

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	3 March 2021
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	2021/2022 Internal Audit Plan – Six Months to 30 September 2021
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ seek approval for the proposed first phase of the 2021/2022 Internal Audit Plan for the six months to 30 September 2021

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation:-

- (1) that the proposed first phase of the 2021/2022 Internal Audit Plan for the six months to 30 September 2021 is approved

3. Background

3.1. Public Sector Internal Auditing Standards (PSIAS) require a specific risk based approach to be taken when preparing audit plans. All requirements have been followed in preparation of the 2021/2022 Internal Audit Plan.

3.2. To reflect the evolving risks and challenges that the Council continues to face, it is proposed that the Audit Plan for 2021/2022 is presented to the Risk and Audit Scrutiny Committee (RASC) as two, separate six month plans. The first of these six month plans, for the period to 30 September 2021, is set out within this report, with the second of these Plans intended to be presented in September 2021. Presenting the Audit Plan in this way in 2021/2022 ensures that the Plans are current, relevant and deliverable. The proposed Plans will include core elements of audit work, completion of key financial year-end tasks and reflect ongoing support that is being provided to Council Services to disburse COVID-19 grants.

3.3. The content of both Audit Plans will deliver a programme of work that will inform the 2021/2022 annual audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements.

3.4. The over-arching strategy continues to be one that delivers the key objective of the Service to provide general assurance in relation to governance, risk management and control arrangements through:-

- ◆ linking to the Council's objectives and priorities, providing assurance in relation to top risks that have been identified by the Council

- ◆ undertaking a balanced programme of work delivered in compliance with PSIAS that maximise resources available
- ◆ committing resources to support corporate activity
- ◆ prioritising assignments to ensure key areas of work are completed in year

3.5. Progress against the audit strategy will be monitored and reported to the Committee as part of regular monitoring reports that are presented at each meeting. Delivery of the strategy will be evidenced by the completion of the 2021/2022 Plan. Any subsequent changes to the Plan, arising from a change in the Council's priorities or risks, will be presented to the Committee and reflected in the second, six monthly report presented in September 2021. Key performance indicators will continue to be reported to the Committee within routine activity reports and as part of the annual assurance report presented to the Committee shortly after the financial year-end.

4. Internal Audit Plan 2021/2022

- 4.1. In 2021/2022, audits will continue to be conducted in accordance with the revised PSIAS and within the context of the Internal Audit Charter, which is attached at Appendix One. A formal review of the internal audit function's compliance with PSIAS will be undertaken in 2021/2022 in preparation for an external assessment that is required to be undertaken in 2022/2023.
- 4.2. A copy of the proposed Internal Audit Plan for six months to 30 September 2021 is attached at Appendix Two. This shows the name of the proposed assignment, the lead Resource (if relevant) and a brief outline scope for each proposed assignment. Objectives and scopes will be refined by auditors prior to the commencement of work and once a full risk analysis has been completed and key controls identified. Resources will be involved in this initial risk and control assessment and will be consulted prior to the preparation of the audit remit for each assignment.
- 4.3. The suggested Plan provides time to deliver a range of assignments that aligns to corporate objectives as well as seeking to provide assurance around the general control environment of the Council. The objective of the 2021/2022 Plan is to assess how adequately the Council's top risks are mitigated recognising that these continue to evolve as does the response to mitigate against financial or reputational loss to the Council.
- 4.4. The Council's top risks were reassessed in September 2020 and included in the Plan to 30 September 2021 is a mapping exercise that seeks to map out the key 'lines of defence' against each of these risks and, from this, an overview of the governance and risk management arrangements in place. The output from this exercise, as well as an overview of the risk coverage across both Plans, will be included in the report to Committee that sets out a proposed Audit Plan from 1 October 2021 to 31 March 2022.
- 4.5. The Committee is asked to approve the draft Plan for the six months to 30 September 2021.

5. Employee Implications

- 5.1. A full employee capacity plan was prepared at the commencement of the audit planning process. This determined that, on a pro-rata basis, 555 audit days can be delivered through to 30 September 2021 (inclusive of days to deliver an internal audit service to external clients). This is broadly similar to the number of days that were available in 2020/2021.

6. Financial Implications

- 6.1. The detailed 2021/2022 budget for Internal Audit has not been finalised. Capacity planning has been based on a prudent projected budget. This is considered to provide sufficient resources to deliver the Audit Plan.

7. Climate Change, Sustainability and Environmental Implications

- 7.1. There are no significant implications in terms of climate change, sustainability and environmental issues associated with this report.

