

# Report

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| Report to:       | <b>Risk and Audit Scrutiny Committee</b>                              |
| Date of Meeting: | <b>22 June 2022</b>   |
| Report by:       | <b>Audit and Compliance Manager (Finance and Corporate Resources)</b> |

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| Subject: | <b>Internal Audit Annual Assurance Report 2021/2022</b> |
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## 1. Purpose of Report

1.1 The purpose of the report is to:-

- ◆ report on the progress and performance of Internal Audit and to provide an independent audit opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements for the year ended 31 March 2022

## 2. Recommendation(s)

2.1 The Committee is asked to approve the following recommendation(s):-

- (1) note Internal Audit's performance;
- (2) that the overall findings from internal audit work be noted and that they inform the Council's 2021/2022 governance statement; and
- (3) note the level of assurance.

## 3. Background

3.1 The internal audit service is delivered within South Lanarkshire Council (SLC) within the context of the Public Sector Internal Audit Standards (PSIAS) (revised 1 April 2017), compliance with which is mandatory under Section 95 of the Local Government (Scotland Act) 1973. This sets out a series of standards to ensure a professional, independent and objective internal audit service is delivered that supports good governance within an organisation.

3.2 PSIAS requires that a Quality Assurance and Improvement Programme (QAIP) is developed to provide assurance that internal activity is conducted in accordance with an Internal Audit Charter, that it operates in an efficient and effective manner and that it is perceived to be adding value and improving operations. Professional and regulatory expectations on local government bodies to ensure that their internal audit arrangements conform with PSIAS have not changed throughout the COVID-19 pandemic. The self-assessment exercise undertaken in 2021/2022 has confirmed that South Lanarkshire Council's internal audit function continues to generally conform to the Public Sector Internal Audit Standards. An external assessment will be undertaken in 2022/2023 to fulfil the requirement for an independent review of compliance once every 5 years.

3.3 The primary objective of Internal Audit is to evaluate and improve the effectiveness of governance, risk management and control processes. The purpose of this report is to provide an independent audit opinion on the overall adequacy and effectiveness of

SLC's framework of governance, risk management and control arrangements based on audit work undertaken in 2021/2022. In this year, planned audit work has been delivered in conjunction with the provision of assistance to implement new processes and procedures that have been required in response to the COVID-19 pandemic.

3.4 In 2020/2021, CIPFA issued guidance around the provision of an audit opinion in a year of unprecedented pressure on public services which was helpful in providing some context around the annual report. Embedded within existing Council systems were controls that had been subject to change. To avoid a limitation of the scope of the audit opinion, CIPFA advised that audit processes could be streamlined to increase capacity, audit scopes could be narrowed to examine only key risks and that assurance and advisory work that supported the annual opinion could be prioritised. All of these approaches were adopted to ensure that an annual audit opinion could be provided for the year ended 31 March 2021.

3.5 Many of these pressures continued into 2021/2022 and the UK Public Sector Internal Audit Standards Advisory Board have also set out some guidance around conformance with Public Sector Standards in the period. This guidance has shaped the Council's internal audit approach in 2021/2022 to be one that has sought to:-

- ◆ help protect the organisation's operations by helping management to find new ways of working
- ◆ provide real-time advice and insight in the development of new systems and controls
- ◆ ensure that core internal audit work remains risk-based and relevant and continues to inform longer term planning around risks
- ◆ regularly report activity to the Council's Audit Committee

3.6 Significant time in the year has been committed to support new ways of working and to contribute to major system upgrades. Time has, however, still been set aside to deliver core internal audit work with assignments mainly focusing on areas identified within the emerging risk audit completed in 2020/2021 and the delivery of the National Fraud Initiative (NFI) exercise by 31 March 2022. Where internal audit staff were diverted into operational roles for the duration, these employees were not operating as internal auditors. Declaration of interest processes will address any impairment to independence and objectivity.

3.7 In 2021/2022, Internal Audit has set out to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Throughout the year, Internal Audit has reported to the Risk and Audit Scrutiny Committee (RASC). Reports to the Committee have detailed the findings from each finalised assignment in conjunction with information in relation to Internal Audit activity's purpose, authority, responsibility and performance relative to the 2021/2022 Audit Plan.

