

# Report

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| Report to:       | <b>Risk and Audit Scrutiny Forum</b>                                  |
| Date of Meeting: | <b>20 September 2017</b>                                              |
| Report by:       | <b>Audit and Compliance Manager (Finance and Corporate Resources)</b> |

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| Subject: | <b>Internal Audit Annual Assurance Report 2016/2017</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 governance, risk management and internal control systems based on audit work undertaken in 2016/2017

## 2. Recommendation(s)

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

- (1) note that Internal Audit performance is positive
- (2) note the overall findings from internal audit work and that these have informed the Council's 2016/2017 governance statement
- (3) note the level of assurance
- (4) note that a summary of this report will be presented to the Executive Committee on 27 September 2017

## 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), compliance with which is now 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 SLC. As required by PSIAS, this report has informed the Governance Statement, which is published as part of the Council's Annual Report.

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. This programme includes periodic and ongoing internal assessments as well as an external inspection once in each five year period. An external review of the level of compliance is currently underway and will be reported to the Risk and Audit Scrutiny Forum (RASf) on conclusion. In preparation for this inspection, a self-assessment checklist was

completed which has identified some minor administrative areas where compliance needs to be more clearly evidenced together with a need to develop a more effective method of gathering client feedback. These areas for improvement are not considered to have impacted upon the quality of the internal audit service delivered during 2016/2017 or the audit opinion expressed within this annual report.

- 3.3 When framing the terms of the assessment, the Chief Internal Auditors' Group have defined four separate levels of compliance which will range from 'fully conforms' to 'does not conform'. Given that 'fully conforms' would require compliance across approximately one hundred separate criteria, it is likely that the function will be deemed to 'generally conform'.
- 3.4 At the conclusion of this process, a report will be presented to the Forum detailing the level of compliance with PSIAS together with an agreed action plan to address any gaps identified as part of the assessment process.
- 3.5 Internal Audit has reported throughout the year to Forum. Reports to the Forum 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 2016/2017 Audit Plan.
- 3.6 During the year, Internal Audit has also delivered services to South Lanarkshire Leisure and Culture and the Lanarkshire Valuation Joint Board under the terms of agreed Service Level Statements. A programme of audits has been completed for each of these external clients in 2016/2017. Annual reports have been prepared and presented to the Boards of South Lanarkshire Leisure and Culture and the Lanarkshire Valuation Joint Board.
- 3.7 In addition, an internal audit service was provided to South Lanarkshire Integration Joint Board for the first time in 2016/2017 in conjunction with NHS Lanarkshire. A specific programme of audits for the year have been completed and formally reported to the Board on 12 September 2017.

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

- 4.1 As a function, Internal Audit seeks to link in to the Council's Connect Value of 'accountable, effective, efficient and transparent'. Specifically for Internal Audit, this relates to the provision of assurance that the Council is well governed financially and operationally and has in place effective risk management arrangements. In areas where this is not the case, an action plan has been developed and implemented to deliver the required improvements.
- 4.2 In addition to Connect, assignments within the Audit Plan each year are linked to the Council's top risks to ensure that work is focussed in areas of greatest risk and where, potentially, an independent review would add greatest value. Two of the Council's top ten risks were not directly covered by the Plan; failure to maintain the required pupil/teacher ratio; and failure to demonstrate continuous improvement; limited strategic direction and a lack of cohesive management. Although there was no audit work in relation to teacher numbers, a high level review of the risk and mitigating controls in 2016/2017 provided assurance that the risk had continued to be managed in the year. The latter risk was covered in the 2015/2016 Plan and will be considered for future year Plans.

4.3 PSIAS requires the audit plan to be kept under review as it progresses and this includes a comparison against the Council's top risks as these are reassessed during the year. The Council's top risks were revised in October 2016 and included three new 'top ten' risks:

- Failure to tackle poverty, disadvantage and deprivation
- Failure to develop a sustainable council and communities
- IT development and functionality does not meet service requirements

4.4. In respect of the latter two risks, related work had already been included in the 2016/2017 Plan. Audit work linked to the risk of a failure to tackle poverty, disadvantage and deprivation will be considered for inclusion in the 2017/2018 Plan.

## **5 Internal Audit Workload – 2016/2017**

5.1 The Internal Audit Plan for 2016/2017 was approved by the Forum 15 March 2016. The focus of the Plan was to provide assurance regarding the adequacy of the Council's internal control environment and to determine if effective risk management and governance arrangements were in operation across Council Resources.

