SOUTH LANARKSHIRE COUNCIL

Report

Report to:	**Risk and Audit Scrutiny Committee**
Date of Meeting:	**27 June 2023**
Report by:	**Audit and Compliance Manager (Finance and Corporate Resources)**

Subject:	**Internal Audit Annual Assurance Report 2022/2023**

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 framework of governance, risk management and control arrangements for the year ended 31 March 2023

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

(1)   that Internal Audit's performance be noted;

(2)   that the overall findings from internal audit work be noted, and that it be approved that these will inform the Council's 2022/2023 governance statement; and

(3)   that the level of assurance be noted.

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) (revised 1 April 2017), compliance with which is 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 an organisation.

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. The self-assessment exercise undertaken in 2022/2023 has confirmed that South Lanarkshire Council's internal audit function continues to generally conform to the Public Sector Internal Audit Standards. This self-assessed position is currently being review by an independent assessor and will complete in June 2023. No significant areas of non-compliance have been identified to date and the assessment is anticipated to conclude that the section continues to generally conform with the requirements set out in PSIAS.

3.3   The primary objective of Internal Audit is to evaluate and improve the effectiveness of governance, risk management and control processes. The purpose of this report is to

provide an independent audit opinion on the overall adequacy and effectiveness of SLC's framework of governance, risk management and control arrangements based on audit work undertaken in 2022/2023.

3.4 The internal audit approach in 2022/2023 has sought to:-

♦ provide real-time advice and insight in the development of new systems and controls
♦ ensure that core internal audit work remains risk-based and relevant and continues to inform longer term planning around risks
♦ regularly report activity to the Council's Risk and Audit Scrutiny Committee

3.5 Significant time in the year has been committed to Oracle Fusion, a major system upgrade. Where internal audit staff are diverted into operational roles, declaration of interest processes will address any impairment to independence and objectivity.

3.6 In 2022/2023, Internal Audit has set out to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Throughout the year, Internal Audit has reported to the Council's Risk and Audit Scrutiny Committee (RASC). Reports to the RASC 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 2022/2023 Audit Plan.

4. Link to Council's Objectives and Top Risks
4.1 As a function, Internal Audit seeks to link to the Council's Connect Value of 'accountable, effective, efficient and transparent'.

4.2 In addition to Connect, assignments within the Audit Plan each year are linked to the Council's top risks and to wider strategic risks to ensure that work has the correct focus and is directed to areas where an independent review would add greatest value. The 2022/2023 Audit Plan was presented to RASC on 26 January 2022 with an update on 27 September 2022.

4.3 The Plans could not cover all of the organisation's top risks. Instead, these Plans prioritised audits and tasks that reviewed the key, strategic risks to the Council's operations in 2022/2023.

5. Internal Audit Workload and Performance

2022/2023 Workload
5.1 The actual number of audit days delivered in 2022/2023 was 1,126 days which was 102% of the target planned days in the year. 94% of the Audit Plan was delivered by 30 April 2023. The three outstanding audit assignments at this date related to a special investigation and two routine assignments covering petty cash and purchase cards.

	Total No. Jobs
Planned assignments	48
Reports completed to draft	**45[1]**

Table One - Internal Audit workload analysis for 2021/2022

[1] This includes 2 routine assignments where audit testing has been completed and a level of review has been undertaken. None of the findings reviewed to date have highlighted significant issues that require mention in this Annual Report. It also includes 1 special investigation which is ongoing and formal findings are not yet available.

5.2 Each of the audits undertaken in the year were conducted in conformance with PSIAS. The standards require 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 as the year progresses. The scope of the 2022/2023 Audit Plan was amended to reflect the significant resources committed to the implementation of Oracle Fusion. Through this, the internal audit function delivered a service that aligned to the strategies, objectives, and risks of the organisation.

5.3 Internal Audit continue to sit on a variety of internal working groups. This participation provides assurance that the implementation of internal controls has been a key consideration in the development of new processes or revisions to existing practices and that these embed the key internal controls of segregation of duties, authorisation, reconciliation and monitoring.