#### **4. Link to Council's Objectives and Top Risks**

4.1 As a function, Internal Audit seeks to link to the Council's Connect Ambition of 'achiev(ing) results through leadership, good governance and organisational effectiveness'.

4.2 In addition to Connect, assignments within the Audit Plan each year are linked to the Council's top risks and to wider strategic risks to ensure that work is focused in areas of greatest risk and, where potentially, an independent review would add greatest value. The 2021/2022 Audit Plan was presented as two separate plans during the year; a first six month plan through to 30 September 2021 in March 2021 and a second six month Plan to 31 March 2022 in November 2021. Both Plans set out a programme

of work that balanced routine assurance work with the ongoing requirement to assist with the delivery of COVID-19 tasks.

- 4.3 The Plans could not cover all of the organisation's top risks. Instead, these Plans prioritised audits and tasks that reviewed the key, strategic risks to the Council's operations in 2021/2022.

## 5. Internal Audit Workload and Performance

### 2021/2022 Workload

- 5.1 The actual number of audit days delivered in 2021/2022 was 1,218 days which was 104% of the target planned days in the year. 92% of the Audit Plan was delivered by 30 April 2022. The four outstanding audit assignments at this date related to 2 special investigations, work for the Risk Sponsor's Group and advice and guidance re controls around voucher ordering.

|                                   | Total No. Jobs        |
|-----------------------------------|-----------------------|
| Planned assignments               | 51                    |
| <b>Reports completed to draft</b> | <b>47<sup>1</sup></b> |

*Table One - Internal Audit workload analysis for 2021/2022*

- 5.2 Each of the audits undertaken in the year were conducted in conformance with PSIAS. The standards require the Council's internal audit function to demonstrate engagement with clients to ensure the Audit Plan is agreed at the outset of the year and continues to address known and emerging risks. The scope of the 2021/2022 Audit Plan was amended to reflect the practical realities of the ongoing pandemic in the year and the risks that were emerging and evolving as the year progressed. Through this the internal audit function delivered a service that aligned to the strategies, objectives, and risks of the organisation.
- 5.3 A significant proportion of the total time available was spent on external client work as well as responding to adhoc requests for advice and guidance. These requests are varied but, in the main, cover financial processes (duplicate invoice processes; online banking for school funds and community councils and BACs). Other areas of work included assistance with developing spreadsheets to be used in Passenger Transport Direct Awards. Time to deliver required the original scope of this audit to be amended and a review of the new process and a testing of procedures in practice will now be undertaken by Internal Audit in a future year.
- 5.4 Internal Audit also continue to sit on a variety of internal working groups such as the Technology and Process Review Group. The key driver to achieve efficiencies will be to use the Microsoft Technology the Council has invested in – such as workflows and automation and in doing so, progress the Digital Transformation agenda. The participation in these areas of work, although not in a traditional audit role, has nonetheless provided assurance that the implementation of internal controls has been a key consideration in the development of new processes or revisions to existing practices and that revised Council systems and processes continue to embed the key internal controls of segregation of duties, authorisation, reconciliation and monitoring.
- 5.5 In 2021/2022, the Council also began a significant upgrade in relation to Oracle, the Council's main financial system. Most of the work will take place in 2022/2023 and will require a significant time commitment to ensure that the system meets the needs

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<sup>1</sup> This includes 10 assignments where audit testing has been completed and a level of review has been undertaken. Progressing these assignments as being impacted by a period of unplanned leave. None of the findings reviewed to date have highlighted significant issues that require mention in this Annual Report.

of the organisation going forward. Internal Audit's time in 2021/2022 has been around the provision of data to clearly understand key internal controls and areas where the new system needs to deliver improvements in both processes and reporting.

### 2021/2022 Performance

- 5.6 A summary of key Internal Audit performance statistics is noted at Table 2 below.

|  | Target | 2021/2022 |
|--|--------|-----------|
| Delivery of planned audit days                             | 100%   | 104%      |
| Completion of plan to draft report stage                   | 100%   | 92%       |
| Completed assignments delivered within budget              | 80%    | 87%       |
| Draft reports issued within 42 days of fieldwork completed | 80%    | 100%      |
| Productive time  | 80%    | 82%       |

*Table Two – Internal Audit performance for 2021/2022*

- 5.7 Most audit assignments were at draft report stage as at 31 March 2022 with Adviser reviews completed by 30 April 2022. The Audit Plan was not delivered in full in year with four assignments outstanding at 31 March 2022. None of these were of a significant nature. Aside from this, performance across the key indicators was ahead of target.
- 5.8 The Committee are asked to note Internal Audit's workload and performance in the year to 31 March 2022 and that both remain sufficient to support the audit opinion expressed within this report.