5.2 The Plan was the subject of extensive consultation and External Audit views were sought as part of the process. An evaluation of risk was used to prioritise the operational and financial assignments that formed the Plan and to inform subsequent revisions as the year progressed.

5.3 PSIAS requires progress against the audit strategy to be monitored and reported to the Audit Committee as part of the regular monitoring reports that are presented at each meeting. Delivery of the strategy is evidenced by completion of the Plan and monitored through the performance indicators that are regularly reported to the Forum. Any subsequent changes to the Plan are presented to the Forum for endorsement and include an assessment as to the impact such changes would have on the delivery of the overall audit strategy.

5.4 The actual number of audit days delivered in 2016/2017 was 1,891 days which was 9.2% above Plan<sup>1</sup>. 93.3% of the Council Plan was delivered by 30 April 2017. The nine outstanding audit assignments at this date related to external clients (four), corporate fraud (three) and special investigations (two).

Table One - Internal Audit workload analysis for 2016/2017

|                                   | <b>Total<br/>Jobs</b> | <b>No.</b> | <b>SLC</b> | <b>External<br/>Clients</b> |
|-----------------------------------|-----------------------|------------|------------|-----------------------------|
| Planned                           | 112                   |            | 94         | 18                          |
| Deferred until 2017/2018          | (19)                  |            | (19)       | 0                           |
| <b>Adjusted workload</b>          | <b>93</b>             |            | <b>75</b>  | <b>18</b>                   |
| <b>Reports completed to draft</b> | <b>84</b>             |            | <b>70</b>  | <b>14</b>                   |

5.5 Each of these audits were conducted in conformance with PSIAS. A significant level of unplanned and adhoc work was undertaken in the year with 611 days being spent across three specific assignments. The total time equates to 35% of the plan days available for the year and has involved the most skilled and experienced members of the team. This was set, in part, against the 305 days provided in the Plan for contingency work (205, general and 100, fraud contingency).

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<sup>1</sup> This reflects, in part, a post awaiting re-deployment

- 5.6 To address this level of unplanned work, audit work was re-prioritised in such a way to ensure that a programme of work could be delivered by 30 April 2017 that would allow an annual audit opinion to be expressed and include areas of work where our External Auditors had indicated their intention to place reliance or where an internal audit service is delivered to an external client. The programme of deferred assignments was presented to the Forum in March 2017 and is now nearing completion.
- 5.7 Of 70 assignments noted in the table above, 70% have been concluded and issued as final. In some instances, findings noted below relate to draft reports, although all outstanding draft reports are at a final stage of negotiation with clients and no material changes are anticipated.

## **6 Internal Audit Delivery – 2016/2017**

- 6.1 PSIAS requires robust quality assurance procedures to be applied and significant effort is made to protect the quality of output and to reach consensus with clients over the content of audit reports whilst protecting the ability of Internal Audit to express an independent opinion. To facilitate the Forum's scrutiny of more material risks, key message 'pages' are appended to routine activity reports detailing key findings from significant assignments.
- 6.2 In terms of an overview of performance, Internal Audit has maintained performance in 2016/2017 in relation to delivering National Fraud Initiative (NFI) actions on time and delivering jobs within target budgets. Targets have also been met in relation to issuing of draft reports within twenty-one days, delivering more than the planned number of audit days and productivity levels, albeit the extent to which these have exceeded target has declined in 2016/2017. In terms of the non-delivery of one target, the delivery of the Audit Plan by 30 April (see 5.4), two out of five SLC assignments relate to ongoing investigations and three to audits where insufficient resources were available to conclude work by 30 April 2017.
- 6.3 As resources reduce, an increasing proportion of total time is being spent on external client work as well as responding to adhoc requests and participating in Council-wide scrutiny and review groups. The presence on such groups provides an independent challenge to the work of the Group and ensures that emerging risks are known and addressed, if required. Whilst not directly providing an audit opinion, knowledge of Council systems and processes are reviewed as part of the delivery of this role and does assist in the development of a more value-added role for the Service.
- 6.4 PSIAS requires 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. Historically, this had been achieved through client questionnaires and periodic meetings with Heads of Support Services. Diminishing returns has meant that client questionnaires were becoming an ineffective means of gathering feedback. The wider method through which the function gathers feedback and engages with Council Services is under review and will require to recognise the new centralised finance support structure that is now in place.
- 6.5 The Forum is asked to note Internal Audit performance in the year to 31 March 2017.

