

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	30 August 2016
Report by:	Audit and Compliance Manager (Finance and Corporate Resources)

Subject:	Internal Audit Annual Assurance Report 2015/2016
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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 2015/16

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 will inform the Council's 2015/16 governance statement
- (3) note the level of assurance
- (4) note that a summary of this report will be submitted to the Executive Committee on 5 October 2016

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 will inform 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. A review of the level of compliance has been undertaken in preparation for the first external inspection planned to take place in Quarter 2 of 2016/17 as well as some informal bench-marking of performance reporting. This has identified some minor administrative areas where compliance needs to be more clearly evidenced and additional areas for performance

measurement. These are currently being addressed in advance of the external inspection. This is not considered to have impacted upon the quality of the internal audit service delivered during 2015/16 or the audit opinion expressed within this annual report.

- 3.3 The inspection will take the form of an independent validation of a self-assessment checklist and will include an on-site visit to review documentation and files. As part of the process, a questionnaire will be issued to a sample of key stakeholders within South Lanarkshire Council which will include the Chair of the Risk and Audit Scrutiny Forum (RASf). The purpose of this questionnaire is to establish if the framework for providing internal audit services adds value to the organisation and leads to improved organisational processes and operations. Where appropriate, the external assessor may also meet with the same key stakeholders.
- 3.4 When framing the terms of the assessment, the Chief Internal Auditor's Group have defined four separate levels of compliance which will range from 'fully conforms' to 'does not conform'.
- 3.5 At the conclusion of this process, a report will be presented to the RASf detailing the level of compliance with PSIAS together with an agreed action plan to address any gaps identified as part of the assessment process.
- 3.6 Internal Audit has reported throughout the year to the 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 2015/16 Audit Plan.
- 3.7 During the year, Internal Audit has also delivered services to South Lanarkshire Leisure and Culture, the Lanarkshire Joint Valuation Board and SEEMIS under the terms of agreed Service Level Statements. A programme of audits has been completed for each of these external clients in 2015/16. Annual reports have been prepared and presented to the Boards of South Lanarkshire Leisure and Culture and the Lanarkshire Joint Valuation Board in June and July 2016.

4 Link to Council's Objectives and Top Risks

- 4.1 As a function, Internal Audit seeks to link in to two of the Council's Connect Objectives; to embed governance and accountability and to achieve efficient and effective use of resources. Identified outcomes from these objectives for Internal Audit is to provide assurance that the Council is well governed financially, operationally and in terms of effective risk management and that finance, technology and people are used effectively to improve frontline services.
- 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 focused in areas of greatest risk and, where potentially, an independent review will add greatest value. Only one of the Council's top ten risks was not directly covered by the 2015/16 Plan; climate change and adverse weather. This area was covered in 2012/13 and 2013/14 and controls are assessed as 'good' within the Council's risk register. If required, time can be allocated from contingency to review this risk area in 2016/17.

- 4.3 PSIAS requires the audit plan to be kept under review as it progresses and this includes a comparison of the Council's top risks as these are reassessed during the year. The revised risk register in 2015/16 contained one new 'top ten' risk:

- ◆ Failure to meet a required increase in teacher numbers

- 4.4 No specific audit work was undertaken in this area in 2015/16 but formal assurances will be sought from Education Resources that this risk continues to be managed in 2016/17.

5 Internal Audit Workload – 2015/16

- 5.1 The Internal Audit Plan for 2015/16 was endorsed by the Forum on 3 March 2015. The focus of this 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 are 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 was evidenced by completion of the Plan and monitored through the performance indicators that were regularly reported to the RASF. Any subsequent changes to the Plan were presented to the RASF for endorsement and included 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 2015/16 of 1,844 was 12.4% above Plan. 95.8% of the Plan was delivered by 30 April 2016. The five outstanding audit assignments at this date related to external clients (three), corporate fraud (one) and advice and guidance (one).