## 6. Basis of Audit Opinion

- 6.1 The opinion expressed within this report (see 7.4) has been based, primarily, on the output from the 2021/2022 Internal Audit Plan. The opinion, however, also reflects assurances that Internal Audit have obtained through specific involvement in a range of tasks to respond to the COVID-19 pandemic as well as reports that have been issued by the Council's external auditors, regulators and inspectors during 2021/2022.

### Area of Assurance – Governance

- 6.2 The first area of assurance is in relation to the Council's **governance arrangements** and the findings that support the overall assessment of these are detailed in paragraphs 6.3 to 6.12.
- 6.3 Internal Audit have continued to consider the impact of the COVID-19 pandemic on governance arrangements and, where appropriate, this report refers to significant impacts and adaptations in the year, be it adaptation to reflect new ways of working or changes to 'business as usual' activities or longer-term changes to priorities, programmes, strategies and plans.
- 6.4 Work to review and update **inventory procedures** to reflect the changing nature of working arrangements was carried over from 2020/2021 and is ongoing. Internal Audit continue to input to developing a dual process of physical checks and completion of e-returns to allow a full reconciliation of IT equipment. Extensive work was previously undertaken to develop alternative processes but these require some amendment once more fixed working models are in place.
- 6.5 Reinforcing **Conflict of interest processes** remains important. Processes are fit for purpose and provide clear guidance to Managers around their responsibility to monitor ongoing compliance. This will be embedded within annual governance checks going forward.

- 6.6 Aside from these assignments from a previous financial year, **routine governance tasks** have been delivered as required; an audit certificate for the Leader EU rural programme was provided and a cross-Resource review of the 2021/2022 Director Statements of Assurance that form part of the process for preparing the Council's Annual Governance Statement.
- 6.7 Good governance is also demonstrated by the timeous implementation of actions and recommendations made by both internal and external audit and external inspectors.
- 6.8 PSAIS places a responsibility for monitoring progress of the **delivery of internal audit actions** with the Chief Internal Auditor to ensure that recommendations are effectively implemented. Relatively few Internal Audit actions fell due in 2021/2022 reflecting the impact of COVID-19 on the routine audit plan on 2020/2021. Although relatively few in number in 2021/2022, Council-wide, 100% of internal audit actions were delivered on time. This suggests that actions are, in the main, being fully and timeously implemented. This was checked independently by a limited programme of formal follow-up reviews undertaken in the year.
- 6.9 Audit actions also arise from the **external auditors and inspectors**. One such area is internal audit activity undertaken by Glasgow City Council who act as internal auditors for the Glasgow City Region – City Deal. More robust arrangements have been established in 2021/2022 to follow up specific City Deal actions within the Council and progress with implementation will now be reported to the RASC as part of regular update reports. None of the actions were significant but implementation is nonetheless important to demonstrate good governance.
- 6.10 Assurance around effective governance comes also from the **annual exercise that assesses the effectiveness of the governance arrangements** within South Lanarkshire Council. On an annual basis, an assurance mapping process is undertaken in conjunction with the Good Governance Group to inform the Council's Annual Governance Statement. Within individual Director's Statement of Assurance, Resources have indicated a commitment to deliver against the recommendations of external auditors and other external review agencies and report progress to Committees and Boards.
- 6.11 The Council's **External Auditors** undertook the 2020/2021 financial audit during 2021/2022 and provided an unqualified opinion in relation to the Council's financial statements. Interim audit work in relation to the year ended 31 March 2022 has been concluded and two issues were noted regarding reviewing user accesses within some Council systems and evidence of a second officer review of reconciliations. Neither of these points were flagged as significant but will nonetheless be reviewed to assess what action can be taken. Internal Audit have liaised with External Audit periodically throughout the year and have collated financial year-end data for Audit Scotland.
- 6.12 Audit Scotland also publish wider Public Sector reports throughout the year. Where Resources consider it appropriate, the key messages and their application to SLC are reported to Committees. The Improvement Unit continue to track these reports and, in conjunction with Resources, establish the relevance to SLC and the appropriate route for reporting. The Council also considers wider best practice and output from lessons learned exercises published by other Public Sector organisations. In 2021/2022, this included a review of learning points around Cyber Security that highlighted areas of assurance within SLC and those areas where improvements were

required to further strengthen controls. Progress with the implementation of these actions will be followed up in 2022/2023.