## **7 Financial Controls and Findings**

- 7.1 The opinion in relation to financial controls has been formed based on two main areas of assurance, namely:-
- ◆ a programme of financial audits included within the 2016/2017 Internal Audit Plan and
  - ◆ the work of External Audit in relation to the Council's financial statements for the year ended 31 March 2016 (final) and 31 March 2017 (interim)
- 7.2 Overall, there is a good level of assurance over financial control across the Council. Many significant financial controls are embedded within systems and these have been tested throughout the year by a programme of internal and external audit testing.
- 7.3 In 2016/2017, significant financial assignments covered a review of general funds within Care Homes, the Debtors' system, LEADER (the European rural grant programme) processes and governance of City Deal projects. The Continuous Controls Monitoring (CCM) project continued throughout the year and has informed 'intelligent' sampling within both routine audits and specific investigations.
- 7.4 In terms of the specific findings, general funds within Care Homes were found to be being administered mainly in compliance with procedures. There were areas of good practice but also a number of issues, albeit at times less material, that required to be addressed. There was good assurance around the controls within the debtors' system with effective workflow arrangements in place to process transactions. Recommendations were made around debtor creation controls, system house-keeping arrangements and the strengthening of audit trails. Improvements in the LEADER grant procedures were in evidence which will be monitored moving forward by Funding and Compliance who will apply the same compliance procedures as adopted for other European funds.
- 7.5 Audits in relation to City Deal will be included in the Audit Plan each year to support the Assurance Statement that is provided to the Cabinet on an annual basis. The first of these was completed in 2016/2017 which, at a strategic level, reviewed capital monitoring, grant funding and risk management arrangements around City Deal projects. The audit concluded that there was good assurance that controls are in place that ensure that these arrangements are operating effectively. Future years' plans will include testing at a more operational level.
- 7.6 Data downloads in 2016/2017 covered Oracle Financial Management System, Payables, i-Procurement and ICON Income Management System. CCM work provided detailed analysis of this data which was subsequently used in special investigations.
- 7.7 In addition to the above, financial audits covered petty cash spot checks within schools. A number of issues were identified which will be addressed as part of an action plan although it is important to note that, overall, cash discrepancies identified were of immaterial value.

- 7.8 Follow-up work within financial audit areas, in the main, related to Audit Scotland reports that had been presented to the Forum throughout the year. This review provided evidence of actions being implemented. At the time of writing this report, interim audit work for 2016/2017 undertaken by the Council's External Auditor has been completed and no significant issues have been highlighted in the Interim Management Letter issued by Audit Scotland for the year ended 31 March 2017.
- 7.9 Financial investigative work in the year covered a 'chargeback' fraud and an unsubstantiated allegation around specific funding. Neither the volume, nor the value, of these investigations suggests any fundamental issues within routine financial control arrangements.

## **8 Operational Controls and Findings**

- 8.1 The opinion in relation to operational controls has been formed based on two main areas of assurance, namely:-
- ◆ a programme of operational audits included within the 2016/2017 Internal Audit Plan and
  - ◆ the work of external regulators and inspectors (see Section Eleven)
- 8.2 Overall, there is an adequate level of assurance over operational control across the Council. Although operational controls generally exist, on occasion, these lack robust implementation. Controls such as adherence to proper processes and key controls rely on management checks and monitoring and, as operational controls are generally vested in people, this remains an area of higher inherent risk. Adherence to procedures remains key to ensuring a full audit trail is available to support all activity.
- 8.3 The computer assignment in 2016/2017 covered cyber security – malware protection, the first in a rolling programme of four such audits in this area. The audit concluded that there was adequate assurance that the security policy in relation to malware protection is comprehensive and considers the processes to mitigate the risks in relation to removable media, external attack and incident management. The risk of infiltration of the Council's network is mitigated by the implementation of comprehensive anti-virus and security protocols which are regularly independently tested. An incident management plan is currently in place which works in conjunction with the wider corporate contingency plan. Some recommendations have been made in relation to documentation and policy issues and the need to regularly review data saved from the network onto removable media.
- 8.4 Contract audit in the year covered a review of risk based procurement arrangements and the contract register. The audit confirms that there are adequate controls in place to meet the key risk sections of the CIPFA guidance - 'A risk-based approach to the audit of procurement'. The guidance was a useful high level tool for Internal Audit to use for a review of specific areas of procurement. The new Procurement and Commercial Improvement Programme (PCIP) assessment incorporates many elements of the CIPFA guidance. In practice, the use of the guidance to interpret the findings of a recent audit investigation highlights weaknesses in a number of areas of the guidance and the resulting challenge in closing the gap between procedural controls and their operational use.
- 8.5 In relation to the contract register, audit testing provided good assurance that the Contracts Register is materially complete although some inconsistencies were identified.

