

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	22 June 2021
Report by:	Audit and Compliance Manager (Finance and Corporate Resources)

Subject:	Internal Audit Annual Assurance Report 2020/2021
----------	---

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 2021

2. Recommendation(s)

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

- (1) note Internal Audit's performance;
- (2) note the overall findings from internal audit work and that these will inform the Council's 2020/2021 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 2020/2021 has confirmed that South Lanarkshire Council's internal audit function continues to generally conform to the Public Sector Internal Audit Standards.

- 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 2020/2021. 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 recent months, CIPFA have issued guidance around the provision of an audit opinion in a year of unprecedented pressure on public services. It is recognised that, during 2020/2021, SLC systems and controls were impacted by the COVID-19 pandemic with a requirement to amend governance arrangements and normal business operations in response to exceptional circumstances. This event has tested SLC's risk management framework, resulting in new ways of working to deliver statutory services whilst the Council also became facilitators and administrators of new sources of central government funding and the provider of wider support mechanisms to the community.
- 3.5 Embedded within existing systems are controls that have been subject to change. To avoid a limitation of the scope of the audit opinion, CIPFA advised that audit processes should be streamlined to increase capacity, audit scopes could be narrowed to examine only key risks and that assurance and advisory work that supports the annual opinion should be prioritised. All of these approaches have been adopted to ensure that an annual audit opinion can be provided for the year ended 31 March 2021.
- 3.6 Throughout the year, Internal Audit has reported to this Committee. 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 2020/2021 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 2020/2021 Audit Plan was presented as two separate plans during the year; a work plan that covered the initial response phase of the pandemic through to 31 August 2020 and a further seven month Plan that covered the period 1 September 2020 to 31 March 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 2020/2021.

5. Internal Audit Workload and Performance

2020/2021 Workload

- 5.1 The actual number of audit days delivered in 2020/2021 was 1,035 days which was 96% of the target planned days in the year. 88% of the Audit Plan was delivered by 31 March 2021. The five outstanding audit assignments at this date related to special investigations.

	Total No. Jobs
Planned assignments	42
Reports completed to draft	37

Table One - Internal Audit workload analysis for 2020/2021

- 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 2020/2021 Audit Plan was amended to reflect the practical realities of working throughout the pandemic 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 directly related to the COVID-19 pandemic. In relation to the latter, audit time was allocated to support Council Services to pay suppliers, administer and disburse COVID-19 grants, collate statistical returns for the Scottish Government, validate supplier relief claims, develop systems to administer new processes and investigate potential instances of fraud. This has involved most of the Internal Audit service at points in the year.
- 5.4 The participation in all of 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 all new processes or revisions to existing practices. Much of this has had to be delivered against a background of time constraints and approaches have been refined to adapt to emerging risks as these have become known. Whilst not directly providing an audit opinion, such significant involvement has provided assurance that revised Council systems and processes continued to embed the key internal controls of segregation of duties, authorisation, reconciliation and monitoring.

2020/2021 Performance

- 5.5 Performance indicators were not reported to the Risk and Audit Scrutiny Committee during the year as most of the Internal Audit team were routinely involved in delivering COVID- 19 related tasks alongside undertaking routine audit work and traditional monitoring processes were not able to accurately monitor this dual activity.
- 5.6 Most audit assignments were at draft report stage as at 31 March 2021 with Adviser reviews completed by 30 April 2021. The Audit Plan was not delivered in full in year with five assignments outstanding at 31 March 2021. These relate to 'special investigations' and none are of a significant nature. Aside from this, performance across most of the key indicators has declined marginally in 2020/2021 (see Table 2) as a direct result of the extent to which the team were involved in delivering redeployed tasks.

Performance Indicator 2020/2021	Target	2020/21	2019/20
Delivery of planned audit days	100%	96%	106%
Completion of plan to draft report stage	100%	88%	91%
Completed assignments delivered within budget	80%	75%	74%
Draft reports issued within 42 days of fieldwork completed	80%	94%	100%
Productive time	80%	84%	88%

Table Two – Key Performance Indicators 2020/2021

- 5.7 The Committee is asked to note Internal Audit's workload and performance in the year to 31 March 2021 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 2020/2021 Internal Audit Plans. 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 2020/2021. The three areas of assurance relating to governance, risk management and internal control are covered in paragraphs 6.2 to 6.40.