### **Area of Assurance – Risk Management**

- 6.13 The second area of assurance is around the Council's **risk management arrangements** and the findings that support the overall assessment of these are detailed in paragraphs 6.14 to 6.38. Recent years have required regular review of the Council's top risks to reflect the impact of COVID-19 across all of the Council's operations. Internal audit work reflected this focus and in 2020/2021 a review of the Audit Scotland report published in July 2020, '**COVID-19 – Emerging Fraud Risks**' by Internal Audit sought to articulate the specific challenges faced by South Lanarkshire Council (and the wider Public Sector) during the pandemic.
- 6.14 Risks were highlighted as having being heightened across a number of areas and, in 2021/2022, testing was started to examine some of these areas in more detail. It was recognized that within any crisis situation, there is an inherently higher risk of fraud if new processes are designed and implemented within limited and pressured timeframes or if 'business as usual' controls are weakened or suspended. It was essential that the Council was aware of these heightened risks and the vulnerabilities within business processes so that additional controls could be put in place to mitigate if necessary. It was also key that relevant employees understood particular fraud risks and that the Council had effective anti-fraud controls in place to mitigate.
- 6.15 Set out in 6.16 to 6.29 is output from detailed testing undertaken in 2021/2022 in relation to these heightened fraud risks.
- 6.16 The first of these audits was in relation to **overtime claims**. At the outset, it was established that there had been little change to the claims process at a corporate level because, pre-pandemic, claims had already been submitted electronically and so the move to remote working did not require any significant change to the process. Nevertheless, it was acknowledged that the pandemic may have impacted Resource level claim submission, checking and authorisation process and it was agreed that a Resource level review would be carried out during 2021/2022.
- 6.17 The key risk is that a fraudulent (or simply erroneous) claims would not be detected because of a variety of reasons which included routing claims to different approvers due to absences during COVID-19, or because the level of checking had been reduced because of the pressure employees were under during the initial year of the crisis. The ultimate impact of fraudulent claims is financial loss to SLC.
- 6.18 To mitigate this risk, Internal Audit sought assurances from the audit that current Resource claims processes capture the checking / approval processes and that these were in evidence ahead of claims being approved and before accepting such for processing.
- 6.19 In terms of context, the audit noted that the Council incur significant expenditure on overtime. In the first year of the pandemic (2020/2021) overtime costs were just under £8m. This is not significantly higher than the preceding, largely pre-pandemic year (when overtime cost were in the region of £7.6m), but a proportion of the 2020/ 2021 spend was directly attributable to COVID-19 specific service provision (and charged to ringfenced "COVID-19" cost centres). A significant proportion of the Council's overtime is incurred by three Resources.
- 6.20 From audit testing completed, it is Internal Audit's opinion that the risk that an employee could submit a fraudulent claim (or someone else, on their behalf, would

alter the claim) may be low, but the “opportunity” given the internal control gaps noted during the audit could be high.

