

EAST RENFREWSHIRE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****11 August 2022****Report by Chief Auditor****INTERNAL AUDIT ANNUAL REPORT 2021/22****PURPOSE OF REPORT**

1. To submit to Members an annual report on the activities of internal audit during 2021/22 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 2021/22.

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 2021/22

3. The 2021/22 strategic audit plan was approved by the Audit and Scrutiny Committee in June 2021. Due to reduced staff resources and some continuing restrictions due to Covid, 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 2022 except for one area. This is the area still under investigation by Police Scotland, though it is noted that the periods under investigation were prior to 2021/22.

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 2021/22.

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

M Blair, Chief Auditor
26 July 2022

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APPENDIX 1

INTERNAL AUDIT ANNUAL REPORT 2021/22

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Chief Auditor
26 July 2022



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INTERNAL AUDIT ANNUAL REPORT 2021/22**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 June 21. The Annual Plan was initially 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.
- 1.5 The service operates in compliance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013.
- 1.6 The assistance afforded by council staff to Audit during the course of work carried out in 2021/22 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 March 2022) 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 severely impacted due to reduced staff resources. Several audits in the plan were unable to be completed during the year and most of these will now be undertaken in 2022/23. 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 D.

The original 2021/22 plan provided 661 (733 2020/21) direct audit days (i.e. excluding 251 days for planning, reporting, administration, training, consultancy work, seminars, secondments and meetings) spread across various audit activities and council departments. The actual number of audit days achieved was only 536. 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 2021/22	Actual Days 2021/22	Variance in days (Planned to actual)
Systems and Regularity	403	398	(5)
Contract	20	0	(20)
Computer	28	9	(19)
General and Fraud Contingency	100	76	(24)
Performance Indicators	10	15	5
Follow up of previous year	50	15	(35)
Grant Certification	15	0	(15)
Trust	20	21	1
IJB	15	2	(13)
Total	661	536	125

- 3.2 Despite a significant reduction of planned audits being completed, internal audit issued 18 reports and memos relating to 2021/22 audit work which contained in excess of 150 recommendations in total. Details of all reports issued were included in the quarterly progress reports during the year. Nine of the reports were issued after the year end. Satisfactory responses have now been received for all audit reports relating to 2021/22 which were issued apart from two (debtors and housing benefits) where the due date for responses has not yet passed.
- 3.3 Subject to the responses from the two audits where responses are still outstanding, there was one report (Environmental Controls – Education) where management did not accept all of the recommendations contained in the report. In total, two recommendations were not accepted but reasonable explanations were provided to support the response and therefore responses were considered satisfactory. The recommendations were both classified as medium risk and related to the siting of servers at two primary school locations. The departmental response indicated that a review of servers is currently being undertaken by ICT and the proposal is to move

servers to high schools. Full details of these responses were included in the quarterly progress report to June 2022.

- 3.4 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 Audit Scotland, the council's appointed external auditors. Information on audit planning and the progress of audit work is regularly exchanged on an informal basis which helps avoid duplication of effort and maximises audit resources.

4. SUMMARY OF AUDIT ACTIVITIES 2021/22

- 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:

- | | |
|--------------------|--|
| • Debtors | • Council Tax – reductions and liabilities |
| • Payroll | • Cash Income and Banking |
| • Housing Benefits | • Gas servicing |
| • Housing Repairs | |

- 4.2 Overall, the audit findings 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 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.

- 4.4 **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. Only two follow up audits were carried out during the year covering the Environment Department and the IJB. No responses are outstanding in relation to follow-up audit reports issued during the year. A full copy of the Environment follow up report and the associated departmental responses have previously been circulated to Audit and Scrutiny Committee members.

- 4.5 **General contingency:** Five specific requests for assistance/consultancy or guidance on queries/anomalies were received during the year, none of which resulted in actual financial loss to the council. Contingency time was also used to assist the core systems and other teams in relation to new systems being implemented.

- 4.6 **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. Three potentially fraudulent matters brought to Audit's attention were investigated during the year using budgeted fraud contingency

time. The first two cases did not warrant further action after the initial investigation and neither involved financial loss to the Council. The third case related to theft of council property from council premises valued at an estimated £300 and was reported to Police Scotland.

- 4.7 In addition, there was a potentially fraudulent case which was primarily investigated during 2021/22 but was started at the end of 2020/21. This case was therefore not counted within the three fraudulent matters mentioned above but used a large portion of fraud contingency time in 2021/22. This case involved significant potential cost or loss to the Council and has previously been brought to the attention of Audit and Scrutiny Committee members. This case is still under investigation by Police Scotland and therefore the current position is still that no further information can be provided at this time.
- 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 2017/18, an external assessment of PSIAS was carried out and submitted to the Audit and Scrutiny Committee in June 2018. The results of that review confirmed that the Internal Audit function has sound documentation standards and reporting procedures in place and complies with the main requirements of PSIAS.
- 5.2 An internal self-assessment of compliance with PSIAS was subsequently carried out and the results presented to the Audit and Scrutiny Committee in June 2019. The self-assessment concluded that the internal audit service were fully compliant with 95% of the standards and partially compliant with a further 4%. This is broadly in line with the findings of the external assessment. The self-assessment was reviewed in July 2020 and August 2021 which confirmed the levels of compliance previously reported.
- 5.3 A revised Quality Assurance and Improvement Plan (QAIP) was prepared as part of the most recent self-assessment review and is included in Appendix C. All actions are now fully implemented.
- 5.4 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 2021/22, the internal audit service has operated without any such interference.

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,
 - 4.1 which measures percentage of planned audits that are completed and
 - 5.2 which measures the time to complete an audit.

