

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	21 September 2020
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	2020/2021 Internal Audit Plan
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ seek approval for the proposed Internal Audit Plan for 2020/2021 (period 1 September 2020 to 31 March 2021)

2. Recommendation(s)

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

- (1) that the proposed Internal Audit Plan for 2020/2021 (period 1 September 2020 to 31 March 2021) is approved

3. Background

- 3.1. In March 2020, to support Internal Audit's move to remote working, a plan of work was presented to the Chair in April 2020 and to the Risk and Audit Scrutiny Committee (RASC) in June 2020 that represented an extract from the 2020/2021 Internal Audit Plan. The interim Audit Plan was augmented by a number of tasks to develop a programme of work that could be completed remotely by Internal Audit over a three month period to 30 June 2020 (that was subsequently extended to 31 August 2020). A copy of this work programme is attached at Appendix 1 together with an update on progress as at 28 August 2020.
- 3.2. In practice, the function was also re-deployed during this period, at times to a significant extent as the pandemic unfolded, to help to deliver key finance tasks. By September 2020, most of these additional tasks have concluded and a formal Audit Plan setting out a programme of audit work for the period 1 September 2020 to 31 March 2021 has now been prepared and is attached at Appendix 2.
- 3.3. Public Sector Internal Auditing Standards (PSIAS) require a specific risk based approach to be taken when preparing audit plans and the consultation exercise that was undertaken in preparation of the Plan in late 2019/2020 reflected this requirement. The Plan presented has been aligned to both corporate and strategic risks and also reflects the pressures of the ongoing pandemic and the requirement to respond to risks that are both evolving and complex.

3.4. The content of the Audit Plan also aims to reflect the key objective of the Service to deliver a programme of work that will inform the annual audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control arrangements. The preparation of the Audit Plan has, therefore, focussed on the delivery of this objective and an unchanged strategy that aims to:

- ◆ Link to the organisation's objectives and priorities providing assurance in relation to top risks that have been identified by the Council
- ◆ Undertake a balanced programme of work delivered in compliance with PSIAS that maximises resources available
- ◆ Commit resources to support corporate activity
- ◆ Prioritise assignments to ensure key areas of work are completed in the remainder of 2020/2021

4. Internal Audit Plan 2020/2021

4.1. The proposed audits will be conducted in accordance with the revised PSIAS and within the context of the Internal Audit Charter, which sets out the role and remit of Internal Audit and is attached at Appendix 3. As with all Council Services, there will be a requirement to review how the service is delivered safely, and practical changes will be required to the process of auditing to ensure compliance with national and local guidance around COVID-19. A separate memo will be issued to Executive Directors in due course setting out these amended approaches with an expectation that information will, in the main, be shared electronically and that most meetings will be conducted on Microsoft Teams.

4.2. A copy of the proposed Internal Audit Plan for 2020/2021 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 when a full risk analysis has been completed and key controls identified. Clients 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 Plan will remain under review during the remainder of the year and may require amendment should resources be limited through absence or through a requirement to deliver a range of re-deployed tasks. Any changes to the Plan will be presented to the Risk and Audit Scrutiny Committee (RASC) for approval. Key performance indicators will be reported to the Committee within routine activity and annual assurance reports.

4.4. The Committee is asked to approve the draft Plan.

5. Employee Implications

5.1. An employee capacity plan was prepared at the commencement of the audit planning process and has been updated as at 1 September 2020. This has determined that 748 audit days are available from 1 September through to 31 March 2021 (inclusive of days to deliver an internal audit service to external clients).

6. Financial Implications

6.1. Capacity planning has been based on a prudent projected budget and a break even position at the end of the financial year is forecast for the Internal Audit section. This is considered to provide sufficient resources to deliver the proposed Audit Plan.

7. Climate Change, Sustainability and Environmental Implications

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

8 Other Implications

- 8.1. In advance of preparing the 2021/2022 Plan, it is intended to map all sources of assurance throughout the Council. This will be used to assess the content and coverage of the interim work plan and the subsequent abbreviated Audit Plan for the remainder of 2020/2021 with the 2021/2022 Plan reflecting the outcome of this review as well as the Council's top risks as these continue to evolve.