- 8.6 The Procurement and Commercial Improvement Programme (PCIP) assessment was undertaken in the year. The final score of 71.4% represented an excellent outcome in the upper echelon of the full assessment performance banding. This score was in close proximity to the self-assessed score, demonstrating a good internal understanding of SLC's procurement capability. Despite this positive position, contract audit work was also a significant feature of investigative assignments in the year. Within this, there was evidence of breaches in procedures and that these same procedures were not sufficient to provide assurance that fraudulent activity would be detected. Improvement plans have subsequently been agreed.
- 8.7 Other areas of work also included the defect (snagging) process within the primary schools modernisation programme. The audit concluded that the defined procedure generally met accepted best practice but a lack of an audit trail in some areas prevented this being fully evidenced in practice. Some delays in works and repairs were in evidence, albeit these could be deemed as unavoidable due to external factors.
- 8.8 In relation to the Council's framework, adequate audit trails were in evidence to support the information recorded within IMPROVe and the audit concluded that performance was being reported accurately and reflected progress that had been made by Resources in the period under review.
- 8.9 The assessed level of risk around information governance has reduced over recent years due to a revision of the adequacy of controls that are now considered to be in place, but this remains an inherently high risk area where significant financial penalties and reputational damage can accrue from a single breach in controls. Further work will be included in the 2017/2018 Audit Plan to assess the Council's preparedness for General Data Protection Regulations enforceable from May 2018. The 2016/2017 Audit Plan included work on Information Governance, specifically, practical checks of governance arrangements across Council Services. These visits did not identify any material issues in terms of accepted practices within local offices but did not, however, provide assurance that a breach could not occur in the future through simple human error. A separate statement of assurance in relation to information governance arrangements has been included within the Council's Governance Statement for 2016/2017 by the Information Governance Board. Some actions have been identified but are not viewed as significant by the Board. This statement has been considered in the expression of the audit opinion within this report.
- 8.10 A significant number of all Audit Plan days in the year were spent reviewing case files within the Unpaid Work Service. A number of improvements were identified and Internal Audit are represented on the internal working group tasked to take these forward.
- 8.11 During 2016/2017, work also continued around ASN transport, including undertaking retrospective checks and attending the internal working group progressing improvements in relation to identified issues with the Service.
- 8.12 A material amount of time was also spent reviewing procurement practices and work in this area remains ongoing at this time. Internal Audit will complete the work in 2017/2018 and undertake specific follow-up in this year to assess whether the significant risks that have now been identified within procurement and operational practices have been addressed.

- 8.13 In addition to the above, more significant audit assignments, operational audit testing established generally positive assurance around controls within a number of other areas reviewed including carbon emission monitoring and payments to the CRC registry, progress with energy reduction targets, statutory climate change duties, internal controls within Planning, Social Media and administrative support provided to the Supplier Development Programme.
- 8.14 During 2016/2017, benefits audit work covered a review of Universal Credits. Internal Audit has completed the initial research stage of the audit process and is satisfied that there are procedures in place to identify and stop Housing Benefit payments to claimants who have moved to Universal Credit. Specific testing has not been carried out to ensure these procedures are operating as intended and this will be completed in 2017/2018 when a further roll out of Universal Credit is due to take place. As in previous years, this programme of 'benefit' audits has been supported by a robust review undertaken by the Resources' own internal team.
- 8.15 Other than the specific assignments detailed above, investigative work was of low value and volume in operational areas during 2016/2017. Where appropriate, actions have been agreed or are being discussed with Resources.
- 8.16 Follow-up work within operational audit areas was limited in 2016/2017 and now forms part of the deferred programme of assignments being completed in 2017/2018. Two assignments were completed to follow up actions arising from the Care Home facility audit and from a previous special investigation within a depot. In respect of the first audit, this identified that most actions had been implemented but that some work was required to fully implement the remaining actions. A revised action plan was agreed. In respect of the special investigation, actions had generally been implemented but it remains an area of inherent risk.
- 8.17 Follow up was also delivered in relation to actions arising from the Audit Scotland report on workforce planning. Good progress was found to have been made in implementing the identified actions in relation to the Audit Scotland report, 'Scotland's Public Sector Workforce' (November 2013). Four of the eight actions were delivered after the original deadline, however, this was considered to reflect the complexity of workforce planning and the level of additional work that was required to be undertaken. Assurance was provided that the Service is making progress with ensuring that South Lanarkshire Council meets all the requirements of the Audit Scotland report and demonstrates a commitment to make continual improvements to the workforce monitoring process.