Table One - Internal Audit workload analysis for 2015/16

	Total No. Jobs
Planned	124
Deferred until 2016/17	(3)
Adjusted workload	121
Reports completed to draft	116

- 5.5 Each of these audits was conducted in conformance with PSIAS. Three assignments were deferred until 2016/17 as audit output in these areas in this year was perceived to add more value. By deferring assignments, this also acknowledged the impact of ongoing service reviews on processes and delays in system implementation. Time originally allocated to these assignments was reallocated to deliver adhoc assignments or to extend the budget for some of the existing planned work.

- 5.6 Of 116 reports noted in the table above, approximately 78% 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 – 2015/16

- 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 that are presented to each meeting of the Forum detailing key findings from significant assignments.
- 6.2 In terms of an overview of performance, Internal Audit has maintained performance in 2015/16 in relation to delivering NFI actions on time. Performance has been improved in terms of delivering more than the planned number of audit days, timeous issue of audit reports and increased productivity levels. Performance has marginally declined in relation to delivering jobs within target budgets and delivering the Plan in year. Delivering jobs within budget continues to be impacted by a more stringent quality review process linked, in part, to the complexity of some assignments and the requirement to implement a robust QAIP. In terms of the non-delivery of the Plan, three out of five were impacted by external clients' delays.
- 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 opinion 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. To address this, periodic meetings have been convened with Heads of Support Services in 2015/16 to meet this objective and provide an opportunity for specific 'client' feedback. The wider method through which the function gathers client feedback remains under review and will require to recognise the new centralised finance support structure now in place.
- 6.5 The Forum is asked to note Internal Audit performance in the year to 31 March 2016.

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 2015/16 Internal Audit Plan and
 - ◆ the work of External Audit in relation to the Council's financial statements for the year ended 31 March 2015 (final) and 31 March 2016 (interim)

- 7.2 Overall, there is a good level of assurance over financial control across the Council. Many significant financial controls are imbedded within systems and these have been tested throughout the year by a programme of internal and external audit testing.
- 7.3 In 2015/16, significant financial assignments covered a review of the Council's financial planning arrangements and a continuation of the CCM project to inform 'intelligent' sampling and raise awareness within Resources of the type of control data that can now be readily accessed.
- 7.4 The audit of financial planning arrangements has found compliance with Audit Scotland guidance and an alignment to best practice.
- 7.5 Data downloads in 2015/16 covered Oracle FMS, Payables, i-Procurement and ICON systems and was also used to provide some assurance around budget monitoring arrangements. CCM data was used to reconcile opening balances and track movements against a series of pre-defined risk indicators. Output from this has been provided to inform the review of budget monitoring process within the Finance Services review.
- 7.6 In addition to the above, financial audits covered grant arrangements, the 'SEEMIS to Payroll' feeder and policies and controls in place to mitigate against the risk of money laundering. Work in all of these areas provided adequate assurance over controls.
- 7.7 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 and to External Audit actions. Both reviews provided evidence of actions being implemented. During the year, a specific review of Arm's Length External Organisations (ALEOs) within the context of Audit Scotland guidance highlighted areas for further review. PWC have indicated that audit work for 2016 will consider arrangements that the council has put in place to fulfil its statutory obligations to comply with the Following the Public Pound (FtPP) Code. Interim audit work for 2015/16 undertaken to date by the Council's External Auditor has been completed and no significant issues have been highlighted in the Interim Management Letter issued by PWC for the year ended 31 March 2016.
- 7.8 Financial investigative work in the year covered the alleged theft of funds from two separate locations and a school fund and the inappropriate purchase of vouchers. In relation to the most significant of these, an internal audit review has established a failure of controls at a number of levels. The required controls were, however, specific to this unique case and, in particular, the operation of an account. As such, it is not considered to represent a systematic failure of type of financial control across the Council. In the remaining investigative assignments, controls were also found to be poor and remedial action agreed with Resources. 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 2015/16 Internal Audit Plan and
 - ◆ the work of external regulators and inspectors
- 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 There were two separate IT audits in 2015/16 covering project management and user verification (system specific). There was adequate assurance in both audits over general controls in operation although it was noted that the use of a generic login within the security module of the system tested did not reflect best practice. IT Project Management arrangements were considered to be generally robust with only a few recommendations in relation to a central repository for documentation with access available to all involved in the project.
- 8.4 Contract audit in the year covered a review of self-appraiser internal controls within i-procurement. Audit testing established that there was an adequate level of assurance around setup, training and authorisation of users. It was noted that system functionality prevents any user from ordering over their approval limit or outwith their predetermined authority with relevant orders work flowed for approval to an appropriate authorising user. Some issues were identified with the visibility and selection of online catalogues, the authorisation of non catalogue items and the use of the system's 'vacation' rules. It was noted that order lines could be more closely monitored to ensure goods were invoiced within a reasonable timeframe. The annual Procurement Capability Assessment (PCA) review has now become the Procurement and Commercial Improvement Programme (PCIP) and the current programme of PCIP assessments commenced in May 2016. As such, no formal external assessment of procurement arrangements has taken place in 2015/16. Contract audit work was also included in investigative assignments. 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.
- 8.5 Whilst the assessed level of risk around information governance has reduced, due to a revision of the adequacy of controls that are now considered to be in place, this remains an inherently high risk area where significant financial penalties and reputational damage can accrue from a single breach in controls. The 2015/16 Audit Plan included testing of data transfer controls. Testing covered two specific systems with no significant areas of concern identified. A separate statement of assurance in relation to information governance arrangements has been included within the Council's Governance Statement by the Information Governance Board for 2015/16, based on checklists completed by each Resource. 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.