2022/2023 Performance

5.4 A summary of key Internal Audit performance statistics is included at Appendix 1. These detail performance in areas that are relevant to the delivery of an effective and efficient internal audit service. Performance indicators were reported to the Committee during the year. 3 from 5 indicators exceeded targets with the other 2 indicators falling marginally behind target.

5.5 The Committee is asked to note Internal Audit's workload and performance in the year to 31 March 2023 and that both remain sufficient to support the audit opinion expressed within this report.

6. Basis of Audit Opinion

6.1 The opinion expressed within this report (see 7.4) has been based, primarily, on the output from the 2022/2023 Internal Audit Plan as well as reports that have been issued by the Council's external auditors, regulators and inspectors during the year.

Area of Assurance – Governance

6.2 The first area of assurance is in relation to the Council's **governance arrangements** and the findings that support the overall assessment of these are detailed in paragraphs 6.3 to 6.11.

6.3 Reinforcing **Conflict of interest processes** remains important. Processes are fit for purpose and provide clear guidance to Managers around their responsibility to monitor ongoing compliance. This has been embedded within annual governance checks and further opportunities are being explored to reinforce this good governance policy. In conjunction with this, there has been a review of the Council's **counter-fraud policy**. The requirement to amend this policy to reflect further legislative changes provided the opportunity to amalgamate various elements of the Council's fraud policy into a single document and to further refine the content.

6.4 The approach to raising fraud awareness was also reviewed during the year and plans are being developed to utilise periodic bulletins, 'tool box talks' and Executive Director briefings to convey key messages to target groups of employees.

6.5 Aside from these assignments, **routine governance tasks** have been delivered as required; an audit certificate for the Leader European Union rural programme has been provided and a cross-Resource review of the 2021/2022 Director Statements of Assurance was completed.

6.6   Good governance is also demonstrated by the timeous implementation of actions and recommendations made by both internal and external audit and external inspectors.

6.7   PSAIS places a responsibility for monitoring progress with the **delivery of internal audit actions** on the Chief Internal Auditor to ensure that recommendations are effectively implemented. Relatively few Internal Audit actions fell due in 2022/2023 reflecting the impact of COVID-19 on routine audit plans in recent years. Although relatively few in number in 2022/2023, Council-wide, 100% of internal audit actions were delivered on time.   This suggests that actions are, in the main, being fully and timeously implemented. This was checked independently by a limited programme of formal follow-up reviews undertaken in the year.

6.8   Audit actions also arise from **external auditors and inspectors**. One such area is internal audit activity undertaken by Glasgow City Council who act as internal auditors for the Glasgow City Region – City Deal. More robust arrangements have been established to follow up specific City Deal actions and progress with implementation is reported to the RASC as part of regular update reports. None of the actions in year were significant but implementation is nonetheless important to demonstrate good governance.

6.9   Assurance around effective governance comes also from the **annual exercise that assesses the effectiveness of the governance arrangements** within South Lanarkshire Council.   On an annual basis, an assurance mapping process is undertaken in conjunction with the Good Governance Group to inform the Council's Annual Governance Statement. Within individual Director's Statement of Assurance, Resources have indicated a commitment to deliver against the recommendations of external auditors and other external review agencies and report progress to Committees and Boards.

6.10   The Council's **External Auditors** undertook the 2021/2022 financial audit during 2022/2023 and provided an unqualified opinion in relation to the Council's financial statements. There has been no formal interim audit output for 2022/2023. Internal Audit have liaised with External Audit periodically throughout the year and have collated financial year-end data.

6.11   Audit Scotland also publish wider Public Sector reports throughout the year. Where appropriate, the key messages and their application to SLC are reported to Committees.

        Area of Assurance – Risk Management
6.12   The second area of assurance is around the Council's **risk management arrangements** and the findings that support the overall assessment of these are detailed in paragraphs 6.13 to 6.23.

