ARGYLL AND BUTE COUNCIL   **AUDIT & SCRUTINY COMMITTEE**

STRATEGIC FINANCE   **19 SEPTEMBER 2017**

INTERNAL AUDIT SUMMARY OF ACTIVITIES

1.   EXECUTIVE SUMMARY

1.1   The objective of the report is to provide a summary of Internal Audit activity and progress during Quarter 2.

1.2   Core activities together with a progress update statement are shown below.

- **17/18 Audit Plan progress**: The Audit plan is currently on track.

- **Individual Audits undertaken**: 7 audits have been completed during the period. Of these Audits, 4 are rated as Substantial and 3 are rated as Reasonable. There is a further audit currently in progress.

- **Continuous Monitoring Programme Testing**: A number of auditable units are subject to continuous testing. Management have responded to previous quarter notifications and there are no outstanding issues.

- **Performance indicators**: Current status is green / on track.

2.   INTRODUCTION

2.1   The objective of the report is to provide an update on Internal Audit activity during Quarter 2 against a number of areas;

- 17/18 Audit Plan progress
- Individual Audits undertaken
- Continuous Monitoring Programme Testing
- Internal Audit Development Plan
- Performance indicators

3.   RECOMMENDATIONS

3.1   Members are requested to review and endorse this report.

4.   DETAIL

4.1   Audits completed to August are detailed in Table 1. At the time of writing there is one Quarter 2 Audit in progress and which will be reported to the December meeting of the Committee.

Table 1: Summary of Audits performed in Quarter 2 2017/18

Audit Name	Level of Assurance	No. of Actions	High Actions
Strategic Housing Fund	Substantial	2	0
LEADER	Substantial	2	0
Travel & Subsistence	Substantial	5	1
Gifts & Hospitality	Substantial	2	1
Review of Client Accounts	Reasonable	3	0
Piers & Harbours	Reasonable	5	1
VAT	Reasonable	5	1
Performance Management	In Progress	-	-

4.2   Indicative Audits planned for the Quarter 3 17/18 are shown in table 2 below

Table 2: Audits scheduled for Quarter 3 2017/18

Quarter 3
Records Management Plan
Recruitment & Selection
SEEMIS
ICT – SLA's & User Testing Protocols
Trading Standards
Earmarked Reserves
Procurement - Catering
Risk Management

4.3   Our Continuous monitoring programme is generally focused on transactional type activity. Standard audit tests are applied relevant to each auditable unit. Control design tests look at whether the control in place adequately addresses the potential risk event. Control effectiveness tests the application and or /compliance.

There are 4 assessment levels, these being Effective, Satisfactory, Improvement Needed and Weak.

Control Effectiveness Scales	
Effective	Indicates minimum uncontrolled risk due to strong controls in place and operating effectively. Tested, monitored and fully compliant
Satisfactory	Control mitigations in place however refinement opportunity exists to further reduce risk and /or enhance compliance.
Improvement Needed	Residual risk exists which place some of system objectives at risk. Indicates a need for improvement in either control design and /or compliance
Weak	Significant residual risk exists with weaknesses identified in control design /and or compliance

4.4   A follow up process is in place whereby management are advised of continuous monitoring findings and where appropriate, requested to take remedial actions. There are currently no outstanding follow-up points arising from previous quarters testing. Table 3 below summarises activity to date outlining issues arising and provides an overall level of control effectiveness with follow up detail.

Table 3: Continuous monitoring programme results:

Test Area	Controls Tested	Control Design	Control Effectiveness	Findings	Management Commentary
Monthly Payroll Testing	Monthly Payrun reports	Effective	Effective	1 issue r.e duplicate bank details.	Satisfactory explanation received.
Dunoon Grammar School	School Fund Check	Satisfactory	Satisfactory	There is neither a formal committee nor payments sub-committee in place.	Action plan in place to address weaknesses. Meeting scheduled to in September.
Dunoon Grammar School	Imprest Check	Effective	Effective	Receipts/ vouchers are not submitted to Creditors along with claim for re-imbursement	Appropriate adjustments have been made to ensure compliance with requirements.
NDR	Arrears follow up procedures	Effective	Effective	N/A	N/A
Council Tax	Billing and collection procedure	Effective	Effective	N/A	N/A
Council Tax	Properties accurately recorded	Effective	Effective	N/A	N/A
Debtors	Bad Debt Process	Effective	Effective	N/A	N/A
Debtors	File Back Up	Effective	Effective	N/A	N/A
General Ledger Testing	Financial procedures & System Access	Effective	Effective	N/A	N/A
General Ledger Testing	Changes to the Chart of accounts	Effective	Effective	N/A	N/A
General Ledger Testing	Journal authorisation	Effective	Effective	N/A	N/A
General Ledger Testing	Journal segregation of duties	Satisfactory	Satisfactory	Consolidated journal uploaded by Senior Accounting Assistant. This upload included journal request by same member of staff.	Management accepts inherent risk associated with this. Deemed Low level.

Test Area	Controls Tested	Control Design	Control Effectiveness	Findings	Management Commentary
Creditors Testing	Batch Invoice testing	Satisfactory	Improvement Needed	From a sample of 20 batch invoices there were 4 instances of individuals authorising invoices from cost centres which were not noted on the signatory list. 3 batches were authorised electronically via email. Electronic authorisation did not come directly from the authorisers own inbox. Authorisation was forwarded by a secondary member of staff.	Remedial Action in place to mitigate against re-occurrence. Electronic authorisation will no longer be accepted when forwarded by third parties.
Creditors Testing	Duplicate Invoice testing	Effective	Effective	N/A	N/A

4.5 The Committee previously requested that completed audit actions are periodically reviewed for ongoing compliance. A sample of 20 actions was reviewed in quarter 2; of which, 18 were all found to be compliant. At the time of reporting, 2 responses were outstanding and or/ evidence required.