## **9 Management of Fraud Risks – Investigative Work and Best Practice Guidance**

- 9.1 There are four main routes for reporting fraud with the Council, whistle -blowing via letter, telephone call, verbal or email, through the Customer Relationship Management System (CRM), through local management or from the Police. Approximately 77% of concerns reported during the year came through external whistle-blowing or through the CRM system. The remaining 23% of concerns were reported by local management. Irrespective of the source of alert, all notifications are risk assessed and, dependent on an initial evaluation of risk, either investigated by Internal Audit, Resources or passed to the Police. Fraud statistics are reported bi-annually to the Forum and a full report detailing 2016/2017 statistics is included elsewhere in the agenda for this meeting.



- 9.2 Total value of fraud concerns reported to Internal Audit in 2016/2017 equated to £1.6k. Concerns reported in 2016/2017 included one significant case. The investigation into this concern is currently ongoing, therefore, a fraud has not yet been confirmed (or valued). Significant reputational risk can, of course, attach to frauds irrespective of the value. Audit recommendations are routinely made to address identified gaps in controls and standard fraud indicators are included in all audit programmes, the results of which are considered during the annual planning process.
- 9.3 In addition to the above investigative work, Internal Audit provided the data for the 2016/2017 National Fraud Initiative (NFI) exercise to Audit Scotland by the due date in October 2016 and the resultant matches were provided to the Council from January to May 2017. In addition to uploading the data required for the NFI exercises, Internal Audit is responsible for co-ordinating the investigations of the cases resulting from the matches throughout the Council. The investigations will largely be completed by September 2017 and fraud identified will be included within the Fraud Statistics reports to the Forum. Housing Benefit fraud investigations are passed to the Department of Work and Pensions Fraud and Error Service (FES), therefore, it is likely that these investigations will continue until 31 March 2018.
- 9.4 During 2016/2017, Internal Audit followed up actions identified during the 2015/2016 review of the procedures in place to protect the Council against serious and organised crime. The follow up work concluded that progress continues to be made across all areas where it was identified that improvements were required. Further work will be undertaken in 2017/2018 to confirm all actions have been completed.
- 9.5 The 2016/2017 Audit Plan also included anti-fraud reviews and a programme of corporate frauds. However, due to the high volume of unplanned audit work in 2016/2017 which required significant employee resources, it was necessary to defer five routine fraud reviews until Quarter One of 2017/2018. There were no instances of fraud identified from the fraud risk reviews completed in 2016/2017.
- 9.6 A corporate fraud programme of work was included in the 2016/2017 Annual Internal Audit Plan which was approved by the Forum in March 2016. Two of the three planned audits were started in the last quarters of 2016/2017 but were not concluded as at 30 April 2017. These two audits concentrated on fraud areas involving employees and Internal Audit is currently consulting with Personnel Services to obtain further explanations for issues identified. The third audit related to tenancy fraud and has been deferred until 2017/2018. Fraud identified from the corporate fraud programme of work will be included within the Fraud Statistic reports to the Forum.
- 9.7 In addition to this practical investigative work, audit actions arising from an assessment of current fraud mitigation arrangements against best practice detailed within CIPFA's Fraud Risk Evaluation Diagnostic (2) assessment have been completed. Only two actions remain outstanding, one was deferred to coincide with the external PSIAS assessment and the other is on hold, pending conclusion of the Finance Services Review. An annual update of the Resource Fraud Risk Registers is co-ordinated by Internal Audit and this was completed in September 2016. Internal Audit also monitors fraud alerts through internal and external sources and disseminates information as appropriate. In 2016/2017, the majority of the information shared with Council Resources related to fraudulent attempts to change bank details and invoice frauds against schools. There were no instances of fraud in these areas identified in South Lanarkshire Council in 2016/2017.

