

Lindsay Freeland
Chief Executive
South Lanarkshire Council
Council Offices
Almada Street
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21 January 2019

Dear Lindsay

South Lanarkshire Council 2018/19

Corporate Governance – Review of the adequacy of Internal Audit

Audit Scotland's Code of Audit Practice requires external auditors to carry out an annual assessment of the adequacy of the internal audit function. This assessment does not constitute an external assessment for the purposes of the Public Sector Internal Audit Standards (PSIAS) and should not be considered as such.

This letter sets out the findings from our assessment of the Council's internal audit service for 2018/19. We concluded that the internal audit service operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place. Accordingly, we intend to place reliance on areas of internal audit service work which are of direct relevance to our audit objectives. Notwithstanding our general conclusion, we record two findings and the associated risks for your consideration.

As part of South Lanarkshire Council's external quality control arrangements, the Chief Internal Auditor from Stirling Council was engaged to review internal audit section's compliance with the Public Sector Internal Audit Standards. This review commenced in 2016/17 and concluded with a report to the Risk and Audit Scrutiny Forum in March 2018. The report commented positively on the operation of the internal audit function and confirmed that it conforms to PSIAS requirements.

The objectives of our annual assessment are:

- to establish the effectiveness of internal audit arrangements as part of the council's wider governance arrangements, and
- to identify areas of internal audit work upon which we are able to place formal reliance

We reviewed internal audit's planned work programme for 2018/19 to identify areas where we can potentially place reliance on their work.

For our financial statements audit responsibilities we plan to place reliance on aspects of internal audit's work in the following areas:

- Procurement

In terms of our wider responsibilities under the Code in relation to governance and performance, we also plan to place reliance on selected aspects of the work of internal audit in a number of areas, including:

- Information risk management
- Budgetary control
- NFI
- City deal benefit realisation

We also noted the following risks for reporting.

Issue

The internal audit service sits within the remit of the Executive Director of Finance and Corporate Services and the Audit and Compliance Manager has operational responsibility for funding and compliance (for example, EU funding expenditure).

Risk

There is a risk that this could impinge upon the Audit and Compliance Manager's actual or perceived ability to operate independently from the corporate finance function and that resources could be diverted from core internal audit duties. The Audit and Compliance Manager has advised that she has not encountered any material issues in being asked to undertake non-audit duties, but we will continue to monitor this during 2018/19.

Issue

During 2018/19 two members of the internal audit team left their posts, one in August 2018 and one in December 2018. The audit advisor who left in August had fraud and the National Fraud Initiative (NFI) included as part of their remit. At the time of writing this letter both positions remain unfilled with existing internal audit staff covering these vacancies.

Risk

There is a risk that the ongoing vacancies could adversely impact on the delivery of the 2018/19 audit plan. The Audit and Compliance Manager has advised that she is in the process of carrying out recruitment for both the vacant posts, and where necessary a reconfiguration of roles and responsibilities will be undertaken to ensure appropriate skills within the audit team are matched to the positions. We will continue to monitor this during 2018/19.

If you have any questions about the contents of this letter, then please do not hesitate to contact me.

Yours Sincerely



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