

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	7 March 2023
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	2023/2024 Internal Audit Plan
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ seek approval of the proposed Internal Audit Plan for 2023/2024

2. Recommendation(s)

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

- (1) that the proposed Internal Audit Plan for 2023/2024 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 2023/2024 Internal Audit Plan. The Internal Audit function's compliance with PSIAS is being externally assessed by East Lothian Council in 2022/2023. The outcome of this assessment will be presented to the Risk and Audit Scrutiny Committee (RASC) in June 2023.

3.2. The content of audit plans is determined by the requirement to deliver a programme of work that informs the annual audit opinion on the overall adequacy and effectiveness of an organisation's framework of governance, risk management and control arrangements. The Internal Audit Plan for South Lanarkshire Council in 2023/2024 supports this objective by:-

- ◆ linking to the Council's objectives and priorities
- ◆ providing assurance (as part of a rolling programme of work) in relation to top risks that have been identified by the Council
- ◆ delivering a balanced plan in compliance with PSIAS that maximises resources available
- ◆ committing resources to support corporate activity
- ◆ prioritising assignments to ensure key areas of work are completed in the year.

4. Internal Audit Plan 2023/2024

4.1. In recent years, to manage the impact of the re-deployment of the Service to deliver COVID-related tasks, the Internal Audit Plan has been presented as two separate six month plans. In 2023/2024, the Plan has reverted to a proposed programme of work for the full financial year. At the time of drafting the Plan, the Council is continuing with its implementation of Oracle Fusion, a significant new human resources and financial accounting system.

- 4.2. One Auditor post within Internal Audit has been deployed full-time to the project, supplemented by significant additional time from an Audit Adviser. An allowance has been made for the Auditor re-deployment to the project to continue through until September 2023 with further contingency time included to reflect, potentially, additional resources being required through to the go-live date and Phase 2 of the project. An allowance has also been made to test systems post implementation. A detailed plan will be prepared to set out how audit time will be utilised across both pre and post implementation periods and presented to a future meeting of RASC.
- 4.3. Other temporary resourcing pressures in 2022/2023 will change in 2023/2024, with all of the factors impacting upon the time that is available, reflected in a detailed capacity plan. Days to deliver External Client work has also been reviewed to maximise resources available to deliver a core programme of audit work for South Lanarkshire Council.
- 4.4. Once capacity had been determined, the content of the Plan was developed. This considered the assessed top risks of the Council. These risks are revised on an annual basis and, in October 2022, a revised 'top risk' report was presented to RASC. The Audit Plan has sought to link to areas of highest risk to provide assurance around the management and mitigation of these significant risks.
- 4.5. The proposed final Internal Audit Plan for 2023/2024 is attached at Appendix 1. This represents the Plan for the full year and reflects time required to deliver a range of assignments that seek to align to corporate objectives as well as providing assurance around the general control environment of the Council. Each audit is conducted in accordance with the revised PSIAS and within the context of the Internal Audit Charter (Appendix 2). A summary of how each assignment links to the three key assurance areas is appended to the table in Appendix 1.
- 4.6. The Plan sets out the name of the proposed assignment, the lead Resource 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.
- 4.7. Progress against the audit strategy will be monitored and reported to the RASC as part of regular monitoring reports that are presented at each meeting. Delivery of the strategy will be evidenced by the completion of the 2023/2024 Internal Audit Plan. The risk of significant subsequent changes to the Plan, arising from a change in the Council's priorities or risks, are managed through a level of contingency time that continues to be built in to provide flexibility throughout the year. Key performance indicators will continue to be reported within routine activity reports and within the annual assurance report presented to RASC.
- 4.8. The Committee is asked to approve the 2023/2024 Internal Audit Plan attached at Appendix 1.

5. Employee Implications

- 5.1. A full employee capacity plan was prepared at commencement of the audit planning process. This has determined that 1,220 audit days can be delivered in 2023/2024 (inclusive of days to deliver an internal audit service to external clients). Year on year comparisons of the number of days available are difficult due to in year variations through periods of planned leave, secondments and personnel changes. All known factors have been reflected in capacity planning. The underlying assumptions will be

reviewed throughout the year and any significant changes to the Plan will be presented to RASC for approval.

6. Financial Implications

- 6.1. Capacity planning has been based on available budget. This is considered to provide sufficient resources to deliver the Audit Plan.

7. Climate Change, Sustainability and Environmental Implications

- 7.1. There are no significant implications in terms of climate change, sustainability and environmental implications associated with this report.

8. Other Implications

- 8.1. 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.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. There is no requirement to conduct an equality impact assessment on the proposed Audit Plan. As part of the process, there has been consultation during preparation of the Plan and all returned suggestions were included within the initial "audit universe" for risk evaluation.
- 9.2. The Plan includes time to provide data to the Council's new External Auditors to assist with their audit and to respond to queries. A copy of the Plan will be shared with Audit Scotland to ascertain areas where they wish to place reliance on output from the 2023/2024 Internal Audit Plan.