8. Other Implications

- 8.1. To mitigate against the risk of non-delivery of this first phase of the Plan, the progress of every assignment will be monitored using the Council's risk management software, Figtree.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. There is no requirement to conduct an equality impact assessment on the proposed Audit Plan. As part of the process, there has been extensive consultation during preparation of the Plan and consultation invitations were extended to the following main consultees:

- ◆ Internal Audit Team
- ◆ Finance and Corporate Resources Management Team
- ◆ Executive Directors
- ◆ Audit Scotland, the Council's external auditors
- ◆ Members of this Committee

All returned suggestions were included within the initial “audit universe” for risk evaluation.

Paul Manning

Executive Director Finance and Corporate Resources

16 February 2021

Link(s) to Council Objectives/Improvement Themes/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- 2020/2021 Internal Audit Plan– 21 September 2020

List of Background Papers

- Internal Audit planning documentation

Contact for Further Information

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

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South Lanarkshire Council Internal Audit Charter

Purpose

Internal Audit is an in-house, independent assurance function that provides an objective opinion and consultative guidance to South Lanarkshire Council and external clients on how well risks are controlled within their operations.

Internal Audit provides managers and elected members with assurance on how well processes and procedures in place are controlling the associated risks and recommends actions for improvements to ensure controls are effectively managed.

This complies with the definition of Internal Audit included within the Public Sector Internal Audit Standards (PSIAS):

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Compliance with PSIAS is mandatory from 1 April 2013.

The Standards were revised from 1 April 2017 to incorporate new and revised international standards resulting in additional public sector requirements and interpretations.

The Internal Audit service reports to the Risk and Audit Scrutiny Committee (RASC) who for the purposes of PSIAS are defined as the Board. This Committee serves as the Audit Committee for SLC and independently provides assurance on the soundness of the Council’s control environment and the adequacy of the risk management framework. It also delivers scrutiny and oversees external financial reporting processes. The Committee is made up of ten members of the Council. Membership changes with each new Council to ensure political balance and the Committee is chaired by a member of the opposition party.

An Annual Statement of Assurance is provided to this Committee and elected members by the Audit and Compliance Manager, to report on the adequacy and effectiveness of the governance, risk management and control arrangements in place. Assurance is based on the professional practices outlined within Internal Audit’s Audit Manual.

The authority to deliver an internal audit service is contained within SLC’s Financial Regulations, Standing Orders and Scheme of Delegation (all of which are available on the intranet) as well as in the Council’s Counter Fraud, Bribery and Corruption Policy Statement and Strategy.

For internal audit work delivered to external bodies, authority is provided by the Accounts Commission’s ‘Code of Guidance on Following the Public Pound’ as well as Service Level Statements agreed with clients.

As well as professional standards Internal Audit will be bound by SLC local standards including the Employee Code of Conduct and the Code of Corporate Governance.

Relationship with the Risk and Audit Scrutiny Committee

The Executive Director (Finance and Corporate Resources) and the Audit and Compliance Manager should seek to maintain sound working relationships with appropriate elected members and ensure that good channels of communication are maintained. Within South Lanarkshire Council, the Audit and Compliance Manager is considered to be the Chief Internal Auditor. The Chair of this Committee and the Audit and Compliance Manager may meet privately from time to time to discuss audit findings, the performance of the Committee and other related matters. Internal Audit report all findings from concluded assignments via progress reports to this Committee. Lines of communication between the Chairs of all Committees and the Audit and Compliance Manager will be open at all times.

All elected members are free to raise concerns directly with the Audit and Compliance Manager and input to the audit plan but these will be assessed in terms of risk prior to any audit work being undertaken.

Enquiries from elected members will follow the Council's protocols and guidance.

Objective

Internal Audit's objectives are to:-

- improve internal control through provision of advice and guidance on preventative measures and good governance
- safeguard public expenditure and ensure control over Council capital, revenue and project expenditure and minimise loss through a programme of routine and contract audits
- promote compliance with all corporate standards and frameworks, ensure that management information is produced accurately and safeguard the Council's computer and on-line transactions with particular emphasis on security, efficiency and sustainable service delivery
- deliver objective assurance over controls within operational and financial systems and governance arrangements
- contribute to efficiency by identifying opportunities and leading the management of the fraud risk
- promote risk awareness and plan risk-based audit work within available resources
- meet agreed targets directing all efforts towards sound performance in all areas

In delivering the above objectives, Council values and Performance and Development requirements will be adhered to.

