

EAST RENFREWSHIRE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

26 September 2024

Report by Chief Auditor

INTERNAL AUDIT ANNUAL REPORT 2023/24

PURPOSE OF REPORT

1. To submit to Members an annual report on the activities of internal audit during 2023/24 and to provide an independent audit opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control systems based on work undertaken in 2023/24.

BACKGROUND

2. The internal audit service is an autonomous unit within the Chief Executive's Office. The service objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of the council's resources. Independence is achieved through the organisational status of internal audit and the objectivity of internal auditors. The council's financial regulations require that an annual report containing an assurance statement and summarising internal audit's activities during the year is submitted to the Audit and Scrutiny Committee.

ANNUAL REPORT 2023/24

3. The 2023/24 strategic audit plan was approved by the Audit and Scrutiny Committee in March 2023. Due to reduced staff resources, some audits in the plan were not completed but priority was given to the audits which would give most assurance that internal controls continued to operate satisfactorily. The attached annual report (Appendix 1) summarises the audit work carried out during the year. The internal audit annual statement of assurance is contained within appendix A of the report. This concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the council's governance, risk management and internal control systems in the year to 31 March 2024.

RECOMMENDATION

4. The Committee is asked to note the annual statement of assurance on the adequacy of governance, risk management and internal control systems and submit it to the Council.

5. The Committee is asked to note the contents of internal audit's annual report 2023/24.

Further information is available from Michelle Blair, Chief Auditor, telephone 0141 577 3067.

M Blair, Chief Auditor
2 September 2024

APPENDIX 1

INTERNAL AUDIT ANNUAL REPORT 2023/24

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Chief Auditor
2 September 2024



INTERNAL AUDIT ANNUAL REPORT 2023/24

1. INTRODUCTION

- 1.1 The responsibilities and duties of Internal Audit are summarised in the Council's Financial Regulations which state:

'The primary role of Internal Audit is to provide assurance to the Council on the adequacy of its control environment. Internal Audit will carry out independent examinations of financial and related systems of the Council to ensure the interests of the Council are protected.'

- 1.2 Internal Audit's purpose, authority and responsibilities are set out in more detail in the Audit Charter.
- 1.3 Internal Audit activity during the year was based on the planned work contained in the Annual Audit Plan initially approved by the Audit and Scrutiny Committee in March 2023. The Annual Plan was derived from the 5 year rolling Strategic Audit Plan which is compiled following a risk based internal audit needs assessment and following consultation with members of the Corporate Management Team, External Audit and elected members.
- 1.4 There are five established posts within the audit service (4.7FTE) of which four employees (3.7 FTE) will hold a relevant professional qualification. There was one vacant post at the year end which has now been filled.
- 1.5 The service operates in compliance with the Public Sector Internal Audit Standards (PSIAS) which first came into effect on 1 April 2013 and were revised in 2017.
- 1.6 The assistance afforded by council staff to Audit during the course of work carried out in 2023/24 is gratefully acknowledged and senior management and elected members are thanked for the due regard given to the work of internal audit.

2. INTERNAL CONTROL FRAMEWORK

- 2.1 In order to ensure the proper conduct of its business, the Council has a responsibility to develop and implement systems of internal control. The presence of an effective internal audit function contributes towards, but is not a substitute for, effective controls and it remains primarily the responsibility of line management to ensure that internal controls are in place and are operating effectively. A sound control system will help safeguard assets, ensure records are reliable, promote operational efficiency and ensure adherence to Council policy and procedures. Such systems of internal control can provide only reasonable and not absolute assurance against loss.
- 2.2 As part of its Standing Orders and in order for the business of the council to be dealt with in an efficient manner, the council has in place both a Scheme of Administration and Scheme of Delegated Functions. The former indicates the business to be dealt with by the various bodies of the council, whilst the latter gives details of the authority delegated to officers by the council. In addition to this, a comprehensive set of approved Financial Regulations (last reviewed June 2023) are in place, which ensure that the financial administration of the council is dealt with in a proper manner. The council's Financial Regulations incorporate the requirement that an Annual Audit Report showing the activity of the Internal Audit service and progress achieved against the plan shall be presented to the Audit and Scrutiny Committee each year. Contained within this report shall be an assurance statement to the Council on the adequacy of controls. Whilst audit work is also carried out on behalf of the Integration Joint Board

and the East Renfrewshire Culture and Leisure Trust, fundamental responsibility is to the management of the Council should there be any potential conflict.