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 6.14.
- 6.3 Previous annual audit reports have commented on South Lanarkshire Council's **Best Value** report that was published in March 2019. Since then, work has been underway to implement recommendations and report progress to Executive Committee. All actions were completed in 2020/2021. To reflect the best value theme of continuous improvement, work to refine the Council's approach to locality plans and develop capacity to engage with its communities continues.
- 6.4 During the year, work was undertaken to review and update **inventory procedures** to reflect the remote working arrangements that were in place. Internal Audit have been involved in developing a dual process of physical checks and completion of e-returns to allow a full reconciliation of IT equipment. This exercise will be completed by 30 June 2021 and will inform a longer term review of inventory procedures given that remote working practices, to some extent or another, are likely to continue.
- 6.5 **Conflict of interest processes** were also reviewed having been refreshed in 2018. The review established that the revised process was fit for purpose and provided clear guidance to Managers around their responsibility to monitor ongoing compliance. An exercise to independently review declarations will conclude in June 2021 and provide assurance that the process has been briefed and implemented on an ongoing basis.
- 6.6 Aside from these assignments, routine governance tasks have been delivered as required: provision of an audit certificate for the Leader EU rural programme and a cross-Resource review of the 2020/2021 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. Resources performance against agreed targets is monitored quarterly through IMPROVe. Council-wide, 71% of internal audit actions were delivered on time in 2020/2021 (and 100% in total when those delivered late are included). Whilst the target for the implementation of internal audit actions is 90%, the actions delivered late fell due in the early stages of the pandemic in 2020 and were implemented as soon as it was practical.
- 6.9 The above performance data suggested that actions are, in the main, being fully and timeously implemented. This was checked independently by a programme of formal follow-up reviews that was undertaken by Internal Audit in the year.
- 6.10 Assurance around effective governance comes also from the Council's **external inspectors**. 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.
- 6.11 Last year's annual audit report included reference to the outcome of an external review of Care at Home services within Hamilton and Rutherglen. Social Work Resources have confirmed significant progress has been made in addressing recommendations arising from these inspections of Care at Home Services. The Resource is now considering the implications of the Independent Review of Adult Social Care which produced a number of recommendations that will be required to be implemented in 2021/2022 and beyond.
- 6.12 Internal Audit have reviewed themes arising from Internal Audit assignments in similar Service areas and have identified areas of good practice around training, the retention of audit trails, adherence to time-scales, consultation and notification of outcomes and overall monitoring arrangements. These will be shared with the Resource to assist with the wider implementation of recommendations.
- 6.13 The Council's External Auditors undertook the 2019/2020 financial audit during 2020/2021 and provided an unqualified opinion in relation to the Council's financial statements. Interim audit work in relation to the year ended 31 March 2021 is in progress and only two issues have been identified to date with mitigating action in place for both. Internal Audit have liaised with External Audit periodically throughout the year and have collated financial year-end data for Audit Scotland.
- 6.14 Audit Scotland also published 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.