- 6.21 Although some of the audit findings may have directly linked to circumstances during the pandemic (remote working and absences may have contributed to some findings relating to a lack of “sign-off” audit trail or requests for “alternative” approval during absences), for most of the control weaknesses above, these are inherent in the claims processes and not new control weaknesses introduced because of the pandemic.
- 6.22 Given the overtime claims process is likely to change with the move to Oracle Fusion in 2022/2023, the audit recommendations focus both on actions that should be taken now, in the interim period, to minimise the opportunities for fraud, and the internal controls which should be fully considered when designing the Fusion overtime claims process.
- 6.23 Testing in 2021/2022 also considered changes within key financial processes and within new processes introduced to disburse financial support to service users / residents. The original audit considered, at a very high level, the routes through which emergency financial support, specifically school meal vouchers, was being disbursed to the relevant parties and identified that, initially, the majority of these payments were being disbursed via **Paypoint** voucher. The audit also tested the use of Paypoint by Social Work Resources to disburse payments to service users.
- 6.24 In this area, the key risk is that a fraudulent (or simply erroneous) payment could be requested and/or made that would not be detected because of a variety of reasons which included control weaknesses in the process to validate and approve claims, which, potentially, could have been impacted by the pandemic in the sense that approvers had to change due to absences during COVID-19, or because the level of checking reduced because of the pressure employees were under during the initial year of the crisis. The ultimate impact of fraudulent claims/payments is financial loss to SLC.
- 6.25 To mitigate this risk, Internal Audit sought assurances that payments were being appropriately validated and authorised before being processed via Paypoint and that Paypoint administrators were checking that payment requisitions had been appropriately approved before accepting these for processing through the Paypoint Secure Voucher Portal.
- 6.26 In the first year of the pandemic (2020/2021) the cash-out vouchers disbursed amounted to £3.6m. A significant proportion of this (£2.9m / 81.5%) was directly attributable to COVID-19 specific financial support (and charged to ringfenced COVID-19 cost centres).
- 6.27 From the audit testing completed, it is Internal Audit’s opinion that the risk that someone can request a voucher not due to them is low (given the assessment of eligibility that needs to take place). There could, however, be situations whereby the voucher, nevertheless goes to the wrong recipient – via error or fraud as there may be opportunity for fraud whereby an employee involved in the process is able to change the details of an eligible applicant and so divert the voucher. The likelihood of fraudulent diversion happening is likely to be low (given the consequences for employees), but the possibility exists. This is an inherent risk, with limited opportunity to mitigate the risk much further, however, use of “ID check” vouchers could somewhat mitigate this risk. Post payment checks are key to identifying any potential fraud, but other than for queried vouchers, there are no reconciliations of vouchers issued back to the voucher requests (within some of the areas tested) and so there could be a risk

that any vouchers raised in Paypoint without a corresponding certified request would not be identified. These reconciliations are in place in some areas where the detective reconciliation controls should also be acting as a further preventative control representing good practice that should be applied across all Council Services.

- 6.28 One of the key areas for improvement identified during the audit is in respect of the segregation of duties in the process to identify eligibility for and the processing of vouchers in relation to COVID-19 grants in some areas and it is recommended that these improvement actions are implemented when processing any future grants.
- 6.29 Lastly, the audit sought some assurances regarding the user and access controls to the Paypoint portal itself. There are standard user access controls, defined user roles and permissions. However, there is no defined “systems administrator role” which results in the approver role also having permissions to amend user permissions. SLC are aware of the risks here and are investigating a revision to the roles directly with Paypoint. A number of actions have been recommended to help mitigate the resulting risks.
- 6.30 Audit testing around emerging risks has also been completed in 2021/2022 in relation to Purchase Cards; Disclosure Checks and Invoice Authorisation. These assignments are pending final review and will now be concluded early in 2022/2023.
- 6.31 Aside from emerging risks, the 2021/2022 Audit Plan also included time to review progress with the Council in relation to its **sustainability strategy** and noted the Council’s commitment to achieving change.
- 6.32 Audit Scotland will be monitoring the progress made by public bodies given the aspirations of the Scottish Government towards an ultimate target of net zero. Ample evidence of the progress was available together with the recognition that every person who makes a financial, procurement, estates, travel decision etc, has a role to play. Employees have a duty to look at their actions and advocate for change when at all possible.
- 6.33 The key risks are recognised. Targets may not be met due to factors outwith the Council’s control; reductions achieved may prove not to be permanent or plans lack practical deliverability either in the short, medium or long term.
- 6.34 The review concluded that the Council has a definitive plan in place albeit this needs to be developed and adopted. This plan needs to be practical and deliverable and reflect the financial implications of implementation. Supporting all of this will be, in part, through embedding cultural change that puts sustainability and carbon/waste reduction at the forefront of all decision making.
- 6.35 From an Internal Audit perspective, there is an intention to embed the sustainability agenda via our audit work with time to design a bank of standard sustainability audit tests included in the 2022/2023 Internal Audit Plan.
- 6.36 Other routine tasks continued throughout the year, such as the review of **Resource Risk Registers** with Internal Audit satisfied that there is evidence of review and update across all Resources.