- 2.3 The Audit and Scrutiny Committee’s terms of reference require it to evaluate the internal control environment and provide an annual statement to the Council. To assist with this evaluation, Internal Audit is required to provide the Audit and Scrutiny Committee with an annual statement on the adequacy and effectiveness of internal control.

3. ACHIEVEMENT OF ANNUAL AUDIT PLAN

- 3.1 Internal audit activity during the year was impacted by reduced staff resources. Eight audits in the plan were unable to be completed during the year and agreement to delete or defer these were approved by the Audit and Scrutiny Committee in February 2024. Most of these will now be undertaken in 2024/25.

The results of internal audit’s progress against the annual plan has been reported to Audit and Scrutiny Committee quarterly and is summarised in Appendix C.

The original 2023/24 plan provided 594 (639 2022/23) direct audit days (i.e. excluding 241 days for planning, reporting, administration, training, consultancy work, seminars, secondments, induction and meetings) spread across various audit activities and council departments. The actual number of audit days achieved was 375. Details of audit work carried out analysed by type of audit is shown in table 1 below.

Table 1 – Audit Work by Type of Audit

Type of Audit	Original Planned Days 2023/24	Actual Days 2023/24	Variance in days (Planned to actual)
Systems and Regularity	328	270	58
Contract	20	0	20
Computer	36	26	10
General and Fraud Contingency	100	13	87
Performance Indicators	10	10	0
Follow up of previous year	50	31	19
Grant Certification	15	0	15
Trust	20	20	0
IJB	15	5	10
Total	594	375	219

- 3.2 Despite a reduction of planned audits being completed, internal audit issued 18 Council reports and memos relating to 2023/24 audit work which contained in excess of 160 recommendations in total, of which 14 were designated high risk. Details of reports issued were included in the quarterly progress reports during the year once the departmental responses had been received. Nine of the reports were issued after the year end and details of all of these have now been provided in the quarterly progress reports apart from the Application Audit of Payroll report which will be included in the next progress report. Satisfactory responses have now been received for all audit reports relating to 2023/24.

- 3.3 There were only two reports where the recommendations were not fully accepted.

- 3.4 One recommendation within the Environment Follow up report (1193NS) was not accepted. The recommendation related to a review of grounds maintenance contracts to identify private land being maintained by the Council. This was classified as low risk and the management response indicated the level of skill required to carry out the exercise was not available and was unlikely to be prioritised to be resourced as it was low risk.
- 3.5 The other recommendation not accepted was within the Payroll report (1194FM) and was also classified as low risk. The recommendation was in relation to guidance in how overpayment repayment levels should be set but management responded that it was inappropriate as assumptions could not be made about personal financial circumstances and cases would be assessed on a case by case basis.
- 3.6 Details of these recommendations have already been included in previous quarterly progress report and discussed by the Audit and Scrutiny Committee. Management responses in both cases were deemed satisfactory.
- 3.7 Internal audit's approach always attempts to be constructive and this appears to have been welcomed by departments. A good working relationship exists between internal audit and the council's appointed external auditors.

4. SUMMARY OF AUDIT ACTIVITIES 2023/24

- 4.1 Internal Audit carried out a range of activities throughout the year, however systems and regularity based reviews continue to represent two of the main elements of planned activity. Systems reviews focus on identifying, assessing and testing the adequacy and effectiveness of controls in place to ensure the underlying objectives of the system are met whereas regularity focuses more on compliance testing. The key systems and regularity audits carried out were as follows:
 - Housing Benefits
 - Rent Accounting
 - Payroll
 - IT Asset Management
 - Council Tax – billing and collection
 - Application Audit of Council Tax
 - Application Audit of Payroll
- 4.2 Overall, the audit findings of these areas suggested that whilst some weaknesses were identified and some elements of control were only partially in place, when taken with other findings they did not significantly impair the overall systems of internal control in the areas reviewed.
- 4.3 Due to timing of issue of the Payroll Application Audit, the summary details have not yet been provided to audit and scrutiny committee members as part of any progress report. This will be included in the next progress report and it should be noted that eight recommendations were made, none of which were classified as high risk.
- 4.4 Some other types of audit were also carried out such as regularity and performance indicators. Following each audit, a report detailing appropriate recommendations to address weaknesses in systems and procedures was issued. In general, audit results suggested that although errors and weaknesses were often noted they were not considered to be generally indicative of absent or inadequate controls and that broadly, the level of compliance was satisfactory.
- 4.5 **Follow-up audits:** An ongoing programme of follow-up audits is normally carried out to ensure that recommendations previously made by Internal Audit and accepted by management have been implemented. Six follow up audits were carried out during the year. No responses are outstanding in relation to follow-up audit reports issued during the year. A complete copy of all follow up reports and the associated

departmental responses have previously been circulated to Audit and Scrutiny Committee members during the year.

