

# Report

7

Report to:	<b>Executive Committee</b>
Date of Meeting:	<b>28 March 2018</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>2018/2019 Internal Audit Plan</b>
----------	--------------------------------------

## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ request approval of the proposed Internal Audit Plan for 2018/2019

## 2. Recommendation(s)

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

- (1) that the proposed Internal Audit Plan 2018/2019, as detailed in Appendix 2, be approved.

## 3. Background

3.1. Public Sector Internal Auditing Standards (PSIAS) require a specific risk based approach to be taken when preparing audit plans. All requirements have been followed in preparation of the 2018/2019 Internal Audit Plan. The internal audit function's compliance with PSIAS has been independently assessed during 2017/2018 to fulfil the requirement for such an independent assessment to be undertaken once every five years. A report on the outcome of this assessment has been finalised and no significant issues identified.

3.2. The content of the Audit Plan each year is determined by the requirement to deliver a programme of work that will inform the annual audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control arrangements. The preparation of the annual Audit Plan has focussed on the delivery of this objective.

3.3. During preparation of the 2018/2019 Audit Plan, the Council's external auditor, Audit Scotland has been consulted and their input reflected in the draft Plan.

## 4. Internal Audit Plan 2018/2019

4.1. The Plan will inform the overall audit opinion for 2018/2019. The audits will be conducted in accordance with the revised PSIAS and within the context of the Internal Audit Charter, which is attached at Appendix One. This Charter sets out the role and remit of Internal Audit and has been updated<sup>1</sup> to reflect actions arising from the independent assessment of the function's level of compliance with PSIAS.

---

<sup>1</sup> To clarify the position re auditing of areas where the Audit and Compliance Manager has operational responsibilities and to update the section re escalation to move non-relevant paragraphs and note the role of the Chair of the RASF in the escalation process.

- 4.2. A copy of the proposed Internal Audit Plan for 2018/2019 is attached at Appendix Two. This shows the name of the proposed assignment, the lead Resource (if relevant) and a brief outline scope for each proposed assignment. Objectives and scopes will be refined by auditors prior to the commencement of work and once a full risk analysis has been completed and key controls identified. Clients will be involved in this initial risk and control assessment and will be consulted prior to the preparation of the audit remit for each assignment.
- 4.3. At a meeting of the RASF on 21 March 2018, members reviewed and endorsed the Plan. The suggested Plan provides time to deliver a range of assignments that aligns to corporate objectives as well as seeking to provide assurance around the general control environment of the Council. The focus of the 2018/2019 Plan is to assess how adequately the Council's top risks are mitigated together with an assessment of the management of emerging risks and whether these responses are sufficient to mitigate against loss to the Council. This is considered to provide adequate focus around the significant risks and challenges the Council faces.
- 4.4. In terms of best practice, a contingency list has also been prepared. Assignments from this may be delivered if resources are available or if significant risks in such areas emerge as the year progresses.
- 4.5. An Audit Strategy was prepared prior to the 2018/2019 planning process. As required by PSIAS, progress against the audit strategy will be monitored and reported to the RASF as part of regular monitoring reports that are presented at each meeting. Delivery of the strategy will be evidenced by completion of the 2018/2019 Plan and this will be tracked through performance indicators. Any subsequent changes to the Plan, arising from a change in the organisation's priorities or risks, will be agreed with the Executive Director Finance and Corporate Resources and presented to the RASF to endorse.
- 4.6. The Executive Committee is asked to approve the 2018/2019 Internal Audit Plan.

## **5. Employee Implications**

- 5.1. A full employee capacity plan was prepared at commencement of the audit planning process. This was based on a number of assumptions around the projected 2018/2019 saving requirements.

## **6. Financial Implications**

- 6.1. Capacity planning has been based on a prudent projection of resources that will be available to the Service in 2018/2019 and reflects the planned 2018/2019 budget. This is considered to be sufficient to deliver the Audit Plan.