6.13   Work started in 2022/2023 and will continue into 2023/2024 to categorise controls that mitigate the Council's top risks using the Institute of Internal Auditors '**three lines of defence**' methodology. This framework recognises that different parts and levels of the organisation play complementary roles in risk management. Controls that form the first line of defence sit at a Service level with the second line of defence being those that 'oversee' (Corporate Management Team, Committees etc). The final level is that of independent assurance provided by internal and external audit or external inspectors. Good risk management will evidence controls across all 'lines'. An initial analysis of controls has been completed and will be shared with Risk Sponsors to assist in the annual review of top risks. Gaps in controls will be considered for inclusion in the 2024/2025 Internal Audit Plan.

6.14   **Cyber Security** remains a significant risk with an attack possible despite the controls in place. Experience of other organisation's attacks has highlighted that there is always heightened vulnerabilities around employees and legacy systems. Levels of awareness is raised via briefings and Learn On Lines but there would be value in making all relevant courses mandatory. Assurances have been provided that damage could be contained were an attack to happen and that there would be sufficient back-up to restore systems in such an event. Despite these assurances there would inevitably be disruption to operations.

6.15   Internal Audit have been advised that there is a protocol in place that could be used to manage an incident both from a technical perspective and wider management actions. This protocol sets out how the team will communicate if the Council's network was down and plans are in place to review this protocol every year and to "re-test" every three years. The appropriateness of this timeframe needs to be considered within the context of the pace of change in the cyber landscape.

6.16   In the event that all network data was lost, it would be helpful to have a definitive list of what would be recovered first in terms of priority. 'Emergency" (can't be stopped) services are known but have not necessarily been prioritised. Further refinement of the plans, in this context, may be beneficial.

6.17   Work is required to update service business continuity plans and this is currently being facilitated by the SLC Resilience Team. From a cyber perspective, these service level plans need to consider which Services cannot be 'paused', and, for these, what back-up processes can be initiated quickly to continue service provision. Specific risks should be highlighted in Resource risk registers recognising the significance of the risk of lost access to network files/systems on core areas of service provision in the event of an attack.

6.18   This report is currently being finalised and audit output will be reported to the Committee in 2023/2024.

6.19   Aside from emerging risks, the 2022/2023 Audit Plan also included time to review governance, risk management and detailed short and medium term planning around **sustainability**. Previous annual reports have recognised both the progress and challenges of delivering the sustainability agenda. We also looked at the longer term route map to achieve net zero targets. Supporting this are decision making processes and tools along with collaboration and community empowerment that will need to be harnessed to delivery long term goals. The overall picture is one of clear aspirations and commitment, but residual risks scores reflect the challenges and remain very high corporately (and increasing in some Resource risk registers) even despite the level of mitigations that are being put in place. Actions are high level and are across the full span of the sustainability agenda. Over time, how to fund will remain one of the most significant risks. A 5-year action plan is now in place to support the strategy with SLC producing annual plans to support delivery. All actions should be tracked.

6.20   Key assurances are around a clear assessment of the challenges that are reflected in risk registers. Plans, both short and long term, set targets that will assist in meeting the overall objective that should be translated within local Service Plans. There are areas where work is still required such as the measuring of indirect emissions and addressing the practical and logistical challenges that will hinder delivery. Working in partnership will be key to address issues around fully funding the agenda through to completion. Underlying all of this will be the need to embed cultural change that puts sustainability and carbon/waste reduction at the forefront of all decision making.

6.21 From an Internal Audit perspective, there is a commitment to continue our overview of the risks, mitigation and progress in delivering the sustainability agenda.

6.22 The Council's top risk register review in 2022 included a new risk in relation to **Community Wealth Building** (CWB) specifically in relation to the Strategy not being delivered. Recognising that CWB would signal a fundamental shift in the council's approach, a risk register was developed and approved by the CWB Commission on 27 October 2021. Risks were recorded against each of the five pillars noted within the strategy. Internal Audit obtained a copy of the CWB risk register and matched this to the Council Wide Risk register. Following a review of the CWB Risk Control Plan the relevant areas, risks and controls were noted as being assigned to key officers who had responsibility to deliver actions across each of the 5 strategy areas. Evidence was obtained that these control actions are being progressed.