- 4.6 **General contingency:** One request for assistance was dealt with using general contingency time during the year. This related to council tax direct debits being taken early in error. A report was issued detailing controls that needed to be improved to reduce the risk of this recurring. Some time was also used subsequently to assist the service to automate spreadsheets they were already using to reduce likelihood of future human error.
- 4.7 **Fraud contingency:** Internal Audit also has responsibility for investigating as appropriate all alleged frauds and irregularities which have been brought to audit's attention in accordance with the Council's Anti-Fraud, Bribery and Theft Strategy. The number of frauds and irregularities and the level of resources required to investigate them are always difficult to estimate. Only one potentially fraudulent matter was brought to Audit's attention by a whistleblower. This was investigated internally during the year and dealt with appropriately by management.
- 4.8 Frauds and irregularities included in Audit Scotland's quarterly Fraud Digests were also considered in relation to practices within the Council, to proactively try and identify potential weaknesses and ensure that appropriate measures have been taken or are in place to prevent these happening within East Renfrewshire.

5. COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

- 5.1 In 2023/24, an external assessment of PSIAS was carried out and submitted to the Audit and Scrutiny Committee in January 2024. The results of that review confirmed that the Internal Audit function generally complies with the main requirements of PSIAS.
- 5.2 A Quality Assurance and Improvement Plan (QAIP) was prepared as part of the most recent external assessment in 2024 and this is included Appendix D. Progress against implementing the recommendations is detailed within this plan. Six recommendations were made.
- 5.3 One of the requirements of the PSIAS is that the internal audit service must be free from interference in determining the scope of internal auditing, performing work and communicating results. I can confirm that during 2023/24, the internal audit service has operated without any such interference.
- 5.4 Another requirement of PSIAS is that the internal audit function is adequately resourced. The Internal Audit team is now adequately and fully resourced with no vacant posts.

6. INTERNAL AUDIT PERFORMANCE INDICATORS

- 6.1 A range of key performance indicators are used to measure Internal Audit's performance. Some of these indicators have been reported to the Audit and Scrutiny Committee on a quarterly basis, whereas it is only appropriate to report others on an annual basis.
- 6.2 A summary of all the indicators is given in Appendix B with the targets and actual achievement for the full year. Three of the targets were not met;
- 2.1 which measures actual direct audit days compared to planned days,
 - 2.2 which measures direct audit days compared to total days available
 - 5.2 which measures the time to complete an audit.

The factors that impacted Internal Audit's ability to meet its performance targets included:

- responses from departments for some audits to allow reports to be cleared.
- reduced internal audit staff resources during the year due to two vacant posts which have now been filled.

7. ANNUAL INTERNAL AUDIT OPINION

- 7.1 There is a formal requirement for the Chief Auditor to prepare an annual report which contains an assurance statement on the adequacy of governance, risk management and internal control systems. Such systems need to be monitored so that management and Members may be sure that they continue to be effective. Monitoring of controls is done at a number of levels, for example, assessment by line management, internal audit and external audit review and subsequent reporting to management of identified weaknesses and recommendations, and monitoring by the Audit and Scrutiny Committee. If monitoring of control is to be effective, then senior management must foster an environment where internal control is the responsibility of all staff.
- 7.2 The Internal Audit Annual Statement of Assurance is included in Appendix A. The evaluation of the control environment is informed by a number of sources as detailed in the appendix.
- 7.3 In reviewing these different sources of evidence, consideration has to be given as to whether any key controls are absent or ineffective and when taken together with other findings, would lead to the conclusion that the overall system of control has been significantly impaired as a result.
- 7.4 Based on the information available, the formal annual statement of assurance did not lead me to conclude that the Council's overall systems of governance, risk management and internal control were significantly or materially impaired during 2023/24.

8. CONCLUSION

- 8.1 The 2023/24 audit year was challenging for Internal Audit as the audit plan was again substantially impacted by reduced staffing. However, all posts are now filled. Eight audits were deleted from the plan as indicated in appendix C, however sufficient audits were able to be completed to allow an opinion to be given in the annual statement of assurance.