- 8.6 Specific reviews were undertaken within Risk Management in relation to engineering inspections and general risk management arrangements. Adequate assurance was obtained around the controls in place to ensure there is a list of equipment with assigned responsibilities; inspections are meeting scheduled timescales and Resources are responding timeously to defects reported. General risk management arrangements were assessed using a best practice checklist which was last reviewed in 2011/12. It was found that improvements are being made in most areas with a good level of assurance around the adequacy and effectiveness of current risk management arrangements.
- 8.7 Progress with implementing significant agendas was also reviewed through an examination of the response to Audit Scotland key messages and recommendations for Community Planning Partnerships. Actions are being taken forward by a High Level Working Group and the momentum will need to be sustained to deliver the objectives in practice.
- 8.8 A review of progress with GIRFEC and SDS arrangement was also included in the 2015/16 Audit Plan and adequate assurance that SLC is progressing defined GIRFEC outcomes. A significant range of activities is underway although many of the core components represent strategic goals and this presents difficulties in measuring specific progress. SDS arrangements are continuing to evolve and there is good assurance that this will be fully implemented by the required date in 2020. A review of progress and, in particular, operational arrangements has been included in the 2016/17 Audit Plan. Although recommendations were made across these assignments, no significant control failings were identified.
- 8.9 In addition to the above more significant audit assignments, operational audit testing established generally positive assurance around controls within a number of areas reviewed including carbon emission monitoring and payments to the CRC registry, Protecting Vulnerable Groups scheme, stores procedures, arrangements to prepare the annual Governance Statement and fuel poverty. In respect of the latter, it was established the overall goal to eradicate fuel poverty may be at risk as a result of factors outwith the control of SLC.
- 8.10 During 2015/16, benefits audit work covered a review of discretionary housing payments, the SLA that is in place with the Fraud and Error Service (FES) for the investigation of benefit fraud and overpayments classifications. No significant issues were identified within these areas with system improvements now monitoring committed spend in respect of discretionary housing payments and assurance that SLC is complying with the requirements within the SLA with FES. FES only investigate suspected fraud cases exceeding £2k, although processes are being established for the compliance function within FES to take on responsibility for cases falling below this threshold. As in previous years, this programme of 'benefit' audits has been supported by a robust review undertaken by the Resources' own internal audit team.
- 8.11 The majority of the areas of poorer controls were found in areas where investigative work was required and, where appropriate, actions have been agreed or are being discussed with Resources. In 2015/16, two of these investigations have led to more fundamental reviews of how services were delivered and highlighted significant failures in controls. In both instances, the failure of management overview and monitoring contributed significantly to poor practices. Operational audit assignments

in 2015/16 also identified areas where controls required improvement in relation to Public Folders, performance bonds and the Renewable Energy Fund.