6.23 Other routine tasks continued throughout the year, such as a review of **Resource Fraud Risk Registers** with Internal Audit satisfied that there was evidence of in-year evaluation and update by all Resources.

Area of Assurance – Internal Control

6.24 Robust internal controls are important, irrespective of the activity or process. Their effective implementation supports delivery of vital Council services to people and businesses in South Lanarkshire. The main areas of assurance around the Council's **internal control** arrangements are detailed in paragraphs 6.25 to 6.46.

6.25 Around 25% of the function's resources in 2022/2023 have been utilised to support the **implementation of Oracle Fusion**, a cloud based human resources and financial management system. Over the lifetime of the project, Internal Audit will seek to provide assurance around:-

- ♦ business process readiness and solution design
- ♦ program management and governance
- ♦ data conversion and governance
- ♦ organisation change enablement
- ♦ the testing strategy
- ♦ reporting and analytics
- ♦ security and internal controls
- ♦ IT and business operational readiness

6.26 In 2022/2023, Internal Audit have focused on the first 2 areas (within Phase 1) with further input to reporting and internal control considerations. In 2023/2024 this has moved to data migration and validation, organisational readiness and a programme of testing of key processes.

6.27 In terms of initial **readiness and solution design**, Internal Audit sought evidence of an implementation plan, definition of roles and responsibilities and a process to allow early identification of issues to mitigate the risk of an extended period of system design changes which would then impact on the ability of the project to deliver the anticipated efficiencies and transformational change.

6.28 A standard implementation model is being utilised (ADOPT Advisory; Design; Orchestrate; Prepare; Transition). Initial design concepts were developed by senior SLC staff at the outset of the project within the standard Oracle Fusion build framework. Fusion functionality was demonstrated at High Level Advisory sessions to the Functional teams for HR, Finance and Procurement. Process maps were

developed and then use for Conference Room Pilots (CRP). Issues identified at CRP sessions were incorporated into GAID (Assumptions, Issues and Dependencies) logs and discussed at daily and weekly functional meetings.

6.29   As the design evolved, Configuration Workbooks have been prepared, setting out the parameters for the build. A scope of work document was drawn up at the start of the project setting out a series of milestones that would release stage payments.

6.30   During the design phase, CRPs have led to the creation of Solution Design Documents (SDD), which outlined the various process, flow charts and system descriptions. Key User Training (KUT) sessions have been completed for some functions alongside KUT manuals. At date of writing this report, all but one SDD had been signed off and just over 40% of KUT manuals were complete. All KUT sessions were complete albeit some may require to be repeated. Work in all of these areas is profiled to end early June.

6.31   Any delays in the various stages of project implementation ultimately impact on the go live date. The PRB continue to have oversight of all elements.

6.32   Effective **project management** also requires roles and responsibilities to be defined within an overall program **governance** structure to allow effective and timely decision-making. Ownership and accountability for all key components of the project is needed to identify and resolve critical risks across all functional areas.

6.33   The process for design leadership and governance is well established. This has been challenging given the high turnover of staff with the Business Partner and a level of turnover of key personnel within South Lanarkshire Council. Internal Audit is represented on the Steering Committee and the Project Review Board and has attended these meetings alongside all key stakeholders and partners.

6.34   There are regular meetings of both the Board and Steering Group, with agendas, presentations and actions being minuted. These meetings are attended by the Business Partner with a detailed progress update being presented at each meeting by all functional leads. Detailed plans and revisions have been developed to respond to known challenges and risks to the planned go live date and the project will require close management of the significant volume of tasks and the associated timeline through to this date.

6.35   Phase 2, which includes additional Human Resources modules has a later go live date. Phase 2 now has its own plan with separate meetings to progress through to implementation.

6.36   Internal Audit has sought to ensure that processes incorporate **key internal controls** and that off-system or manual workarounds are minimised. The higher degree of automation will bring benefits but key internal controls must be embedded. Internal Audit is currently reviewing the availability of specific reports, to obtain assurance that, in the first instance access to reports are appropriately restricted to those with a business need.