Area of Assurance – Risk Management

- 6.15 The second area of assurance is around the Council's **risk management arrangements**. 2020/2021 has required a 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 detailed in paragraphs 6.16 to 6.24 is work undertaken to assess emerging risks, specifically, the evolving fraud risk.
- 6.16 This work was informed by an Audit Scotland report published in July 2020, '**COVID-19 – Emerging Fraud Risks**' that sought to articulate the specific challenges faced by the Public Sector during the pandemic. An audit was included within the 2020/2021 Plan to assess these highlighted fraud risks from South Lanarkshire Council's perspective.
- 6.17 From the outset of the COVID-19 pandemic, the Public Sector has been responding to the crisis with various measures to mitigate the economic and social impacts, with significant additional funding being required to support these measures. Some of this additional funding has been administered and disbursed to vulnerable business and residents by South Lanarkshire Council.
- 6.18 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 has been essential that the Council has been aware of any heightened risks and the vulnerabilities within business processes so that additional controls could be put in place to mitigate if necessary. It has also been key that relevant employees understood particular fraud risks and that the Council had effective anti-fraud controls in place to mitigate.
- 6.19 The audit identified that inherent fraud risks have heightened in all of the key 'financial' business processes during the pandemic – procurement / contracts; accounts payable; and payroll. This was in line with the main messages within the Audit Scotland report and general guidance that has been circulated by professional accountancy bodies throughout 2020/2021.
- 6.20 In addition, the move to remote working may have increased the risks of loss or theft of Council assets (particularly equipment, stock or data) given a shift away from direct supervision of employees, unoccupied premises and the potential for records to contain gaps if these could not be updated during the initial crisis response period of the pandemic. All of these risks have been recognised and work is ongoing to review inventory and stock control arrangements as the Council moves through the various phases of the pandemic. Bulletins have been sent to employees reminding them of safe-guarding duties and good practice steps that should be taken in order to mitigate security and fraud risks. The Council's IT Security Team advise that they have continued to monitor the cyber threats emerging during the pandemic and have introduced additional controls to maintain IT security controls in the face of both cyber threats and potential security implications arising from remote connections.

- 6.21 In line with the fraud risk assessment pre COVID-19, many of these fraud risks will remain, even after recovery from the pandemic, given their inherent nature. The key mitigating action will continue to be adherence to the established systems of internal controls and Internal Audit will assess the effectiveness of these via agreed programmes of audit work. The Council's fraud reporting channels (for employee and third parties) remain open and monitored. Any intelligence from these channels, or via established 'intelligence' channels, will continue to be investigated, with the recovery of money or assets sought where fraud is identified.
- 6.22 Further routine analysis to understand spend with suppliers, the award of contracts during the pandemic and disbursement of grant payments is planned for 2021/2022 as well as some sample testing to obtain assurances that Resource controls remained robust throughout the year. This work will also be informed by the National Fraud Initiative Exercise (NFI) and any other fraud intelligence that is received.
- 6.23 Given the evolving nature of fraud and the heightened risk of such, **fraud policies** have been reviewed in the year. Work is now underway to update these documents in line with this review and consolidate into a single fraud policy document. The review identified gaps in relation to references to the revised Conflict of Interest policy, a link to the Employee Code of Conduct, the role of media management in the context of fraud and the requirement to update fraud risk registers following a significant fraud. Fraud risk registers should be updated annually by Resources and findings from the COVID-19 emerging risk audit will be shared to assist with this exercise.
- 6.24 Extensive anti-fraud work has been ongoing in the year to plan and provide data uploads for the 2020/2021 NFI exercise; disseminate fraud alerts and match data from these to standing data held by Accounts Payable. Much of this has been linked to COVID-19 work and has formed an essential element of internal controls ahead of the payment of grants.

Area of Assurance – Internal Control

- 6.25 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 6.26 to 6.40.
- 6.26 In terms of financial controls, **Procurement** audit work in 2020/2021 focused on Social Work Resources spend above £50,000 where there did not appear to be a contract on the central contract register. Contract documentation was provided to Internal Audit when requested in most cases, albeit to varying levels. General compliance with procurement processes was in evidence. Some gaps were highlighted around the issue and use of a contract reference number where contracts had been awarded, and the subsequent follow-up process of ensuring that awarded contracts, over the value of £5,000, are recorded on the central contract register. Only 30% of the contracts sampled appeared on the central contract register as having a valid contract in place with all of these contracts issued by another Resource, on behalf of Social Work Resources.
- 6.27 From a procurement perspective, there are particular procurement challenges around long term care arrangements which pre-date existing Frameworks. In such cases, Internal Audit would recommend that care packages should be reviewed, albeit retrospectively, to ensure that these are governed by a contractual arrangement.