- 8.12 Follow-up work within operational audit areas covered both routine and investigative assignments. Two of these assignments concluded that there had been poor progress, with one of these areas being subject to a further investigative audit. Where appropriate, revised action plans are being agreed with the client.
- 8.13 During 2015/16, Audit Scotland has continued to highlight the agenda around integrated health and social care. Internal Audit has been represented throughout the year on the Council's own internal working group that leads on the integration of health and social care services as well as participating in informal joint-working with the NHS. A related programme of audits has been delivered in 2015/16 around risk management and governance arrangements and the due diligence process. These findings will be reported to the Forum in due course.

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

- 9.1 The primary route for the alert of fraud is through local management within Resources, with approximately 65% of total concerns reported in the year, coming through this source. The Council's CRM system is another source of reporting and three separate cases were passed to Internal Audit through this route in 2015/16. The remaining case was from external 'whistle-blowing'. 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 will be presented to the Forum detailing 2015/16 statistics in September 2016.
- 9.2 Total fraud reported to Internal Audit in 2015/16 equated to £138k. This included one significant fraud in 2015/16 in relation to the theft of funds. 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 and Benefits personnel from Housing and Technical Resources continued to work on the National Fraud Initiative (NFI) during 2015/16. The last Council-wide exercise, for which data is available, is 2014. This was investigated in 2015/16 and £88k of error has been identified. The total fraud figure is not available as these cases are still under investigation by FES. The interim exercise 2015 (renamed by Audit Scotland as 2014/15) has also been investigated in 2015/16 and focused on 'single person discount' matches. A check of matches was on a sample basis and has not identified any errors. Housing and Technical Resources continue to prioritise the utilisation of other data-matched sets to review single person discounts.
- 9.4 During 2015/16, Internal Audit reviewed the procedures in place to protect the Council against serious and organised crime. Overall, the assessment concluded that there is an awareness of the risks posed by Serious Organised Crime amongst senior members of staff within the Council and that there are some procedures in place to guard against the threat of Serious Organised Crime. Awareness of Serious Organised Crime could, however, be strengthened throughout the Council and controls within operational procedures improved to further mitigate against the risk.

- 9.5 The 2015/16 Audit Plan also included anti-fraud reviews and a programme of corporate frauds.
- 9.6 The anti-fraud review within schools found that the majority of the expected controls to prevent and detect fraud were in place in the two schools visited. There was, however, a lack of fraud awareness within procedures and across staff. Recommendations were made to improve internal controls to assist in mitigating against the likelihood of fraud. Controls around i-procurement were also reviewed from an anti-fraud perspective and recommendations made to address perceived gaps in controls.
- 9.7 A corporate fraud programme of work was endorsed by the Forum in January 2016. Four of these five assignments were at draft report stage as at 30 April 2016. Outputs from each of these reports are detailed in paragraphs 9.8 to 9.11 below.
- 9.8 An initial match of creditors payments to Housing Benefits payments has not highlighted any results which required further investigation. Further data-matching exercises are planned in 2016/17.
- 9.9 A review of property sales originally purchased under 'Right to Buy' legislation identified £16k of 'lost' income not timeously identified to secure repayment of discount. The current review process has been amended and recommendations made around timeous monitoring.
- 9.10 A review of non-domestic rate discounts and reliefs has identified a potential fraud and that anti-fraud controls required to be improved through developing formal checklists and implementing a programme of periodic visits to properties attracting relief.
- 9.11 In relation to a review of money laundering arrangements it was found that that a draft policy has been prepared and there was comprehensive documentation of the procedures and controls to assist in the detection and prevention of fraudulent practices. Recommendations were made around seeking formal approval of the policy and raising awareness of the contents of such.
- 9.12 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 deferred to coincide with preparation for the external PSIAS assessment and the other, on hold, pending conclusion of the Finance Services Review.
- 9.13 In summary, neither investigative work undertaken nor a comparison against best practice would suggest that the Council is suffering material loss from fraudulent activity arising from significant, systematic breaches of controls.