- 6.37 Given the evolving nature of fraud and the heightened risk of such, **fraud policies** were reviewed and consolidated in 2021/2022. The review identified some gaps which will be reflected in the updated policy.
- 6.38 The most significant **anti-fraud work** in 2021/2022 was in relation to COVID-19 grants. Routine investigative work was of low value and volume during the year and two of these assignments remain open as at 31 March 2022. These will now be concluded in 2022/2023. A detailed report on fraud statistics will be presented separately to Committee.

#### **Area of Assurance – Internal Control**

- 6.39 Robust internal controls are important, irrespective of the activity or process. Their effective implementation supports delivery of vital Council services to people and businesses in South Lanarkshire. The main areas of assurance around the Council's **internal control** arrangements are detailed in paragraphs 6.40 to 6.48.
- 6.40 In 2021/2022, some follow up work was undertaken to review management reports available within the **Unpaid Work Service** team to assess whether these were effective in managing the caseload.
- 6.41 Case Managers (CM) require key data to progress each case and ensure that, for those cases that are not going to be completed on time, that the Court is advised in advance. This was an area of previous audit work. Testing found CMs generally have the management information (MI) required to monitor their cases and are sending the necessary reports to the Courts. There were, however, some examples in delays in reporting to Court due to capacity issues and human error. A couple of recommendations have been agreed in principle to address these delays.
- 6.42 Agile working continues to change processes and the audit highlighted the importance of the Team Leader role in providing full, accurate and timely reports to CMs. Likewise, the audit highlighted that the Operations Manager (OM) should review reports to ascertain if monitoring reports could be improved. It is key that the OM knows the overall position with the Service in terms of case allocation; hours worked as directed by the Court and that Key Performance Indicators are being met. The Justice Manager meets regularly with the OM to ensure all of these areas are being managed.
- 6.43 The overall opinion was that there is a reasonable level of assurance that the MI is sufficient to ensure progress in delivering Court Orders is monitored and that, generally, reports are being sent to Court on time. Discussions between the different parties within the Unpaid Work Service ensure that overview positions are monitored and there are sufficient opportunities for issues to be highlighted across levels of management. A number of recommendations were made to help further strengthen the monitoring arrangements.
- 6.44 Inputs to internal control reviews were also provided in relation to key **Accounts Payable controls** and in **mobile phone purchasing**. Internal Audit were asked to review, and contribute to, the proposal (and the controls required) around people who could submit/authorise ("PTX") BACS payment runs on the PTX system.
- 6.45 In addition, Internal Audit provided some input to a review of controls around ensuring that every mobile phone ordered is for a specific (named) recipient and that phones could not be ordered for generic, or un-named, users. The onset of COVID-19 brought supply chain issues which meant that phones could not be obtained in short lead times.

Internal Audit provided some guidance around amending this control given large scale recruitment drives that were underway. This approach is agreed on a case-by-case basis and as a response to specific pressures. Arrangements were put in place for follow up to ensure that previous controls have now been reinstated.

- 6.46 Routine control work continued in the year through Continuous Controls Monitoring (**CCM**) **analysis** that was used to inform 'intelligent' sampling by audit assignments within the Plan and provide detailed data to External Audit for the purposes of the Council's financial year-end audit.
- 6.47 Internal Audit has also monitored **fraud alerts** through internal and external sources and disseminated information as appropriate. In 2021/2022, these have continued to relate to adhoc issues and been shared with Council Resources as appropriate.
- 6.48 In 2020/2021, data was uploaded for the next **NFI exercise** with matches returned in 2021/2022 for investigation. Final outcomes are currently being collated which broadly align to the previous exercises other than for those new areas of matches in relation to COVID-19 grants in the 2020/2021 exercise.