6.37   Despite having a focus in 2022/2023 on project governance, risk and internal controls, Internal Audit continues to also assist through the provision of core data, process overviews and input to design solutions. Challenges around resourcing a project of this magnitude exist within Internal Audit and are similarly reflected in Council Services leading on implementation. The project is currently within a critical phase and Internal

Audit will continue to re-assess resources to ensure that they effectively contribute through to go live.

6.38   Preparatory work for a review of the **Equity Strategy** and for **Additional Support Needs** transport was included in the 2022/2023 Audit Plan. A questionnaire was sent to a sample of schools to assess the high-level governance arrangements in place around Pupil Equity Funding (PEF).   Positive feedback from this questionnaire suggests that there is comprehensive guidance and regular reporting and engagement with schools over the allocation and spend of PEF monies. Schools indicated that a documented audit trail of spend is being maintained. Follow up testing within schools will now be undertaken in 2023/2024.

6.39   In a similar manner, research around ASN transport was undertaken in 2023/2024. The was to assess progress with previous actions and collate background data to inform audit testing in 2023/2024. This overview indicates that systems are in place to source, administer and manage the delivery of ASN transport and that there had been progress in addressing previously identified areas of action. Follow up testing will now be undertaken in 2023/2024.

6.40   A review of the **procedures for dispensing medication** with a Social Work facility was undertaken in 2022/2023. Internal Audit completed some 'walk through' testing and, from a small sample reviewed, were satisfied that all actions had been implemented with the exception of one where work was still ongoing. It is important that the level of checking and standard of recording is continued to ensure good governance and to allow any future discrepancies to be fully investigated.

6.41   A continuing overview of **Self Directed Support** (SDS) arrangements in the year has concluded that detailed procedures and supporting documentation are in place that are based on Scottish Government Legislation and COSLA guidance. These are available to all employees. Management information was considered to be informative and useful albeit not in a consistent format across all Services. It was confirmed that one of the two actions from the previous SDS audit were complete with the outstanding action being impacted by the commitments of the training and development team involved in implementing the new Social Work system.

6.42   **Advice and guidance** has been provided in the year, including around the extended use of Purchase Cards to ensure that key internal controls are in place. Routine audit testing around Petty Cash and Purchase Cards are pending final review and will now be concluded early in 2023/2024.

6.43   Routine control work continued in the year through **CCM analysis** that was used to inform 'intelligent' audit sampling and to provide detailed data to External Audit for the purposes of the Council's financial year-end audit.

6.44   Investigative work was a relatively small element of the 2022/2023 Audit Plan but there has been an increase in the number of whistle-blowing concerns compared to recent pandemic years. The nature of these concerns are wide ranging and each of these were investigated in line with established fraud procedures and reflective of the Council's zero tolerance approach to fraud. One of these assignments remain open

as at 31 March 2023 with work ongoing to conclude. A detailed report on fraud statistics will be presented separately to the Committee.

6.45 Internal Audit has also monitored **fraud alerts** through internal and external sources and disseminated information as appropriate. In 2022/2023 these have continued to relate to ad hoc issues and have been shared with Council Resources as appropriate.

6.46 In 2022/2023, data was uploaded for the next **National Fraud Initiative** (**NFI) exercise** with matches returned in 2023/2024 for investigation. A detailed report on matches and a proposed approach to investigating will be presented separately to the Committee.

7. Summary of overall assurance and audit opinion

7.1 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.

7.2 Internal control has remained, primarily, a management responsibility to ensure that the Council conducts its business in a manner that has due regard to the principles of good governance. 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 audit opinion is based upon the audit work undertaken during the year and knowledge of the Council's wider governance, risk management and control arrangements.

7.3 Many significant controls are imbedded within systems and these have been tested throughout the year by a programme of internal and external audit testing. Key controls such as adherence to proper processes and procedures, application of management checks and robust monitoring are generally vested in people and, therefore, remain an area of higher inherent risk. These processes continue to be subject to change and all reasonable steps have been taken to gather sufficient evidence to express an audit opinion for this year.