## **7. Other Implications**

- 7.1. Specific time has been allocated within the Plan to map all sources of assurance throughout the Council. This will be used in the periodic review of the Plan presented to the Forum, as required by PSIAS, and to inform the audit opinion expressed within the annual Statement of Assurance.
- 7.2. Six of the Council's top risks are not directly covered by the Plan; (1) failure to maintain the required pupil/teacher ratio (2) failure to work with key partners to achieve the outcomes of the Local Outcome Improvement Plan (3) lack of capacity and skills to meet increased Service demands (4) increasing levels of adverse weather (5) failure to fulfil emergency response commitments befitting the Council's status as a Category One (emergency) responder (6) death or injury to employees,

service users or members of the public affected by Council operations. Of these risks, the first three risks (or related risks) have been the subject of audits in either 2016/2017 or 2017/2018 and will be covered by follow-up work in 2018/2019 as required. The remaining three risks are not included in the Plan as an audit may not necessarily add significant value. If required, further time can be allocated from contingency to review any of these risk areas during 2018/2019.

- 7.3 To mitigate against the risk of non-delivery of the Plan, the progress of every assignment is monitored using the Council's risk management software, Figtree. In addition, Executive Directors have been asked to remind their teams of specific audit responsibilities and timescales.
- 7.4 There are no sustainability issues in terms of the information contained in this report.

## **8. Equality Impact Assessment and Consultation Arrangements**

- 8.1. There is no requirement to conduct an equality impact assessment on the proposed Audit Plan. As part of the process, there has been extensive consultation during preparation of the Plan and consultation invitations were extended to the following main consultees:

- ◆ Internal Audit Team
- ◆ Finance and Corporate Resources Management Team
- ◆ Executive Directors
- ◆ Audit Scotland, the Council's external auditors
- ◆ Members of the Risk and Audit Scrutiny Forum

All returned suggestions were included within the initial "audit universe" for risk evaluation.

**Paul Manning**

**Executive Director Finance and Corporate Resources**

5 March 2018

### **Link(s) to Council Objectives/Improvement Themes/Values**

- ◆ Achieve results through leadership, good governance and organisational effectiveness

### **Previous References**

- ◆ None

### **List of Background Papers**

- ◆ Internal Audit planning documentation

### **Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

Yvonne Douglas

Audit and Compliance Manager

Ext: 2618 (Tel: 01698 45(2618))

E-mail: [yvonne.douglas@southlanarkshire.gov.uk](mailto:yvonne.douglas@southlanarkshire.gov.uk)

**South Lanarkshire Council  
Internal Audit Charter**

**Purpose**

Internal Audit is an in-house, independent assurance function that provides an objective opinion and consultative guidance to South Lanarkshire Council and external clients on how well risks are controlled within their operations.

Internal Audit provides managers and elected members with assurance on how well processes and procedures in place are controlling the associated risks and recommends actions for improvements to ensure controls are effectively managed.

This complies with the definition of Internal Audit included within the Public Sector Internal Audit Standards:

*“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

Compliance with the Public Sector Internal Audit Standards (PSIAS) is mandatory from 1 April 2013.

The Standards were revised from 1 April 2017 to incorporate new and revised international standards resulting in additional public sector requirements and interpretations.

The Internal Audit service reports to the Executive Committee through the Risk and Audit Scrutiny Forum (RASf) who for the purposes of PSIAS are defined as the Board . This Forum serves as the Audit Committee for SLC and independently provides assurance on the soundness of the Council’s control environment and the adequacy of the risk management framework. It also delivers scrutiny and oversees external financial reporting processes. The Forum is made up of ten members of the Council. Membership changes with each new Council to ensure political balance and the Forum is chaired by a member of the opposition party.

An Annual Statement of Assurance is provided to this Forum and elected members by the Audit and Compliance Manager, to report on the effectiveness of the control environment and governance arrangements in place. Assurance is based on the professional practices outlined within Internal Audit’s Audit Manual.

The authority to deliver an internal audit service is contained within SLC’s Financial Regulations, Standing Orders and Scheme of Delegation (all of which are available on the intranet) as well as in the Anti-Fraud and Corruption Strategy.

For internal audit work delivered to external bodies, authority is provided by the Accounts Commission’s ‘Code of Guidance on Following the Public Pound’ as well as Service Level Statements agreed with clients.

As well as professional standards Internal Audit will be bound by SLC local standards including the Employee Code of Conduct and the Code of Corporate Governance.

## Relationship with the Risk and Audit Scrutiny Forum

The Executive Director Finance and Corporate Resources and the Audit and Compliance Manager should seek to maintain sound working relationships with appropriate elected members and ensure that good channels of communication are maintained. Within South Lanarkshire Council, the Audit and Compliance Manager is considered to be the Chief Internal Auditor. The Chair of the RASF and the Audit and Compliance Manager may meet privately from time to time to discuss audit findings, the performance of the Forum and other related matters. Internal Audit report all findings from concluded assignments via progress reports to the Risk and Audit Scrutiny Forum. Lines of communication between the Chairs of all Committees and the Audit and Compliance Manager will be open at all times.