- 8.2. The main risks to the non-delivery of the Audit Plan are, generally, vacancies and team up-skilling requirements, unforeseen service demands and delays with client sign-off. Normally, these would be mitigated by coaching and training, regular meetings and escalation processes as well as inclusion of contingency time within the annual plan. However, given the ongoing pandemic, these risks require particular consideration and the proposed Audit Plan for the remainder of 2020/2021 recognises the bearing these may have on the completion of an approved plan of work.

- 8.3. To assist with this ongoing assessment, progress of every assignment will continue to be monitored using the Council's risk management software, Figtree. Audit performance requires co-operation from Services and delivery of the Plan remains dependent on this continuing. The Internal Audit Service recognises the constraints within which Council Services are currently operating but it would be helpful if Resource Management Teams could be reminded that:

- ◆ Heads of Service will be invited to opening and closing meetings. Should this responsibility be delegated, this may impact on the Head of Service's ability to influence the scope of the assignment
- ◆ A senior officer should be nominated to liaise with auditors during the field work
- ◆ A closing discussion meeting should be accepted within four weeks of completion of the fieldwork
- ◆ Draft reports should be reviewed for factual accuracy
- ◆ Action plans should be signed within three weeks of closing meetings

- 8.4. In terms of delivery of the Plan, target commencement and completion dates will be fixed shortly and will be communicated to Resources in advance of each audit commencing. Executive Directors have been asked, by 30 September 2020, to intimate to the Audit and Compliance Manager any particular periods of time which should be avoided. Every effort will be made to accommodate timing concerns within the constraints of the need to deliver the Plan by 31 March 2021.

9. Equality Impact Assessment and Consultation Arrangements

- 9.2. 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 all returned suggestions have been included within the initial "audit universe" for risk evaluation.

Paul Manning

Executive Director Finance and Corporate Resources

1 September 2020

Link(s) to Council Objectives/Values/Ambitions

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- Internal Audit Activity as at 29 May 2020 – RASC, 18 June 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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Lead Resource	Audit assignment	Outline Scope	Current Status
Finance and Corporate	General Ledger Data	Provide 2019/2020 general ledger entry data to External Audit for the audit of the financial accounts for the year ended 31 March 2020.	Complete – information supplied to External Audit.
All	Audit Plan Reporting	Prepare activity reports.	Ongoing – reports continue to be prepared as required for reporting to the RASC.
All	Informal Follow Up	Prompt Resources on a quarterly and monthly basis of actions due within that period. Collate responses for reporting.	Ongoing – continuing to request feedback from Resources as audit actions fall due. Programme of formal follow-up audits included in the Audit Plan from 1 September 2020 to 31 March 2021.
All	National Fraud Initiative (NFI)	Conclude and report on 2018/2019 exercise.	Complete – 2018/2019 exercise has concluded and reports prepared. Planning for the 2020/2021 exercise has commenced.
All	Fraud Alerts	React to fraud alerts through internal and external sources and disseminate information as appropriate.	Ongoing – continues to be managed through established processes. Fraud alerts specifically relating to COVID 19 grants has been circulated and used to match to South Lanarkshire Council data ahead of payments being processed.
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 to be reported to Resources for further investigation.	Ongoing – CCM data is continuing to be downloaded on a periodic basis in line with established processes.

Lead Resource	Audit assignment	Outline Scope	Current Status
Finance and Corporate Community and Enterprise	City Deal – Governance Statement	Provision of Governance Statement to Glasgow City Council for 2019/2020.	Complete – Governance Statement supplied to Glasgow City Council for 2019/2020.
Finance and Corporate	BACs Reconciliation	Assistance to undertake routine reconciliations.	Ongoing – completion of the assignment has been impacted by absence. Work has restarted and will now be concluded by 30 September 2020.
Finance and Corporate	Debtors reconciliation	Assistance with year-end reconciliation.	Ongoing – review of 31 March 2020 reconciliation has been completed. Memo is being prepared to conclude the assignment and output will be included in the next activity report presented to the RASC.
Social Work	Self Directed Support	Provision of position statement and assessment of progress with delivering Self Directed Support.	On hold – resources were redeployed within Internal Audit to deliver COVID 19 tasks and the assignment was placed on hold. Assignment now included in the Audit Plan 1 September 2020 to 31 March 2021.
Community and Enterprise	Procurement	Collate management information for purposes of follow up work planned in 2020/2021.	Ongoing – completion of assignment has been impacted by absences and redeployment. Some progress has been made and assignment has now been prioritised for completion ahead of the start of planned 2020/2021 follow up work.