APPENDIX A**INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE FOR 2023/24**

As Chief Auditor of East Renfrewshire Council, and in line with the revised Public Sector Internal Audit Standards (PSIAS), I am pleased to present my annual statement on the overall adequacy and effectiveness of the governance, risk management and control systems of the Council for the year ended 31 March 2024.

Respective Responsibilities of Management and Internal Audit in relation to Governance, Risk Management and Internal Control

It is the responsibility of the Council's senior management to establish appropriate and sound systems of governance, risk management and internal control and to monitor the continuing effectiveness of these systems.

It is the responsibility of the Chief Auditor to provide an independent annual overall assessment of the robustness of governance, risk management and internal control.

The Council's Framework of Governance, Risk Management and Internal Controls

The main objectives of the Council's framework of governance, risk management and internal control are:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of governance, risk management and internal control.

The work of Internal Audit

Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control in all service areas as a contribution to the proper, economic, efficient and effective use of the Council's resources.

During 2023/24, the internal audit service operated in accordance with the revised Public Sector Internal Audit Standards (PSIAS). In particular, the service operated free from interference in determining the scope of internal audit, performing work and communicating results. An external peer assessment was carried out by South Lanarkshire Council and was presented to the Audit and Scrutiny Committee in January 2024. The results of this review concluded that the internal audit section generally conforms with the PSIAS.

The service undertakes an annual programme of work approved by the Audit Committee based on a five year strategic plan. The strategic plan is based on a formal risk based audit needs assessment which is revised on an ongoing basis to reflect evolving risks and changes within the Council.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that an appropriate action plan is provided in response to audit recommendations. Internal Audit is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Key matters arising from internal audit work are reported to the Chief Executive and the Council's Audit and Scrutiny Committee. Follow up work is carried out by Internal Audit to ensure that recommendations previously accepted by management have been implemented. Copies of these reports are circulated to members of the Audit and Scrutiny Committee.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by Internal Audit during the year to 31 March 2024 and material findings since the year end
- The audit work undertaken by Internal Audit in previous years and follow up work to assess implementation of agreed actions
- The assessment of risk completed during the preparation of the strategic audit plan
- Assessments of the general control environment within individual departments as completed by each director
- Reports issued by the Council's external auditors and other review and inspection agencies
- Knowledge of the Council's governance, risk management and performance monitoring arrangements
- Any other items brought to the attention of internal audit staff by whatever means which may warrant further investigation.

Opinion

It is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and internal control for the year ended 31 March 2024.

Michelle Blair FCA
Chief Auditor

2 September 2024

Internal Audit Performance Indicators 2023/24

Indicator	Definitions (where required)	Target (where applicable)	Actual 2023/24	Actual 2022/23	Actual 2021/22
1. Cost					
1.1 Cost of Internal Audit per productive day.	Productive days are those spent on direct audit activities.	-	£554	£479	£499
2. Audit Coverage					
2.1 Actual direct audit days as a % of planned direct audit days per the plan.	Planned direct audit days as detailed in the strategic audit plan.	100%	64%	71%	81%
2.2 Actual direct audit days as a percentage of total days available.	Days available exclude public holidays, annual leave and sickness absence.	75%	71%	78%	76%
2.3 Number of requests for assistance/ queries raised by departments outwith planned audit work.	This will generally include most items met from general and fraud contingency. This is contextual information only.	-	2	8	8
2.4 Percentage of planned contingency time used.	Actual contingency time used as a percentage of total planned contingency time. This is mainly for contextual information.	<100%	13%	47%	76%
3. Quality					
3.1 Number of questionnaires issued during the year. (Note: questionnaire sent electronically so this now records the number of responses)			0	0	0
3.2 Percentage of customer questionnaires with overall rating of satisfactory or better.		90%	n/a	n/a	n/a
3.3 Percentage of established audit posts (FTE) at year end filled by staff with relevant professional qualification.		45%	57%	37%	57%
4. Achievement of Plan	Total number of audits defined as number per strategic annual plan. Number achieved defined as number of audits from plan which were started during the year.				
4.1 No of audits achieved as a percentage of all audits planned during the year.		90%	70%	80%	70%
5. Issue of Reports					
5.1 Number of audit reports issued		-	18	26	18
5.2 Average time in weeks from start of fieldwork to issue of report.	Start of fieldwork defined as when auditor starts gathering information or preparing file. Initial phone call to set up the audit would not be counted as start of fieldwork.	12 weeks	15.8 weeks	16 weeks	20 weeks
5.3 Average time taken to issue report (working days).	Speed of issue of report is measured from date file is handed to Chief Auditor for review to date of issue of report. GENERAL Average weeks calculated as working days divided by 5. Working days exclude weekends, public holidays, annual leave, training and sickness absence.	10 working days	9.7 working days	10 working days	10 working days