4.6 The Audit Plan includes a time allocation for reviewing and verifying Local Government Benchmarking Framework indicators. Benchmarking is an improvement process that helps organisations understand how they perform in comparison to other relevant organisations. Benchmarking uses specific 'indicators' to measure how organisations are performing, for example, how much a service costs per user. These provide a simple metric which can then be compared across organisations and year-on-year. Part of the control process in place requires Internal Audit to verify Local authority submissions. A sample of indicators were selected for review and the result are shown in table 4.

Table 4: Local Government Benchmarking Framework verification results:

Test Area	Controls Tested	Control Design	Control Effectiveness	Findings	Management Commentary
LGBF Verification	Equal Opportunities	Effective	Effective	N/A	N/A
LGBF Verification	Council Tax	Effective	Effective	N/A	N/A

Test Area	Controls Tested	Control Design	Control Effectiveness	Findings	Management Commentary
LGBF Verification	Payment of Invoices	Effective	Effective	N/A	N/A
LGBF Verification	Museum Visitors	Satisfactory	Satisfactory	Supporting documentation should be clearly labelled and indicate the contents, to make it easier in the future to ensure robust testing of figures.	Management will clearly label documentation going forward.
LGBF Verification	Library Visitors	Satisfactory	Satisfactory	Supporting documentation should be clearly labelled and indicate the contents, to make it easier in the future to ensure robust testing of figures.	Management will clearly label documentation going forward.

4.7 National Fraud Initiative (NFI). Data matching involves comparing computer records held by one body against other computer records held by the same or another body to see how far they match. This is usually personal information. Computerised data matching allows potentially fraudulent claims and payments to be identified but the inclusion of personal data within a data matching exercise does not mean that any specific individual is under suspicion. Where a match is found it indicates that there may be an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. The Council is currently on track with NFI upload timetable and where matches have been released these are being reviewed. A reminder process is now in place to ensure that matches are addressed on a timely basis. Recommended matches are the priority matches and where resources are allocated in the first instance.

Table 5: National Fraud Initiative Progress:

Operational Area	Total Matches	Recommended Matches	Matches Complete (August 2017)
Council Tax to Electoral Register	2111	2111	1936
Council Tax rising 18s	244	244	227
Council Tax to other Datasets	1080	1080	0
Housing Benefits	500	29	164
Payroll	740	146	6

Operational Area	Total Matches	Recommended Matches	Matches Complete (August 2017)
Blue Badges	194	156	194
Private Residential Care Homes	50	23	50
Housing Waiting list	433	416	236*
Personal Budgets	19	1	19
Council Tax	729	13	303
Creditors	4831	240	80
Procurement	176	68	0

*Source working offline from downloads; NFI Application still to be updated therefore further work may have taken place.

4.8 The table below detail progress against the actions points in our Internal Audit development plan. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards. An additional action has been added in respect of self-assessment activity.

Table 6: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Training and CPD	Formalise our plans for internal audit training, including continuing professional development (CPD)	On Track:	On-going
Audit Plan Preparation	2018/19 Draft Plan submitted to December Audit & Scrutiny Committee	On track	December 2017
PSIAS – Internal Self-Assessment	Agree development actions arising from Peer to Peer review scheduled Quarter 4.	On Track	March 2018

4.9 Internal Audit scorecard data is available on pyramid. The indicators are currently showing as on track. The undernoted table is an extract of the key information.

Internal Audit Team Scorecard 2017– 18 – FQ2 17/18			
TEAM RESOURCES			
PRDs IA Team **G** ➡	TARGET	Percentage of PRDs complete	
	90%	100%	
	Number of eligible employees FTE	Number of PRDs complete FTE	
	4	4	
Financial			
Revenue Finance	BUDGET	ACTUAL	**G**
YTD Position	£90,667	£75,502	
Year End Outturn	£240,265	£240,265	➡
BO28 Our processes and business procedures are efficient, cost effective and compliant (SF)			
Risk management policy, strategy and guidance manual reviewed.	Status	On Track	**G**
	Target	On Track	➡
Risks Management Overview report approved	Status	On Track	**G**
	Target	On Track	➡
Review of Strategic Risk register	Status	On Track	**G**
	Target	On Track	➡
Annual Audit Plan	Status	On Track	**G**
	Target	On Track	➡
Planned number of days continuous monitoring programme complete	Status	On Track	**G**
	Target	On Track	➡
Annual audit plan approved by 31 March	Status	On Track	**G**
	Target	On Track	➡
Effective participation in NFI – Data completion	Status	On Track	**G**
	Target	On Track	➡
% of audit recommendations accepted	Actual	100%	**G**
	Target	100%	➡
% Recommendations followed up	Actual	100%	**G**
	Target	100%	➡
Percentage qualified staff	Actual	60%	**G**
	Target	60%	⬆
% satisfaction rates from post audit surveys	Actual	100%	**G**
	Target	80%	⬆
% customer satisfaction with audit reports	Actual	100%	**G**
	Target	80%	⬆
Internal Audit Training days	Actual	29 days	**G**
	Target	24 days	⬆

5. CONCLUSION

5.1 The 17/18 Audit Plan is on track. Continuous monitoring testing undertaken during the period has provided an overall effective level of assurance in respect of control design and effectiveness.

6. IMPLICATIONS

6.1 Policy - Internal Audit continues to adopt a risk based approach to activity

6.2 Financial -None

6.3 Legal -None

6.4 HR - None

6.5 Equalities - None

6.6 Risk – None

6.7 Customer Service - None

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