- 6.28 Areas for improvement were identified regarding the use and retention of contract award documentation to ensure the decision –making process is evidenced and transparent. Arrangements to effectively monitor supplier spend against contract could be improved to ensure over spends are identified, allowing corrective action to be taken or additional spend to be justified.
- 6.29 Work to review **BACS payments** was also concluded in 2020/2021. This tested 418,902 payments with a value of £1.367 billion over a three year period. The audit work reconciled payment data held in Oracle Payables to that of the BACS payments recorded in the external portal and were then ultimately paid. This reconciliation is now embedded within the continuous control monitoring (CCM) checks undertaken by Internal Audit on a four weekly basis. Work to review controls to prevent the creation and authorisation of fraudulent invoices will conclude audit work in this area and this will be included in the second, six-monthly Audit Plan in 2021/2022.
- 6.30 In conjunction with this, an automated process has also been developed and implemented by Internal Audit to better detect **duplicate invoices** using a basic algorithm. Both this work and the reconciliation of BACS payments reflects a strengthening of internal controls within remote working arrangements.
- 6.31 Improvements in the **Sundry Debtor's reconciliation process** were implemented in the year and have now fully addressed previous issues around the provision of a Sundry Debtor's reconciliation at financial year-end.
- 6.32 Financial control testing was originally intended to include a series of **Cash Spot Checks** in the year but this was not feasible during the ongoing pandemic. Instead, the time was used to integrate petty cash audit work into the CCM monitoring project. This work has now created a dashboard that can display how much petty cash has been spent by each unit, how often petty cash is topped up and whether VAT is being correctly recovered on purchases. This dashboard will now be used to inform visits in 2021/2022. Analysis has confirmed a 60% drop in petty cash expenditure in 2020/2021 compared to 2019/2020 (£444,794 to £180,855) and that most of the high users in 2019/2020 remained so in 2020/2021. An overview, along with risk indicators, will be shared with Resources for review and action in 2021/2022.
- 6.33 From an operational control perspective, further work to implement an effective **reconciliation of Oracle Payables to a key contract monitoring system** used by a Service was completed in 2020/2021. The original audit identified that invoices were not always being correctly posted to the contract monitoring system and thus non-contract spend or, spend that varied from that of the original contract award, was not consistently identified. An automated reconciliation has now been developed by Internal Audit that will ensure robust controls are in place. This has mitigated one of the key risks identified by the audit.
- 6.34 Other areas of work included a review of progress with implementing revised contract award arrangements for the provision of **ASN transport**. A framework has now been developed that reflects the key points from previous audit work. The implementation of this new framework has been delayed due to the pandemic with a one year extension of the previous framework being exercised. Guidance documents for the new framework have been prepared and the intention is to roll this out from July 2021 onwards. A review of the new process and a testing of procedures in practice will now be undertaken by Internal Audit in 2021/2022 with part of the scope of this work being to assess whether elements of the contract award process could be automated using algorithms.

- 6.35 In 2020/2021, there was also a further review of progress with implementing **Self Directed Support** (SDS) that confirmed that procedures, training and documentation are mainly in place and that, on this basis, there was evidence of compliance with the requirements of SDS legislation. Further review is required in 2021/2022 to now establish that the planning and administration around SDS ensures service users are assessed timeously and that these arrangements give service users effective choices as to how they meet their care and support needs.
- 6.36 Audit work in the year also looked at the extent to which SLC currently detects the misuse of **Blue Badges** and whether adequate controls are in place to reduce the circulation of expired badges. The audit established that remote access to a database would be required if routine checking was to be undertaken by Parking Attendants on site alongside a review of enforcement powers. The key control outwith this is ensuring that the database accurately reflects all expired Badges. Currently, Blue Badges are requested to be returned when expired but this is not an enforceable request. Key practical improvements to controls could be around improving the currency of the Blue Badge database and exploring how this could be viewed by Parking Attendants on site. The NFI exercise consistently returns a high number of matches for the database to DWP deceased records and work is ongoing with Services to establish how controls in this area can be strengthened.
- 6.37 Routine control work continued in the year through **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.
- 6.38 Internal controls are also reviewed whilst undertaking investigative work and improvements are often identified as a result. In 2020/2021, **anti-fraud reviews** were undertaken, linked, in the main, to the payment of COVID-19 grants. Time to review **bank account change procedures** was used instead to provide advice and guidance regarding the payment of some suppliers in the early stages of the pandemic and this work will now be undertaken in 2021/2022. Routine **investigative work** was of low value and volume during 2020/2021 and five of these assignments remain open as at 31 March 2021 and will now be concluded in 2021/2022. A further two were closed, one with no proven fraud and for the other, an action plan with seven separate actions was agreed with the Service. All of these actions have now been implemented.
- 6.39 Internal Audit has also monitored **fraud alerts** through internal and external sources and disseminated information as appropriate. In 2020/2021, the majority of the information shared with Council Resources related to fraudulent attempts to claim COVID-19 grants and work in this area remains ongoing to ensure that all appropriate action has been taken. These fraud alerts have been invaluable as a way of strengthening controls around the payment of COVID-19 grants.
- 6.40 In 2020/2021, data was uploaded for the next **NFI exercise**. A separate report on the matches coming from this exercise will be presented to RASC in September 2021 together with a proposed investigation plan. These data uploads included a limited number of COVID-19 grants. No COVID-19 grants have been returned as a match and requiring further investigation to date. Arrangements will be put in place to recover overpayments, from fraud or error, in line with the Council's debt recovery procedures.