EAST RENFREWSHIRE COUNCIL
Internal Audit Section
ACHIEVEMENT OF ANNUAL AUDIT PLAN FOR 2023/24

Department	Title	Audit Number	Original No. of days	Status
Chief Executives				
Business Operations & Partnerships	Payroll	1	28	Complete
	Payroll application audit	2	18	Complete
	Creditors	3	10	DELETED
	Debtors Control	4	10	DELETED
	Housing Benefits/Universal Credit	5	20	Complete
	Council Tax application audit	6	18	Complete
	IT asset management	7	20	Complete
	Council Tax Billing and Collection	8	24	Complete
Education	Early Learning and Childcare Payments	9	15	DELETED
	Schools cluster	10	38	Complete
Environment	Commercial Rent	11	20	DELETED
	Grant certification	12	15	DELETED
	City Deal	13	15	Complete
	Climate Change Report	14	5	Complete
	Energy and Fuel	15	20	DELETED
Housing	Housing Rent Accounting	16	20	Complete
HSCP	Payments to Care Provider	17	25	DELETED
	HSCP Emergency Payments	18	8	Complete
	Thornliebank Resource Centre	19	10	Complete
	IJB	20	15	Complete
Trust	Culture and Leisure Limited Trust	21	20	Complete
Various	Contract 1 TBA	22	20	DELETED
	Fraud contingency	23	70	Complete
	General Contingency	24	30	Complete
	LG Benchmarking Framework	25	10	Complete
	Follow up	26	50	Complete
	Previous year audits	27	40	Complete
			594	

DELETED – these audits were deleted from the 2023/24 plan (Audit and Scrutiny Committee 22/2/24)

QUALITY ASSURANCE IMPROVEMENT PLAN – EXTRACT FROM EXTERNAL ASSESSMENT 2024

No.	Recommendation	Management Response	Responsible Officer / Agreed Completion Date	Comment on Progress
1	<p>The Charter should be updated to reflect the revised PSIAS (2017) and reviewed to:</p> <p>include a statement regarding the Mission of Internal Audit and to:</p> <p>provide a definition of the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation.</p>	Agree to update Charter to reflect requirements as stated in PSIAS	Chief Auditor June 2024	Completed Revised Charter submitted to September 2024 Audit and Scrutiny Committee
2	The audit plan should incorporate a strategic high-level statement of how the internal audit service will be delivered in accordance with the Internal Audit Charter.	Agreed	Chief Auditor June 2024	Completed – a high level statement was included in the plan submitted to committee in March 2024.
3	An assurance mapping exercise of how the Internal Audit Plan links to the organisation's strategic and organisational top risks should be completed and presented along with the Annual Plan each year.	Consideration will be given to providing narrative on how the internal audit plan links to the organisation's strategic top risks where appropriate.	Chief Auditor June 2024	Completed – a comment on link to strategic risk register was included in the plan submitted to committee in March 2024.
4	Audit remits should be expanded to include the scope of work; resources allocated; risks relevant to the engagement along with further detail as to how audit work relates to the Council's risks, strategies and objectives.	Agree to extend audit remits to include scope, resources and risks. Will consider adding reference to Council's risks and strategies where relevant.	Chief Auditor June 2024	Not yet implemented - revised target date of December 2024
5	Audit reports should record a formal audit opinion that align to the various classifications of audit opinion within the annual report.	Agreed, I will implement this for 2024/25 audits.	Chief Auditor April 2024	Not yet implemented – revised target date of December 2024
6	The timing of the presentation of the Internal Audit Annual Report should be aligned to that of the Committee receiving the Council's draft unaudited accounts so that the Chief Auditor's opinion, for the relevant financial year, is captured within the draft Annual Governance Statement (AGS).	The Chief Auditor will aim to submit the Internal Audit Annual Report to the June meeting of the Audit and Scrutiny Committee each year where possible.	Chief Auditor June 2024	Ongoing 2023/24 annual plan was submitted to September meeting but will aim to submit earlier in future year.