Role and Scope of Work

To provide the assurance of controls in place within processes and procedures across the entire control environment of the organisation, Internal Audit work will:-

- independently review and appraise all systems of financial and operational control in terms of their adequacy and application
- ascertain the extent of compliance with financial and operational procedures, policies, regulations and legislation and their impact on operations
- advise on control implications for new and modified IT systems
- provide advice and guidance and contribute to working groups and ad-hoc strategic exercises

- provide consultancy services (which is defined for the purposes on PSIAS as pertaining to the provision of advice and guidance to Council Resources) on a secondment or group representation basis, provided this does not compromise independence and that a sufficient period elapses before auditors formally review those services where consultancy has been provided (usually one year)
- perform periodic governance checks
- provide written assurance in selected areas as well as an overall opinion at least once per annum
- recommend improvements in control, performance and productivity in achieving corporate objectives
- follow-up the extent to which earlier recommendations have been implemented
- work in partnership with the external auditors
- detect, prevent and investigate fraud and crime in accordance with approved anti-fraud strategies and policies
- Internal Audit undertakes investigative work in respect of potential fraud, irregularity and serious breaches of governance and as such, is required to be notified of all suspected or detected fraud, corruption or impropriety. It also monitors devolved responsibility for investigation by Resources

Internal Audit testing may go beyond the records and adopt a more direct approach, including interviews, fact finding and on site surveys.

The existence of Internal Audit does not diminish the responsibility of management to exercise sound systems of internal control. It is clearly and solely a management responsibility to ensure that activities are conducted in a secure, efficient and well-ordered manner and that finances are safeguarded and used to maximum effect. This includes identifying and managing risks including fraud.

Managers are expected to provide requested information within a reasonable timescale and earlier than the equivalent timescale for Freedom of Information (FOI) Requests. Managers are expected to respond to assignment feedback requests, usually within seven days and to draft reports within fourteen days.

Internal Audit charges a fee for work performed for external clients, subject to agreed Service Level Statements. In addition, Internal Audit may undertake work relating to external bodies funded by the Council or partners, as authorised by the Following the Public Pound guidance.

Internal Audit may work jointly with neighbouring authorities, local health boards, Scottish Government departments and external auditors on a variety of projects, aimed at improving the control and/or efficiency environment of public sector bodies.

Independence

Internal Audit is located within Audit and Compliance Services, under the direction of the Proper Officer, the Executive Director (Finance and Corporate Resources).

In addition, general management duties will be delegated from the Executive Director (Finance and Corporate Resources) to the Audit and Compliance Manager and will cover audit matters as well as general management duties, including participation in the Senior Management Team.

The Audit and Compliance Manager has management responsibilities outwith Internal Audit for Funding and Compliance Services. It is recognised that arrangements are required to be in place for any audit work in this area to allow this to be managed independently of the Audit

and Compliance Manager. The specific nature of these arrangements will be reported to this Committee when audit activity in this area is planned.

The establishment structure will comprise qualified and technician posts with a mix of professional specialisms. Structural reviews may take place from time to time and regular resource monitoring is reported to the Committee. Any reduction in resources which might jeopardise the delivery of assurance will be immediately reported to the Executive Director Finance and Corporate Resources in the first instance.

As far as is practicable, Internal Audit should not participate in the day-to-day operation of any internal systems of financial or operational control.

Plans will be formed to reflect organisational audit needs but within available resources.

Upon request from the Executive Director Finance and Corporate Resources, appropriate specialists from other departments should be made available to take part in any audit requiring specialist knowledge.

Within SLC, the Employee Code of Conduct provides guidance on the type and nature of interests that should be declared (including paid employment outside the Council and personal interests in contracts). Auditors must declare their interests in accordance with the Code of Conduct and with regard to the audit principle of independence, and notify the Audit and Compliance Manager of any conflicts of interest which may arise. This formal declaration is renewed on an annual basis as part of the performance development review process but can be revisited should any conflicts arise.

Auditors will not be assigned to review or be involved in any activity where they have previously had operational or other involvement, usually within a period of one year. This includes instances where Internal Audit employees have been consulted during system, policy or procedural developments.

Access

Internal Auditors have authorisation from the Council to examine all Council records, IT systems, cash, stores and other property, to obtain explanations and to enter Council property or land.

Access is unrestricted and shall be granted on demand and not necessarily be subject to prior notice.

Reporting

All planned audit assignments will formally be reported and every assignment will be closed after review by audit management. All Internal Audit reports will be submitted to the Executive Director (Finance and Corporate Resources), and to recipients within the Resource being audited, including the Executive Director, Head of Service and the auditee. Circulation to the Chair of the Resource Committee is the responsibility of the Executive Director. Copies of reports relating to routine planned assignments will also be forwarded to external auditors.

The Audit Manager will plan for regular formal consultations with Heads of Service and Executive Directors, especially when preparing the formal audit plan. Feedback on performance and value of work undertaken will be sought. Heads of Service will be copied on every report affecting their area of responsibility. Effective relationships will be maintained by both parties and confidentiality of information will be protected, unless this would prevent

the delivery of audit assurance. Timing of work is subject to consultation but this will not preclude unannounced visits when necessary or requested by Executive Officers or Members.

Best practice dictates that the Head of Internal Audit must report to those charged with governance. In SLC this means that the Audit and Compliance Manager reports to the Corporate Management Team (CMT) and this Committee.