## **10 Council Wide Performance – Delivery of Audit Actions 2016/2017**

- 10.1 PSAIS places a responsibility for monitoring progress with the delivery of audit actions with the Chief Internal Auditor to ensure that recommendations are effectively implemented. Resources have performed well against agreed targets for implementing audit recommendations. Council-wide, 92% of internal audit actions were delivered on time (and 99% in total, with some only marginally late). Only one action remains outstanding as at 31 March 2017 and will now be followed up in 2017/2018. Resource performance information in relation to audit actions is reported within IMPROVe.
- 10.2 In addition, formal follow-up is also undertaken in the year by Internal Audit where formal evidence is sought to substantiate implementation of audit actions. A specific allowance is included in the annual audit plan to allow an independent check on all high priority actions that have fallen due for implementation within the current financial year. During 2016/2017, only three formal follow-up audit assignments were completed. The balance of follow up work for this year has been deferred to 2017/2018. Of these assignments, all provided assurance that actions were being implemented, albeit not always on time or, in some instances, fully. Revised targets are agreed with Resources where further work is required to implement an action in full.
- 10.3 Overall, audit actions continue to be implemented in full and generally, timeously although findings from the small number of follow-up audits completed in 2016/2017 is highlighting that actions may not always be implemented in full. This will be monitored as part of a wider programme follow-up in 2017/2018 as implementation of audit recommendations is key to securing improvements in the control environment.

## **11 Areas of External Reliance**

- 11.1 On an annual basis, an assurance mapping process is undertaken to identify significant issues that would impact on the overall opinion expressed within this report.
- 11.2 The shared risk assessment is a process each year that involves the Council and representatives of all scrutiny bodies who engage with the Council. The outcome (a Local Scrutiny Plan) from this in 2016/2017, identified no specific risk-based scrutiny risks for the Council although some areas of the Council's activity were to be the subject of ongoing monitoring and oversight by the Local Area Network during the year. In 2017/2018, a similar position has been identified and there are no scrutiny risks identified. In expressing an annual internal audit opinion, consideration is given to the output from this strategic scrutiny activity. Outwith this Local Area Network, the main areas of external reliance are detailed in the paragraphs below.
- 11.3 External Audit undertook the 2015/2016 financial audit during 2016/2017 and provided an unqualified opinion in relation to the Council's financial statements. Interim audit work in relation to the year ended 31 March 2017 has been completed by External Audit and no significant issues identified in the Interim Management Letter that has subsequently been issued. Internal Audit has liaised with External Audit periodically throughout the year as required and have provided specific assistance around the provision of financial year-end data to Audit Scotland.

- 11.4 Audit Scotland reports are reported to the Forum, as appropriate, covering the key messages and their application to SLC. Any relevant actions are identified and a responsible officer allocated. Progress is monitored by Resources and formal follow-up work is undertaken by Internal Audit at the end of each financial year in respect of reports presented to the Forum during the financial year. Within the reports presented to the Forum, there were specific actions that were required to be delivered in 2016/2017. Informal follow-up of these actions as at 30 April 2017, confirmed that each of the actions falling due had been progressed in the year.
- 11.5 The audit opinion also considers significant partnerships. Assurances are sought in relation to governance arrangements annually by the Council during preparation of the Governance Statement. No issues have been identified that require specific note within this annual report. Internal Audit is represented on the Good Governance Group and, through this, contributes to the preparation and development of the Governance Statement.

## **12 Summary of Overall Assurance and Audit Opinion**

- 12.1 Adequate arrangements exist within the Council to escalate any concerns the Audit and Compliance Manager may have in relation to the level of risk accepted by management or the Council. Throughout the year, there was no impairment in the scope of audit work or the ability of Internal Audit to express an independent opinion.
- 12.2 The objective of Internal Audit is to evaluate and improve the effectiveness of risk management, control and governance processes. The purpose of this report is to provide an independent audit opinion on the adequacy and effectiveness of the Council's internal controls based on audit work undertaken in 2016/2017 and, by doing so, to provide assurance around the overall adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements.
- 12.3 Of the audit assignments completed to draft stage in 2016/2017 that provided an audit opinion, a material number concluded either good or adequate assurance as to the adequacy and effectiveness of controls. Overall, there is a good level of assurance over the financial controls in operation across the Council and an adequate level of assurance over the operational controls in operation across the Council.
- 12.4 Of the seventy one audit actions that were due to be implemented in 2016/2017, 65% of these actions relates to operational controls and processes and procedures. Within these areas, adherence to current procedures, retention of documentation, segregation of duties, reviewing and monitoring remain key controls that require to be strengthened. A further 17% related to the adherence to principles and regulations which includes the Council's own Financial Regulations and Standing Orders. The subject matter of audit actions broadly aligns to the findings from most special investigations that procedures have not been applied, Standing Orders not adhered to and that local management have not identified issues timeously because of a lack of robust monitoring. Pro-active approaches are being developed through CCM data analysis of key financial systems to assist in highlighting patterns and trends that merit further investigation. This could form an important part of a sound financial control environment in the future.