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 been 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 2020/2021.
- 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. Many of these have been subject to change in the year and all reasonable steps have been taken to gather sufficient evidence to express an audit opinion for this year.
- 7.4 **In 2020/2021, 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 2021.**
- 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 2020/2021 was delivered by a team of 10. Of the team of 10, all are partly or fully 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 2020/2021 spent £357,233 against a budget of £332,581 (to period 14). The overspend was mainly in relation to under-recovery of audit fee income.

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. From this has come a need for the development of emergency powers and revised decision-making arrangements. The Council has proven itself able to respond to unprecedented circumstances and the pressures arising therefrom. A key element of the recovery phase will be for Internal Audit to build on the lessons learned and retain the benefits that have accrued through new working practices developed in response to the pandemic.
- 10.2 Anti-fraud work, linked to activity during the pandemic will continue into 2021/2022. This will include a review and testing of new processes; investigation of NFI matches from the most recent exercise and a cleansing of databases to remove, for example, active suppliers on Oracle Payables that relate only to the payment of COVID-19 grants.
- 10.3 Investing time to fully develop data analytical tools is becoming more important and proved to be a real asset in the processing of COVID-19 grants. This will require the upskilling of the wider Internal Audit team. Audit Scotland published a report on Digital Progress in Local Government in January 2021. Internal Audit will consider the key findings from this report in terms of their own approach to audit and the skills that will require development to ensure that the Service remains relevant and effective.

11. Other implications

- 11.1 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.
- 11.2 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.
- 11.3 There are no sustainability issues in terms of the information contained in this report.

12. Equality impact assessments and consultation arrangements

- 12.1 There is no requirement to carry out an impact assessment in terms of the information contained within this report.
- 12.2 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

4 June 2021

Link(s) to Council Values/Ambitions/Objectives

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- 2020/2021 Internal Audit Plan (Risk and Audit Scrutiny Committee, 21 September 2020)

List of Background Papers

- 2020/2021 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:-

Yvonne Douglas, Audit and Compliance Manager

Ext: 2618 (Tel: 01698 452618)

E-mail: yvonne.douglas@southlanarkshire.gov.uk

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 2021.

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 2020/2021, SLC systems and controls have been impacted by the COVID-19 pandemic and there has been a requirement to amend governance arrangements and normal business operations in response to unprecedented circumstances. This event has tested SLC's risk management framework and has resulted in new ways of working to allow the Council to continue to deliver statutory services in conjunction with a responsibility to be facilitators and administrators of new sources of central government funding and wider support mechanisms to the community. Embedded within existing systems are controls that have been subject to change. Guidance issued by 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 supports the annual opinion could be prioritised. All of these approaches have been adopted to ensure that an annual audit opinion can be provided for the year ended 31 March 2021.

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 2020/2021. 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 2020/2021 and through the 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 2021.

Signature:-

Yvonne Douglas BA CA

21 May 2021