Final Report issued	Report to Audit and Scrutiny
Community Councils	Annual audit of Community Councils accounts' to ensure Council funding is used in accordance with the Council's Scheme of Administration.	10	15	-5	As required.	n/a	n/a
Footwear and Clothing Grants	Review the new electronic Footwear and Clothing Grants process.	10	9	1	Finalised.	07/03/2019	26/03/2019
Tenants and Residents Associations	Annual audit of the accounts of various Tenants and Residents Associations.	2	2	0	As required.	n/a	n/a
TOTAL AUDIT DAYS		22	26				

Other Work	Audit Objective	Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Progress @ 31/03/19
Prior year audit work	Completing audits from the previous year's audit plan that were not fully complete by the end of March 2018 or starting audits early from the 2019/20 audit plan.	20	42	-22	All 18/19 audits were finalised within Q1.
Audit consultancy: ad-hoc advice	Providing advice to council services in response to ad-hoc queries	12	13	-1	As required.
Audit consultancy: project work	Participating in project work to support developments in other council services.	30	17	13	As required.
Follow-up	Follow up of previous audit reports to ensure that appropriate action has been taken.	15	12	3	As required.
Audit planning and monitoring	Preparing audit plans and monitoring progress and performance against plans.	20	28	-8	As required.
Audit and Scrutiny Committee	Supporting the Council's Audit and Scrutiny Committee by preparing reports, attending meetings and delivering training for elected members as required.	25	26	-1	As required.
Governance documents	Review of governance documents	5	2	3	As required.
Development of the Audit service	Carry out developmental work to further enhance the efficiency of the audit section.	5	6	-1	As required.
Internal Audit self-assessment against PSIAS	Undertake a quality assurance programme for Internal Audit in line with the requirements of the Public Sector Internal Audit Standards (PSIAS).	2	0	2	As required.
Grant claims	Certification of expenditure funded by specific grants from external funding bodies	8	1	7	As required.
Annual Accounts	Work in relation to the Council's annual accounts, including stock counts, reviewing imprests and preparing the Annual Governance Statement.	3	1	2	As required.
TOTAL AUDIT DAYS		145	148		

TOTAL	PRODUCTIVE TIME - AUDIT PLAN	602	597
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PRODUCTIVE TIME - CONTINGENCIES AND INVESTIGATIONS

Special Investigations	Audit Objective	Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Progress @ 31/03/19	Final Report issued	Report to Audit and Scrutiny
0			0				

TOTAL	PRODUCTIVE TIME - CONTINGENCIES AND INVESTIGATIONS	22	0
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PRODUCTIVE TIME - RESERVE AUDITS

Reserve Audits	Audit Objective	Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Progress @ 31/03/19	Final Report issued	Report to Audit and Scrutiny
Library and Information service	Review a range of controls within the Library and Information service.	15	0	15			
Burials and Bereavements	Review a range of controls within the Burials and Bereavements team.	10	0	10			
Additional Special Needs schools	Review controls within the Council's additional special needs schools establishments.	15	0	15			

TOTAL	PRODUCTIVE TIME - RESERVE AUDITS	40	0
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NON-PRODUCTIVE TIME

		Planned Audit Days	Actual Days @ 31/03/19	Variance Fav / (Adv)	Current Progress @ 31/03/19
Management		18	18	0	On target.
Administration		22	23	-1	On target.
Meetings		39	32	7	Less time than planned was spent on meetings.
Training		18	19	-1	On target.

TOTAL	NON-PRODUCTIVE TIME	97	92
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TOTAL DAYS	721	689
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	ANNUAL BUDGET	ACTUAL to 31/03/2019
PRODUCTIVE DAYS	624 87%	597 87%
NON-PRODUCTIVE DAYS	97 13%	92 13%
TOTAL DAYS	721 100.0%	689 100.0%

Internal Audit Performance Indicators

	2016/17 Actual	2017/18 Actual		2018/19 Target	2018/19 Actual
% of auditor time spent productively	87%	87%		87%	87%
Training days per auditor	1.7 days	5.0 days		3.6 days	3.7 days
Final reports issued	30	24		n/a	27
Audits completed within budgeted days	67%	46%		75%	41%
Draft reports issued within 21 days of fieldwork completion	96%	92%		100%	81%
Final reports issued within 14 days of return of action plan	90%	96%		100%	96%
Actions implemented on time by Council services	85%	86%		80%	83%
Ad-hoc requests for advice from Council services	30 requests	72 requests		n/a	60 requests