7.4 **In 2022/2023, the Internal Audit opinion is that, overall, reasonable assurance can be placed on the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements for the year ending 31 March 2023.**

7.5 The Committee is asked to note the above findings and approve their inclusion in the Council's Annual Governance Statement. A signed Annual Internal Statement of Assurance is included at Appendix 2 based on the view of the Council's own internal audit function.

8. Employee implications

8.1 The Internal Audit service in 2022/2023 was delivered by a team of ten. Of the team of ten, all are fully or partly qualified through either the Chartered Institute of Internal Auditors or one of the Consultative Committee of Accountancy Bodies.

8.2 Informal 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.

9.   Financial implications

9.1   Audit and Compliance Services, during 2022/2023, marginally overspent against their allocated budget.

10.   Future years

10.1   The 2022/2023 Internal Audit Plan was the first audit plan since 2019/2020 where the proposed plan of work did not anticipate the delivery of COVID 19 tasks. These tasks, however, remained with residual reporting requirements to HMRC of grants disbursed in previous tax years.

10.2   Significant pressures remain as public services re-set with processes continuing to evolve. This momentum will continue with the implementation of Oracle Fusion. Investing time to fully develop data analytical tools has proved important but must be considered alongside the improved functionality of new systems. This will require the upskilling of the wider Internal Audit team and for approaches to evolve to remain relevant and deliver value-added output.

11.   Climate Change, Sustainability and Environmental Implications

11.1   There are no implications for climate change, sustainability or the environment in terms of the information contained within this report.

12.   Other implications

12.1   Each audit assignment seeks to identify efficiencies and report as part of the audit opinion where appropriate. In practice this often translates suggesting 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. In addition, there has been a growing focus on the content of action plans to ensure that these effect required improvements. This is particularly important in areas where issues are more significant.

12.2   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.

12.3   There are no sustainability issues in terms of the information contained in this report.

13.   Equality impact assessments and consultation arrangements

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

13.2   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

12 June 2023

Link(s) to Council Values/Priorities/Outcomes
♦ Accountable, effective, efficient and transparent

Previous References
♦ Risk and Audit Scrutiny Committee, 2022/2023 Internal Audit Plan - 26 January 2022
♦ Risk and Audit Scrutiny Committee, 2022/2023 Internal Audit Plan - 27 September 2022

List of Background Papers
♦ 2022/2023 progress reports to the Risk and Audit Scrutiny Committee
♦ Figtree statistical and assurance and time recording extracts
♦ Public Sector Internal Audit Standards (revised)
♦ Fraud statistics and NFI updates

Contact for Further Information
If you would like to inspect the background papers or want further information, please contact:-
Yvonne Douglas, Audit and Compliance Manager
Ext:- 2618 (Tel: 01698 452618)
E-mail:- yvonne.douglas@southlanarkshire.gov.uk

Performance Indicator 2022/2023	Target	2022/2023	2021/2022	2020/2021
Delivery of planned audit days	100%	**102%**	104%	96%
Completion of plan to draft report stage	100%	**94%**	92%	88%
Completed assignments delivered within budget	80%	**79%**	87%	75%
Draft reports issued within 42 days of fieldwork completed	80%	**100%**	100%	94%
Productive time	80%	**80%**	82%	84%

Appendix 2

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 2023.

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) (revised 2017) throughout 2022/2023. An external assessment of the extent of compliance is in progress as part of the Quality Assurance and Improvement Programme. This assessment has not identified any significant areas of non-compliance and the section is anticipated to continue to generally conform with the requirements set out in PSIAS.

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

Basis of opinion

My evaluation of the control environment relates only to South Lanarkshire Council and is informed by a number of sources including internal audit work undertaken during 2022/2023.

Limitation of scope

No individual audit assignments were specifically limited in scope at the outset but scopes have been 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 overall, reasonable assurance can be placed on the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements for the year ending 31 March 2023.

Signature:-

Yvonne Douglas BA CA   26 May 2023