## **7. Summary of overall assurance and audit opinion**

- 7.1 Adequate arrangements exist within SLC to escalate any concerns the Audit and Compliance Manager may have in relation to the level of risk accepted by management or SLC. Throughout the year the scope of audit work has continued, in part, to be impacted by the COVID-19 pandemic but not to the extent that this has impaired the ability of Internal Audit to express an independent opinion in 2021/2022.
- 7.2 Internal control has remained, primarily, a management responsibility to ensure that the Council conducts its business in a manner that has due regard to the principles of good governance. This responsibility has continued throughout the COVID-19 pandemic and includes any changes to business processes that have been required throughout this period. The presence of an internal audit function does not negate the importance of effective internal controls. Internal Audit cannot be expected to give total assurance that control weaknesses or irregularities do not exist. The audit opinion is based upon the audit work undertaken during the year and knowledge of the Council's wider governance, risk management and control arrangements.
- 7.3 Many significant controls are imbedded within systems and these have been tested throughout the year by a programme of internal and external audit testing. Key controls such as adherence to proper processes and procedures, application of management checks and robust monitoring are generally vested in people and, therefore, remain an area of higher inherent risk. These processes continue to be subject to change and all reasonable steps have been taken to gather sufficient evidence to express an audit opinion for this year.
- 7.4 **In 2021/2022, the Internal Audit opinion is that, overall, reasonable assurance can be placed on the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements for the year ending 31 March 2022.**
- 7.5 The Committee is asked to note the above findings and approve their inclusion in the Council's Annual Governance Statement. A signed Annual Internal Statement of Assurance is included at Appendix One based on the view of the Council's own internal audit function.

## **8. Employee implications**

- 8.1 The Internal Audit service in 2021/2022 was delivered by a team of 10. Of the team of ten, all are fully or partly qualified through either the Chartered Institute of Internal Auditors or one of the Consultative Committee of Accountancy Bodies.
- 8.2 Feedback received in relation to audit assignments is used to highlight areas for training and development. These are progressed on an individual basis as part of the performance development review process. Best practice information is shared and learning points discussed throughout the year.

## **9. Financial implications**

- 9.1 Audit and Compliance Services, during 2021/2022, delivered a break-even budget position.

## **10. Future years**

- 10.1 The Council has undergone a period of significant disruption to 'business as usual' impacting on both current service delivery and existing governance arrangements. The Council has proven itself able to respond to unprecedented circumstances and the pressures arising therefrom. This has impacted on all Council services and the Audit Plan has remain fluid throughout to reflect best use of resources depending on pressures across the Council. Moving forward, Internal Audit will seek to address the gaps that this has created and aim to resume a more structured approach to planning and delivery of a core programme of audit work.
- 10.2 Significant pressures remain as public services re-set and Internal Audit will need to build on the lessons learned and retain the benefits that have accrued through new working practices developed in response to the pandemic.
- 10.3 Anti-fraud work, linked to activity during the pandemic will continue for a period of time. This will include a review and testing of new processes to provide assurance that emergency and adhoc processes do not continue indefinitely without challenge.
- 10.4 Investing time to fully develop data analytical tools has proved important but must be considered alongside the improved functionality of new systems. This will require the upskilling of the wider Internal Audit team and for approaches to evolve to remain relevant and deliver value-added output.

## **11. Climate Change, Sustainability and Environmental Implications**

- 11.1 There are no implications for climate change, sustainability or the environment in terms of the information contained within this report.

## **12. Other implications**

- 12.1 Each audit assignment seeks to identify efficiencies and report as part of the audit opinion where appropriate. In practice this often translates suggesting a more efficient way in which to deliver services. Opportunities to identify 'cash' savings are becoming less frequent in an environment of growing financial constraints. From Resources perspective, much of the 'value added' element of an internal audit service is linked to the function's ability to provide advice and guidance. In addition, there has been a growing focus on the content of action plans to ensure that these effect required improvements. This is particularly important in areas where issues are more significant.

- 12.2 Responding to Services' requests for assistance and participation in internal working groups is accommodated within the Plan and through contingency time. This aligns to the PSIAS requirement to deliver an effective internal audit service.
- 13. Equality impact assessments and consultation arrangements**
- 13.1 There is no requirement to carry out an impact assessment in terms of the information contained within this report.
- 13.2 Resource Heads of Service are consulted in advance of every planned audit assignment and following completion of fieldwork. Resources and elected members are also consulted during preparation of the annual audit plan.