- 12.5 Internal control remains, primarily, a management responsibility to ensure that the Council conducts its business in a sound, structured and efficient manner, to ensure adherence to policies and safeguard the assets and records of the Council. 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 above financial and operational audit opinions are based upon the audit work undertaken during the year and knowledge of the Council's governance and risk management arrangements.
- 12.6 The Forum is asked to note the above findings which have informed 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.

### **13 Employee Implications**

- 13.1 The Internal Audit service in 2016/2017 was delivered by a team of thirteen. Of the team of thirteen, eleven are partly or fully qualified through either the Chartered Institute of Internal Auditors or one of the Consultative Committee of Accountancy Bodies.
- 13.2. 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.

### **14 Financial Implications**

- 14.1 Audit and Compliance Services, during 2016/2017, spent £525,850 against a budget of £462,870 (to period 14). The overspend related to a reduction in the external client income and costs attached to a surplus post awaiting redeployment.

### **15 Other Implications**

- 15.1 Each audit assignment seeks to identify efficiencies and report as a part of the audit opinion where appropriate. In practice, this often translates into identifying audit recommendations that suggest 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.
- 15.2 During 2016/2017, Internal Audit has provided advice and guidance across a number of areas and sat on working groups in relation to four main workstreams; Information Governance, Good Governance, Welfare Reform and Integrated Health and Social Care.
- 15.3 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. The number of days allocated to contingency has been reviewed in 2017/2018 but the allocation is constrained by the requirement to include specific assignments to ensure the Plan is risk-based and comprehensive. Key performance indicators include a measure on productivity that will be used to monitor effective use of contingency days.
- 15.4 There are no sustainability issues in terms of the information contained in this report.

## **16 Equality Impact Assessments and Consultation Arrangements**

- 16.1 There is no requirement to carry out an impact assessment in terms of the information contained within this report.
- 16.2 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**

31 August 2017

### **Link(s) to Council Values and Objectives**

- Governance and Accountability

### **Previous References**

- 2016/2017 Audit Plan (RASf 15 March 2016)
- 2015/2016 Internal Audit Annual Assurance Report (RASf 30 August 2016)
- 2017/2018 Internal Audit Plan 2017/2018 Quarter One (RASf 7 March 2017)

### **List of Background Papers**

- 2016/2017 progress reports to the Risk and Audit Scrutiny Forum
- Figtree statistical and assurance and Eureka time recording extracts
- Public Sector Internal Audit Standards
- 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

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## **Signed Statement of Assurance for 2016/2017**

## **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 2017.

### **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.

### **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) throughout 2016/17. An assessment of the extent of compliance is undertaken on an annual basis as part of the Quality Assurance and Improvement Programme. This assessment in 2016/17 concluded that the section generally conforms with the requirements set out in PSIAS and only a few minor administrative areas of non compliance have been identified which will now be addressed. These areas of non-compliance are not considered to impact upon the quality of the internal audit service delivered or the audit opinion expressed within this annual report.

The section undertakes an annual programme of work endorsed by the Risk and Audit Scrutiny Forum and approved by the Executive 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 Forum.

***Basis of opinion***

My evaluation of the control environment relates only to South Lanarkshire Council and is informed by a number of sources including audit work undertaken during 2016/17, assessment of risk as part of the planning processes undertaken during the year, output from external reviews and inspection bodies and involvement in Council-wide risk and governance activities.

***Limitation of scope***

*No individual audit assignments were specifically limited in scope at the outset but scopes were 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 good assurance can be placed upon the reasonableness and effectiveness of the Council's internal financial control system and adequate assurance can be placed upon the reasonableness and effectiveness of the Council's internal operational control system in the year to 31 March 2017.

***Signature:-***

**Yvonne Douglas BA CA**

**8 June 2017**