Paul Manning

Executive Director (Finance and Corporate Resources)

16 February 2023

Link(s) to Council Values/Priorities/Outcomes

- ◆ Accountable, effective, efficient and transparent

Previous References

- ◆ 2022/2023 Internal Audit Plan, 26 January 2022
- ◆ 2022/2023 Internal Audit Plan, 27 September 2022

List of Background Papers

- ◆ Internal Audit planning documentation
- ◆ Internal Audit Charter

Contact for Further Information

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

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Proposed 2023/2024 Internal Audit Plan

Appendix 1

Lead Resource	Audit assignment	Outline Scope	Days	Area of Assurance
Key year end tasks				
FCR	External Audit	Provide 2022/2023 general ledger data to External Audit for the audit of the financial accounts for the year ended 31 March 2023.	25	N/A
FCR	2022/2023 Annual Report	Finalise 2022/2023 audit reports. Prepare annual statement of assurance for 2022/2023. Present to RASC.	110	Governance
FCR	Governance Statement	Undertake review of evidence that supports SLC's Annual Governance Statement and provide 2022/2023 annual assurance statement for Glasgow City Region – City Deal.	5	Governance
Participation in and delivery of corporate tasks				
All	Attend internal and external working groups	Attend, respond to requests, participate in consultations and provide updates.	12	N/A
All	Committee reporting	Prepare report RASC.	10	Governance
All	2024/2025 Audit Plan	Undertake consultation, risk assessment, Resource and Section planning, set scopes and objectives and seek approval through preparation of reports.	10	N/A
All	National Fraud Initiative	Coordinate investigation of matches from 2022 National Fraud Initiative Exercise (including time to investigate some categories of matches). Report outcomes to RASC.	50	Internal Controls
All	Advice and guidance	Provision of advice and guidance.	60	Internal Controls
FCR	Fusion	Support implementation of project. Testing of system post implementation.	318	Internal Controls
Delivery of an internal audit programme of core tasks and assignments				
All	Informal Follow Up	Prompt Resources on a quarterly and monthly basis of actions due within that period. Collate responses for reporting.	6	Governance
All	General Follow Up	For all Council Resources, identify audit recommendations due in the period April 2022 to March 2023. Risk assess and follow-up to ensure	15	Internal Controls

Lead Resource	Audit assignment	Outline Scope	Days	Area of Assurance
		implementation of all high risk actions.		
All	Anti-fraud checks	Rolling programme of anti-fraud checks – including, but not limited to, procurement, petty cash, purchase cards.	95	Internal Controls
All	Continuous Controls Monitoring (CCM)	Continue to download data in current CCM areas. Use data for analysis and to inform internal and external audit testing.	25	Internal Controls
All	Fraud	React to fraud alerts through internal and external sources and disseminate information as appropriate. Undertake investigations as required.	55	Internal Controls
All	Managing Change	Provide assurance that areas that have been subject to transformational change post COVID-19 have embedded revised changes within systems and processes.	50	Governance
All	Information Sharing Protocol	Assess application and effectiveness of Information Sharing Protocol.	15	Governance
All	Sustainability	Provide ongoing assurance that plans are practically deliverable in the short, medium and long term and that in-year progress against targets is monitored and reported. Report on outcomes of standard audit programme testing.	25	Risk Management
CER	External Funding	Test processes in place to provide assurance that these maximise funding, demonstrate good governance around spending and evidence delivery of outcomes.	30	Internal Controls
EDR	Equity Strategy	Provide assurance of good governance around spend and tracking of benefits deriving from spend.	30	Internal Controls
EDR	Additional Support Needs Transport	Test effectiveness of new systems and procedures and implementation of agreed actions.	20	Internal Controls
SWR	Infection Prevention	Procedural review to assess whether processes reflect guidance, are current, provide for evidence of compliance and mitigate risk.	50	Risk Management
All	General contingency	Respond to requests for unplanned work.	62	Internal Controls

Lead Resource	Audit assignment	Outline Scope	Days	Area of Assurance
Delivery of an internal audit service to external clients				
N/A	Audit Plan	Deliver internal audit service to External Clients.	142	N/A
TOTAL DAYS			1,220	

**South Lanarkshire Council
Internal Audit Charter**

Purpose

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

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

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

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

Compliance with PSIAS is mandatory from 1 April 2013.

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

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

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

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

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

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

Relationship with the Risk and Audit Scrutiny Committee

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

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

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

Objective

Internal Audit's objectives are to:

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

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

Role and Scope of Work

To provide the assurance of controls in place within processes and procedures across the entire control environment of the organisation, Internal Audit 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 external auditors;
- detect, prevent and investigate fraud and crime in accordance with approved anti-fraud strategies and policies.
- undertake investigative audits in respect of potential fraud, irregularity and serious breaches of governance and, as such, is required to be notified of all suspected or detected fraud, corruption or impropriety. It also monitors devolved responsibility for investigation by Resources.

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

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

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

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

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

Independence

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

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

The Audit and Compliance Manager has management responsibilities outwith Internal Audit for Funding and Compliance Services. It is recognised that arrangements are required to be in place for any audit work in this area to allow this to be managed independently of the Audit and Compliance Manager. The specific nature of these arrangements will be reported to the RASC when audit activity in this area is planned.

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

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

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

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

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

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

Access

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

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

Reporting

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

The Audit Manager will plan for regular formal consultations with Heads of Service and Executive Directors, especially when preparing the formal audit plan. Feedback on performance and value of work undertaken will be sought. Heads of Service will be copied on every report affecting their area of responsibility. Effective relationships will be maintained by both parties and confidentiality of information will be protected, unless this would prevent the delivery of audit assurance. Timing of work is subject to consultation but this will not preclude unannounced visits when necessary or requested by Executive Officers or Members.

Best practice dictates that the Head of Internal Audit must report to those charged with governance. In SLC this means that the Audit and Compliance Manager reports to the Corporate Management Team (CMT) and the RASC.

The CMT is made up of Executive Directors covering all Council Resources, who for the purposes of PSIAS, are defined as Senior Management. The CMT endorses, as a minimum the Internal Audit Plan and the Internal Audit Annual Report, which provides the opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements.

Internal Audit also reports plans, annual assurance and all audit findings to the RASC. For external clients, reports and opinions will also be offered to audit committees, where these exist, or to client Boards and senior management teams.

Escalation

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

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

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

Responsibilities

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

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