**Yvonne Douglas**  
**Audit and Compliance Manager**

7 June 2022

**Link(s) to Council Values/Ambitions/Objectives**

- ◆ Achieve results through leadership, good governance and organisational effectiveness

**Previous References**

- ◆ 2021/2022 Six Month Audit Plan to 30 September 2021 (Risk and Audit Scrutiny Committee, 25 February 2021)
- ◆ 2021/2022 Six Month Audit Plan to 31 March 2022 (Risk and Audit Scrutiny Committee, 17 November 2021)

**List of Background Papers**

- ◆ 2021/2022 progress reports to the Risk and Audit Scrutiny Committee
- ◆ Figtree statistical and assurance and time recording extracts
- ◆ Public Sector Internal Audit Standards (revised)
- ◆ Fraud statistics and NFI updates

**Contact for Further Information**

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

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## **Appendix One**

### **To the members of South Lanarkshire Council, the Chief Executive and Executive Directors**

As Audit and Compliance Manager of South Lanarkshire Council, I am pleased to present my annual statement and report on the adequacy and effectiveness of the governance, risk management and internal control systems of the Council for the year ended 31 March 2022.

### **Respective responsibilities of management and internal auditors 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 Audit and Compliance Manager to provide an independent opinion on the adequacy and effectiveness of the governance, risk management and internal control systems of the Council. The Audit and Compliance Manager cannot be expected to give total assurance that control weaknesses or irregularities do not exist but can form an opinion based on work undertaken during the year and knowledge of control systems.

### **The Council's framework of governance, risk management and internal controls**

South Lanarkshire Council has a responsibility to ensure its business is conducted in accordance with legislation and proper standards and adheres to and works within a framework of internal values and external principles and standards.

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and how it accounts to communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and, therefore, only provides reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks that would prevent the achievement of South Lanarkshire Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

During 2021/2022, SLC systems and controls have continued to be impacted, to some extent, by the COVID-19 pandemic and there has been a continuing requirement to amend governance arrangements and normal business operations. SLC's risk management framework has evolved and has required to continue to respond to the pandemic. Embedded within existing systems are controls that have been subject to change. Audit processes have been streamlined to increase capacity but there has been no significant amendment to audit scopes that supports the annual opinion expressed.

### **The work of Internal Audit**

Internal Audit is an independent and objective assurance function established by the Council to review its governance, risk management and internal control arrangements. It objectively examines, evaluates and reports on the adequacy of these arrangements as a contribution to general governance arrangements and more specifically the proper, economic, efficient and effective use of resources.

The Internal Audit Service operated in accordance with the Public Sector Internal Audit Standards (PSAIS) (revised 2017) throughout 2021/2022. An external assessment of the extent of compliance was undertaken in 2017/2018 as part of the Quality Assurance and Improvement Programme. This assessment concluded that the section generally conforms with the requirements set out in PSIAS. Actions have now been implemented to address areas of non-compliance identified by the review. The next external review is scheduled for 2022/2023.

The section undertakes an annual programme of work approved by the Risk and Audit Scrutiny Committee. All plans are based on a formal risk evaluation process, which reflects agreed and emerging risks and changes within the Council and is subject to periodic review throughout the year.

All internal audit reports identifying risks, areas for improvement and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken to implement audit recommendations.

Internal Audit ensure that management has understood agreed actions or assumed the risk of not taking action. A programme of informal and formal follow-up audit assignments provides assurance around the complete and timeous implementation of audit recommendations. Significant matters arising from internal audit work are reported to the Executive Director Finance and Corporate Resources and the Council's Risk and Audit Scrutiny Committee.

### **Basis of opinion**

My evaluation of the control environment relates only to South Lanarkshire Council and is informed by a number of sources including internal audit work undertaken during 2021/2022 and through the continuing delivery of a range of tasks to support the Council's response to the COVID-19 pandemic.

### **Limitation of scope**

No individual audit assignments were specifically limited in scope at the outset but scopes have been amended to reflect the output from the initial risk and control analysis undertaken at the start of each assignment and the resources available.

### **Opinion**

It is my opinion, based on the above, that overall, reasonable assurance can be placed on the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements for the year ending 31 March 2022.

### **Signature:-**

Yvonne Douglas BA CA

3 June 2022