All elected members are free to raise concerns directly with the Audit and Compliance Manager and input to the audit plan but these will be assessed in terms of risk prior to any audit work being undertaken.

Enquiries from elected members will follow the Council's protocols and guidance.

## Objective

Internal Audit's objectives are to:

- improve internal control through provision of advice and guidance on preventative measures and good governance
- safeguard public expenditure and ensure control over Council capital, revenue and project expenditure and minimise loss through a programme of routine and contract audits
- promote compliance with all corporate standards and frameworks, ensure that management information is produced accurately and safeguard the Council's computer and on-line transactions with particular emphasis on security, efficiency and sustainable service delivery
- deliver objective assurance over controls within operational and financial systems and governance arrangements
- contribute to efficiency by identifying opportunities and leading the management of the fraud risk
- promote risk awareness and plan risk based audit work within available resources
- meet agreed targets directing all efforts towards sound performance in all areas

In delivering the above objectives, Council values and Performance and Development requirements will be adhered to.

## Role and Scope of Work

To provide the assurance of controls in place within processes and procedures across the entire control environment of the organisation, Internal Audit work will:

- independently review and appraise all systems of financial and operational control in terms of their adequacy and application;
- ascertain the extent of compliance with financial and operational procedures, policies, regulations and legislation and their impact on operations;
- advise on control implications for new and modified IT systems;
- provide advice and guidance and contribute to working groups and ad-hoc strategic exercises;

- provide consultancy services (which is defined for the purposes on PSIAS as pertaining to the provision of advice and guidance to Council Resources) on a secondment or group representation basis, provided this does not compromise independence and that a sufficient period elapses before auditors formally review those services where consultancy has been provided (usually one year);
- perform periodic governance checks;
- provide written assurance in selected areas as well as an overall opinion at least once per annum;
- recommend improvements in control, performance and productivity in achieving corporate objectives;
- follow-up the extent to which earlier recommendations have been implemented;
- work in partnership with the external auditors;
- detect, prevent and investigate fraud and crime in accordance with approved anti-fraud strategies and policies.
- Internal Audit undertakes investigative work in respect of potential fraud, irregularity and serious breaches of governance and as such, is required to be notified of all suspected or detected fraud, corruption or impropriety. It also monitors devolved responsibility for investigation by Resources.

Internal audit testing may go beyond the records and adopt a more direct approach, including interviews, fact finding and on site surveys.

The existence of Internal Audit does not diminish the responsibility of management to exercise sound systems of internal control. It is clearly and solely a management responsibility to ensure that activities are conducted in a secure, efficient and well-ordered manner and that finances are safeguarded and used to maximum effect. This includes identifying and managing risks including fraud.

Managers are expected to provide requested information within a reasonable timescale and earlier than the equivalent timescale for Freedom of Information (FOI) Requests. Managers are expected to respond to assignment feedback requests, usually within seven days and to draft reports within fourteen days.

Internal Audit charges a fee for work performed for external clients, subject to agreed Service Level Statements. In addition, Internal Audit will undertake work relating to external bodies funded by the Council or partners, as authorised by the Following the Public Pound guidance.

Internal Audit may work jointly with neighbouring authorities, Scottish Government departments and external auditors on a variety of projects, aimed at improving the control and/or efficiency environment of public sector bodies.

## **Independence**

Internal Audit is located within Audit and Compliance Services, under the direction of the Proper Officer, the Executive Director Finance and Corporate Resources.

In addition, general management duties will be delegated from the Executive Director Finance and Corporate Resources to the Audit and Compliance Manager and will cover audit matters as well as general management duties, including participation in the Senior Management Team.

The Audit and Compliance Manager has management responsibilities outwith Internal Audit for Funding and Compliance Services. It is recognised that arrangements are required to be in place for any audit work in this area to allow this to be managed independently of the

Audit and Compliance Manager. The specific nature of these arrangements will be reported to the RASF when audit activity in this area is planned.

The establishment structure will comprise qualified and technician posts with a mix of professional specialisms. Structural reviews may take place from time to time and regular resource monitoring is reported to the Risk and Audit Scrutiny Forum. Any reduction in resources which might jeopardise the delivery of assurance will be immediately reported to the Executive Director Finance and Corporate Resources in the first instance.

