

Lindsay Freeland  
Chief Executive  
South Lanarkshire Council  
Council Offices  
Almada Street  
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ML3 0AA

15 December 2017

Dear Lindsay

### **South Lanarkshire Council 2017/18**

#### **Corporate Governance – Review of the adequacy of Internal Audit**

Audit Scotland's Code of Audit Practice requires external auditors to carry out an annual assessment of the adequacy of the internal audit function. It should be understood that this assessment does not constitute an external assessment for the purposes of the Public Sector Internal Audit Standards (PSIAS) and should not be considered as such.

This letter sets out the findings from our assessment of the Council's internal audit service for 2017/18. We concluded that the internal audit service operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place. Accordingly, we intend to place reliance on areas of internal audit service work which are of direct relevance to our audit objectives. Notwithstanding our general conclusion, we record two findings and the associated risks for your consideration.

As part of South Lanarkshire Council's external quality control arrangements the Chief Internal Auditor from Stirling Council was engaged to review internal audit section's compliance with the Public Sector Internal Audit Standards. This review commenced in 2016/17 but the results are still to be formally reported. We will consider the outcome of this review as part of the 2017/18 audit to ensure that no issues are identified that would impact upon our ability to place reliance on the work of internal audit.

The objectives of our annual assessment are:

- to establish the effectiveness of internal audit arrangements as part of the council's wider governance arrangements, and
- to identify areas of internal audit work upon which we are able to place formal reliance

We reviewed internal audit's planned work programme for 2017/18 to identify areas where we can potentially place reliance on their work.

For our financial statements audit responsibilities we plan to place formal reliance on aspects of internal audit's work in the following areas:

- Procurement
- Internal controls (Direct Awards) (1)
- Payables
- E-invoicing

In terms of our wider responsibilities under the Code in relation to governance and performance, we also plan to place reliance on selected aspects of the work of internal audit in a number of areas, including:

- IT audit
- Anti-fraud review
- NFI
- Community Empowerment Act
- Overtime, travel and subsistence
- City Deal

We also noted the following risks for reporting.

**Finding 1**

The internal audit service sits within the remit of the Executive Director of Finance and Corporate Services and the Audit and Compliance Manager has operational responsibility for funding and compliance (for example, EU funding expenditure).

**Risk**

There is a risk that this could impinge upon the Audit and Compliance Manager's actual or perceived ability to operate independently from the corporate finance function and that resources could be diverted from core internal audit duties. The Audit and Compliance Manager has advised that she has not encountered any material issues in being asked to undertake non-audit duties but we will continue to monitor this during 2017/18.

**Finding 2**

During 2016/17 a considerable amount of staff resources were diverted to special investigation work. As a consequence, there was some slippage in the 2016/17 internal audit plan which resulted in a number of reviews having to be re-phased to the first quarter of 2017/18. This was reported to the Risk and Audit Scrutiny Forum.

**Risk**

The Audit and Compliance Manager does not anticipate any similar slippage in the delivery of the 2017/18 audit plan. However, there remains a risk that if similar issues do arise during 2017/18 this could impact upon our planned reliance and consequently our plan and the agreed audit fee.

If you have any questions about the contents of this letter then please do not hesitate to contact me.

Yours Sincerely



Dave Richardson  
Senior Audit Manager

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