10 Council Wide Performance – Delivery of Audit Actions 2015/16

- 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. Council-wide, 91% of internal audit actions were delivered on time (and 98% in total, with some only marginally late) and 100% of external audit actions. Only two actions remain outstanding as at 31 March 2016 and these will now be followed up in 2016/17. Performance information in relation to audit actions is reported to the Forum as part of each Internal Audit activity update report.

- 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 2015/16, six formal follow-up audit assignments were completed. Of these assignments, 43% provided good assurance that actions had been fully implemented and 28% that adequate progress had been made and that evidence was available to demonstrate implementation of audit recommendations. The remaining 29% (2 assignments), when followed up, were found not to have implemented audit recommendations either in full or on time. Revised actions are being agreed with Resources in respect of these two assignments and will be followed up in due course.
- 10.3 Overall, audit actions continue to be implemented in full and, generally, timeously although findings from follow-up audits will be reviewed throughout 2016/17 to establish if a more consistent pattern of non-delivery is identified. As implementation of audit recommendations is key to securing improvements in the control environment, this will continue to form part of the programme of audit work in future years.

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 2015/16, identified no specific risk-based scrutiny risks for SLC 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 2016/17, 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 2014/15 financial audit during 2015/16 and provided an unqualified opinion in relation to the Council's financial statements. Interim audit work in relation to the year ended 31 March 2016 was completed in February 2016 and no significant issues identified in the Interim Management Letter that was subsequently issued. Internal Audit have liaised with External Audit periodically throughout the year as required and have consulted on the 2016/17 Plan.
- 11.4 Audit Scotland reports are reported to 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 seven separate actions that were required to be delivered in 2015/16. Informal follow-up of these actions as at 30 April 2016, confirmed that each of the actions falling due had been progressed in the year.

- 11.5 Reliance was also placed on outcome of external validations, for example, in respect of the Council's connection to the Public Services Network
- 11.6 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.

12 Summary of Overall Assurance and Audit Opinion

- 12.1 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, 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 2015/16 and, by doing so, to provide assurance around the overall adequacy and effectiveness of SLC's framework of governance, risk management and control arrangements.
- 12.3 Of the audit assignments completed in 2015/16, 69% provided positive 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 adequate level of assurance over the operational controls in operation across the Council.
- 12.4 One hundred and seventy six audit actions were due to be implemented in 2015/16. 55% 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 newer, recurrent theme within audit actions is around the access to documentation with a growing focus on good information governance. The subject matter of audit actions broadly aligns to the findings from most special investigations that procedures have not been applied and that local management have not identified fraud 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 and endorse 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.

13 Employee Implications

- 13.1 The Internal Audit service in 2015/2016 was delivered by a team of fourteen. Of the team of fourteen, twelve 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 2015/16, spent £626,380 against a budget of £625,494 (to period 14).

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 2015/16, 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 During the year, IDEA training was provided to Social Work Resources and IT reports developed to provide External Audit with financial year-end data. A timesheet module was also fully developed within Internal Audit and is now being used to replace software previously licenced to the Council.
- 15.4 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 increased in 2016/17 to reflect recent years' experience when such time has been fully utilised to accommodate unplanned assignments by Quarter 3. Key performance indicators include a measure on productivity that will be used to monitor effective use of contingency days.
- 15.5 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

10 August 2016

Link(s) to Council Values and Objectives

- Governance and Accountability

Previous References

- 2014/15 Internal Audit Annual Assurance Report (RASf 22 September 2015)
- 2015/16 Audit Plan (RASf 3 March 2015)
- 2015/16 Corporate Fraud Audit Plan (RASf 19 January 2016)

List of Background Papers

- 2015/16 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:-

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Signed Statement of Assurance for 2015/16

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 2016.

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 2015/16. 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 2015/16 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 2015/16, 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 2016.

Signature:-

Yvonne Douglas BA CA

9 June 2016