As far as is practicable, Internal Audit should not participate in the day-to-day operation of any internal systems of financial or operational control.

Plans will be formed to reflect organisational audit needs but within available resources.

Upon request from the Executive Director Finance and Corporate Resources, appropriate specialists from other departments should be made available to take part in any audit requiring specialist knowledge.

Within SLC, the Employee Code of Conduct provides guidance on the type and nature of interests that should be declared (including paid employment outside the Council and personal interests in contracts). Auditors must declare their interests in accordance with the Code of Conduct and with regard to the audit principle of independence, and notify the Audit and Compliance Manager of any conflicts of interest which may arise. This formal declaration is renewed on an annual basis as part of the performance development review process but can be revisited should any conflicts arise.

Auditors will not be assigned to review or be involved in any activity where they have previously had operational or other involvement, usually within a period of one year. This includes instances where Internal Audit employees have been consulted during system, policy or procedural developments.

## **Access**

Internal Auditors have authorisation from the Council to examine all council records, IT systems, cash, stores and other property, to obtain explanations and to enter Council property or land.

Access is unrestricted and shall be granted on demand and not necessarily be subject to prior notice.

## **Reporting**

All planned audit assignments will formally be reported and every assignment will be closed after review by audit management. All Internal Audit reports will be submitted to the Executive Director Finance and Corporate Resources, and to recipients within the Resource being audited, including the Executive Director, Head of Service and the auditee. Circulation to the Chair of the Resource Committee is the responsibility of the Executive Director. Copies of reports relating to routine planned assignments will also be forwarded to external auditors.

The Audit Manager will plan for regular formal consultations with Heads of Service and Executive Directors, especially when preparing the formal audit plan. Feedback on performance and value of work undertaken will be sought. Heads of Service will be copied on every report affecting their area of responsibility. Effective relationships will be maintained by both parties and confidentiality of information will be protected, unless this

would prevent the delivery of audit assurance. Timing of work is subject to consultation but this will not preclude unannounced visits when necessary or requested by Executive Officers or Members.

Best practice dictates that the Head of Internal Audit must report to those charged with governance. In SLC this means that the Audit and Compliance Manager reports to the Corporate Management Team (CMT), which is made up of Executive Directors covering all Council Resources, who for the purposes of PSIAS are defined as Senior Management. The CMT endorses, as a minimum the Internal Audit Plan and the Internal Audit Annual Report, which provides the opinion on the Council's internal control environment for both financial and operational matters and its overall governance arrangements.

Internal Audit also reports plans, annual assurance and all findings to the RASF who will in turn recommend further reporting to the Executive Committee. For external clients, reports and opinions will also be offered to audit committees, where these exist, or to client Boards and senior management teams.

## **Escalation**

The Audit and Compliance Manager has direct access, reports and is accountable to the Executive Director Finance and Corporate Resources, the Proper Officer, as defined in Section 95, Local Government Act 1973 and meets with this officer on a regular one to one basis.

This relationship will be the escalation route for issues arising within Internal Audit and for those matters where it is appropriate for the Chair of the RASF to be briefed. The Audit and Compliance Manager's relationship with the Chair of the RASF and elected members is detailed above within the section 'Relationship with the Risk and Audit Scrutiny Forum'.

Auditors will use escalation processes so that slippage in relation to the delivery of audit assignments can be dealt with swiftly.

## **Responsibilities**

In delivering assurance, Internal Audit adopts a predominantly systems-based approach to audit. In discharge of this duty, the Audit and Compliance Manager will:

- prepare an annual plan for formal agreement
- deliver a range of audit assignments, resulting in reports for management. Occasionally, letters or memos, rather than full reports will be issued. This usually occurs where few concerns are raised during the audit or where work is of a rolling nature, for example spot cash counts
- make recommendations for improvements
- provide Committee reports and other briefings to provide advice or raise awareness of performance or risk issues
- ensure a system of close supervision of audit work, and maintain a review of audit files through the supervisory structure
- maintain a skill level within the section specifically for the investigation of fraud
- provide an annual opinion within a full annual audit assurance statement, for agreement with the Chief Executive and Executive Director Finance and Corporate Resources and onward presentation to the Risk and Audit Scrutiny Forum and Executive Committee.