Lead Resource	Audit assignment	Outline Scope	Expected days
All	Contract Scrutiny Groups	Participate in Contract Scrutiny Groups as required.	10
All	Attend SLACIAG and SLAIG groups, computer audit sub-group and IDEA user group	Attend as required, respond to requests, participate in consultations and provide updates.	8
All	Internal Working Groups	Attend and participate in internal working groups, including, Learning and Development Board; Information Governance Board; Good Governance Group; Serious and Organised Crime Group and Historic Abuse Working Group.	11
All	Audit plan 2021/2022	Undertake consultation, risk assessment, Resource and Section planning, set scopes and objectives and seek approval through preparation of reports.	10
All	Informal Follow Up	Prompt Resources on a quarterly and monthly basis of actions due within that period. Collate responses for reporting.	15
All	Provision of reports to Committee	Write and present monitoring and annual reports to Committee.	15
All	Continuous Control Monitoring (CCM)	Continue to download data in current CCM areas. Use data for analysis and to inform internal and	35

Lead Resource	Audit assignment	Outline Scope	Expected days
		external audit testing. Prepare formal reports to allow exceptions and unusual trends in financial controls to be reported to Resources for further investigation.	
All	Follow Up	For all Council Resources, identify audit recommendations due in the period April 2019 to March 2020. Risk assess and follow-up to ensure implementation of all high risk actions including testing to confirm all actions full implemented.	100
Community and Enterprise	LEADER grant	Provision of annual audit certificate.	10
Social Work Resources	Self-Directed Support	Provide assurance of compliance with Social Care (Self-directed Support) (Scotland) Act 2013.	5
Social Work Resources	Justice Services	Conclude review of management information to ensure timely and accurate.	5
Education Resources	Additional Support Needs Transport	Test effectiveness of new procedures and implementation of agreed actions.	35
Finance and Corporate Resources	Bank Change procedures	Review current process for amending bank details and develop briefings for Resources.	5
All	Conflict of Interest	Review current process for declaring conflicts of interest and confirm compliance with revised procedure.	5

Lead Resource	Audit assignment	Outline Scope	Expected days
South Lanarkshire Leisure and Culture	External Client	Provision an internal audit service in 2020/2021.	45
Lanarkshire Valuation Joint Board	External Client	Provision an internal audit service in 2020/2021.	30
Integrated Joint Board	External Client	Provision an internal audit service in 2020/2021.	50
SEEMIS	External Client	Provision an internal audit service in 2020/2021.	25
All	National Fraud Initiative (NFI)	Plan, administer and provide NFI data. Facilitate the investigation of 2020/2021 matches. Review use of current NFI tools to ensure efficient investigation of matches.	40
All	Fraud Alerts	React to fraud alerts through internal and external sources and disseminate information as appropriate.	2
All	Anti-Fraud Review	Review Audit Scotland report (Emerging Fraud Risks – July 2020). Assess risks specific to South Lanarkshire Council and test check controls in place to mitigate.	30
Finance and Corporate Community and Enterprise	Blue Badge	Review existing procedures around detecting potential fraudulent use of blue badges.	10
All	Best Practice Analysis	Review and update fraud policies and procedures. Review current process for collation of fraud statistics and revise fraud reporting format.	5

Lead Resource	Audit assignment	Outline Scope	Expected days
All	Inventory Checks/Procedures	Undertake full review of inventory procedures, prepare formal guidance and test check operation in practice.	30
All	Procurement Checks	Develop and implement a programme of spot checks on contract award and monitoring in compliance with the Council's Procurement Strategy.	70
All	Cash Checks	Develop and implement a programme of spot checks.	20
All	COVID 19	Complete redeployed tasks and undertake any post assurance work if required.	55
All	Contingency	Conclude all 2019/2020 audits. Respond to requests for unplanned work during the remainder of 2020/2021, including advice and guidance to Resources. Undertake investigations as required.	67
TOTAL			748

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 the RASC 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 the RASC. 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 the RASC 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 RASC. 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 the RASC.

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 the RASC. 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 the RASC to be briefed. The Audit and Compliance Manager's relationship with the Chair of the RASC 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 the RASC.