The CMT is made up of Executive Directors covering all Council Resources, who for the purposes of PSIAs are defined as Senior Management. The CMT endorses, as a minimum the Internal Audit Plan and the Internal Audit Annual Report, which provides the opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements.

Internal Audit also reports plans, annual assurance and all findings to this Committee. For external clients, reports and opinions will also be offered to audit committees, where these exist, or to client Boards and senior management teams.

Escalation

The Audit and Compliance Manager has direct access, reports and is accountable to the Executive Director Finance and Corporate Resources, the Proper Officer, as defined in Section 95, Local Government Act 1973 and meets with this officer on a regular one to one basis.

This relationship will be the escalation route for issues arising within Internal Audit and for those matters where it is appropriate for the Chair of this Committee to be briefed. The Audit and Compliance Manager's relationship with the Chair of this Committee and elected members is detailed above within the section 'Relationship with the Risk and Audit Scrutiny Committee'.

Auditors will use escalation processes so that slippage in relation to the delivery of audit assignments can be dealt with swiftly.

Responsibilities

In delivering assurance, Internal Audit adopts a predominantly systems-based approach to audit. In discharge of this duty, the Audit and Compliance Manager will:-

- prepare an annual plan for formal agreement
- deliver a range of audit assignments, resulting in reports for management. Occasionally, letters or memos, rather than full reports will be issued. This usually occurs where few concerns are raised during the audit or where work is of a rolling nature, for example spot cash counts
- make recommendations for improvements
- provide Committee reports and other briefings to provide advice or raise awareness of performance or risk issues
- ensure a system of close supervision of audit work, and maintain a review of audit files through the supervisory structure
- maintain a skill level within the section specifically for the investigation of fraud
- provide an annual opinion within a full annual audit assurance statement, for agreement with the Chief Executive and Executive Director Finance and Corporate Resources and onward presentation to this Committee

Lead Resource	Audit assignment	Outline Scope	Expected days
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Participation in and delivery of corporate tasks			
All	Contract Scrutiny Groups	Participate in Contract Scrutiny Groups as required.	5
All	Provision of reports to Committee	Write and present monitoring and annual reports to Committee.	6
All	Attend internal and external working groups	Attend as required, respond to requests, participate in consultations and provide updates.	30
All	Audit plan 2021/2022	Complete analysis of 'lines of defence' against key risks. Undertake consultation, risk assessment, Resource and Section planning, set scopes and objectives and seek approval through preparation of reports.	20
All	Annual Report	Prepare annual statement of assurance for 2020/2021. Present to this Committee.	10
FCR CER	City Deal – Governance Statement	Provision of Governance Statement to Glasgow City Council for 2020/2021.	1

Provision of support tasks			
FCR	General Ledger Data	Provide 2020/2021 general ledger data to External Audit for the audit of the financial accounts for the year ended 31 March 2021.	5
All	COVID	Provision of COVID-19 support to Council Services. Provide advice and guidance regarding key controls within processes. Undertake investigative and data analysis work	75

Delivery of an internal audit programme of core tasks and assignments			
All	National Fraud Initiative (NFI)	Facilitate the investigation of 2020/2021 matches.	25
All	Fraud	React to fraud alerts through internal and external sources and disseminate information as appropriate. Review anti-fraud policies and develop Learn on Line to modules. Undertake investigations as required.	50
All	Anti-Fraud review	Follow Up Audit Scotland report (Emerging Fraud Risks – July 2020). Develop a programme of tests and test check controls in place within new or changed processes.	25
All	Informal Follow Up	Prompt Resources on a quarterly and monthly basis of actions due within that period. Collate responses for reporting.	8

All	Follow Up	For all Council Resources, identify audit recommendations due in the period to March 2021. Risk assess and follow-up to ensure implementation of all high risk actions.	75
All	Procurement	Rolling programme of testing of procurement practices in areas assessed as being subject to higher risk of fraud.	35
FCR	BACs Reconciliation	Assistance to undertake routine reconciliations.	5
All	Continuous Control Monitoring (CCM)	Continue to download data in current CCM areas. Use data for analysis and to inform internal and external audit testing. Prepare formal reports to allow exceptions and unusual trends in financial controls. Action as required.	10
All	Contingency	Conclude all 2020/2021 audits and respond to requests for unplanned work through to 30 September 2021. Provide advice and guidance.	50
All	Inventory/Stock	Review processes in place for the recording of inventory and stock. Provide assurance these are adequate and effective and incorporate key controls.	15
SWR	Justice Services	Conclude review of management information to ensure timely and accurate.	20

Delivery of an internal audit service to external clients			
N/A	Audit Plan	Delivery of internal audit service to External Clients	85

Total Audit Days to 30 September 2021	555
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