A number of factors impacted Internal Audit's ability to meet its performance targets including:

- accessibility issues to both buildings and officers within services being audited impacting on the ability to conduct audits in a timeous manner.
- slow responses from departments for some audits to allow reports to be cleared.
- reduced internal audit staff resources due to long term illnesses.
- several new key systems being implemented.

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 2021/22 except for the area still under investigation by Police Scotland.

8. CONCLUSION

- 8.1 The 2021/22 audit year was particularly challenging for Internal Audit as the audit plan was substantially impacted by reduced staffing levels due to long term illnesses, and to a lesser extent, remaining covid restrictions which impacted on the ability to carry out audits in some areas. Despite this, sufficient audits were able to be completed to allow an opinion to be given in the annual statement of assurance. The level of performance achieved against the indicator targets set given the restrictions that were in place were largely outwith the control of the service.

APPENDIX A

INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE FOR 2021/22

As Chief Auditor of East Renfrewshire Council, and in line with the 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 2022.

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 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 2021/22, the internal audit service operated in accordance with the 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. A self-assessment was carried out and submitted to the Audit and Scrutiny Committee in August 2021. This review concluded that the internal audit service continues to operate in compliance with the Public Sector Internal Audit Standards. A quality assurance improvement plan was developed to further enhance compliance and is included within the appendices. All actions are now fully implemented.

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 2022 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

Completing audits from the 2021/22 audit plan was particularly challenging for the audit team due to severely reduced staff resources and the continuing challenges of completing audits remotely and obtaining information from departments. Eight audits were deleted from the plan as indicated in appendix D, all other audits have now been completed and issued. It is therefore 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 2022 except for one area. This area is still under investigation by Police Scotland. It is noted that the periods under investigation are all prior to 2021/22.

Michelle Blair FCA
Chief Auditor

26 July 2022

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Internal Audit Performance Indicators 2021/22

Indicator	Definitions (where required)	Target (where applicable)	Actual 2021/22	Actual 2020/21	Actual 2019/20
1. Cost					
1.1 Cost of Internal Audit per productive day.	Productive days are those spent on direct audit activities.	-	£499	£647	£435
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%	81%	49%	84%
2.2 Actual direct audit days as a percentage of total days available.	Days available exclude public holidays, annual leave and sickness absence.	75%	76%	50%	75%
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.	-	8	8	12
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%	76%	58%	48%
3. Quality					
3.1 Number of questionnaires issued during the year. (Note: questionnaire sent electronically so this now records the number of responses)			0	27	0
3.2 Percentage of customer questionnaires with overall rating of satisfactory or better.		90%	n/a	93%	n/a
3.3 Percentage of established audit posts (FTE) at year end filled by staff with relevant professional qualification.		45%	57%	57%	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%	44%	86%
5. Issue of Reports					
5.1 Number of audit reports issued		-	18	14	33
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	20.0 weeks	26.2 weeks	14.9 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	10.0 working days	22.8 working days	15.0 working days

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QUALITY ASSURANCE IMPROVEMENT PLAN (QAIP) AS AT JULY 2022

Ref	Source (SA – Self Assessment EA – External Assessment)	Finding	Proposed action/recommendation	Progress	Target Date
1	SA 2019	Standard 2430 Use of “Conducted in Conformance with the PSIAS” only if the results of the QAIP support such a statement	Include a statement in all audit reports that the audit has been conducted in conformance with PSIAS.	Implemented Included in all audit reports issued after 1 April 2020 and some prior to this.	N/A
2	SA 2020	Standard 2410 Criteria for Communicating – if assurance is to be provided to other partnership organisations, it should be demonstrated that fundamental responsibility is to the management of the Council.	A statement to reflect this will be included in the Annual Report.	Implemented Comment was first included in the 2019/20 Annual Report	N/A
3	SA 2021	Standard 1000 Purpose Authority and Responsibility Internal audit assisted other services with operational and/or non-audit duties during 2020/21, namely processing of Covid grants.	The Chief Auditor should ensure that auditors involved in processing Covid grants are not involved in auditing this area.	Implemented. The planned audit of covid grants has been completed and it is confirmed that this was done by an auditor not previously involved in the processing of grants.	31 March 2022

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EAST RENFREWSHIRE COUNCIL
Internal Audit Section
ACHIEVEMENT OF ANNUAL AUDIT PLAN FOR 2021/22

Department	Title	Audit Number	Original No. of days	Status
Chief Executives	Corporate Procurement Cards	1	15	Complete
Corporate & Community	Payroll	2	28	Complete
	Creditor interfaces, e-invoicing	3	18	Deleted
	Debtors	4	24	Complete
	Housing Benefits/Universal Credit	5	30	Complete
	Clothing grants, free school meals	6	12	Complete
	Council tax – reductions and liability	7	24	Complete
Education	Environmental controls – Education	8	10	Complete
	Schools cluster	9	32	Complete
Environment	Clyde Valley Contract Group	10	13	Deleted
	Grant certification	11	15	Deleted
	Gas Servicing	12	15	Complete
	City Deal	13	15	Complete
	Climate Change Report	14	5	Complete
	COVID business grants	15	25	Complete
	Energy and Fuel	16	15	Deleted
Housing	Housing Repairs	17	20	Complete
	New Council Houses	18	24	Deleted
HSCP	Care First Finance System	19	20	Deleted
	Kinship, fostering and adoption	20	16	Complete
	IJB	21	15	Complete
Trust	Culture and Leisure Limited Trust	22	20	Complete
Various	Contract 1 TBA	23	20	Deleted
	Application Audit	24	18	Deleted
	Fraud contingency	25	70	Complete
	General Contingency	26	30	Complete
	LG Benchmarking Framework	27	10	Complete
	Follow up	28	50	Complete
	Previous year audits	29	52	Complete
Total			661	

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