Lead Resource	Audit assignment	Outline Scope	Expected days
All	Contract Scrutiny Groups	Participate in Contract Scrutiny Groups as required.	10
All	Attend SLACIAG and SLAIG groups and computer audit sub-group	Attend as required, respond to requests, participate in consultations and provide updates.	9
Finance and Corporate	General Ledger Data	Provide 2017/2018 general ledger entry data to External Audit for the audit of the financial accounts for the year ended 31 March 2018.	20
All	Audit plan 2019/2020	Undertake consultation, risk assessment, Resource and Section planning, set scopes and objectives and seek approval through preparation of reports.	10
All	Internal Working Groups	Attend and participate in internal working groups, including, Information Governance Board; Good Governance Group; Serious and Organised Crime Group; Community Payback Order Working Group and Historic Abuse Working Group.	5
All	General contingency	Conclude all 2017/2018 audits. Respond to requests for unplanned work during 2018/2019, including advice and guidance to Resources.	50
Housing and Technical	Procurement	Provide assurance that procurement practices are robust in areas assessed as being subject to higher risk of fraud.	40
Community and Enterprise	Lighting	Provide assurance that procurement practices are robust in areas assessed as being subject to higher risk of fraud.	25
Community and Enterprise	Mobile Working (Roads)	Provide assurance that risks in relation to mobile working are managed and benefits are being realised.	25
Finance and Corporate	IT audit	Continue the rolling programme of audits in relation to Cyber Security to provide assurance that effective controls are in place to mitigate both existing and evolving risks.	30
Education	Pupil Equity Fund	Provide assurance of good governance around spend and tracking of benefits deriving from spend.	30

<b>Lead Resource</b>	<b>Audit assignment</b>	<b>Outline Scope</b>	<b>Expected days</b>
All	Fraud Contingency	Deliver of a programme of anti-fraud reviews to provide assurance that robust and effective controls are in place that both prevent and detect fraud. Undertake investigations as required.	170
All	National Fraud Initiative (NFI)	Facilitate the investigation of 2017/2018 matches and provision of NFI data in 2018/2019.	40
All	Fraud Alerts	React to fraud alerts through internal and external sources and disseminate information as appropriate.	1
Community and Enterprise	City Deal – Benefits Realisation	Provide assurance that effective arrangements are in place to track benefit realisation.	20
Community and Enterprise	Carbon Report	Provide assurance around accuracy and completeness of submission to the Scottish Government.	20
All	Follow Up	For all Council Resources, identify audit recommendations due in the period April 2017 to March 2018. Risk assess and follow-up to ensure implementation of all high risk actions.	75
Finance and Corporate	Budgetary Control	Review budgetary control processes to ensure effective and controls robust.	30
Finance and Corporate	ICON or Treasury Management	Undertake programme of routine tests around controls (including External Audit testing).	30
Community and Enterprise	Job Costing	Test job costing methodology to ensure robust.	35
Finance and Corporate	Benefits	Undertake specific testing around risk areas highlighted by daily benefit audits.	20
Finance and Corporate	Financial Strategy	Test current financial planning process against best practice.	10
All	Governance Statement	Facilitate preparation of the 2017/2018 Governance Statement	10
Community and Enterprise	Waste Contract (residual waste)	Provide assurance that contract being delivered within the terms of the contract and adequate arrangements are in place to contract monitor and provide assurance around the correctness of charges.	40
Finance and Corporate	Universal Credit	Procedural check to obtain assurances that housing benefits are being stopped timeously where a person has moved over to Universal credit.	30

<b>Lead Resource</b>	<b>Audit assignment</b>	<b>Outline Scope</b>	<b>Expected days</b>
All	CCM	Continue to download data in current CCM areas. Use data for analysis and to inform internal and external audit testing. Prepare formal reports to allow exceptions and unusual trends in financial controls to be reported to Resources for further investigation	75
All	Informal Follow Up	Prompt Resources on a quarterly and monthly basis of actions due within that period. Collate responses for reporting.	15
Social Work	Mobile Working (Homecare)	Provide assurance that risks in relation to mobile working are managed and benefits are being realised.	20
Social Work	Kinship Care	Provide assurance that processes are robust and deliver good governance.	20
Social Work	Self Directed Support	Provide assurance of compliance with Act and review procedures around service options and adequacy of controls to mitigate against potential risks.	5
<b>Total number of days</b>			<b>920</b>