

# Report

Report to:	<b>Risk and Audit Scrutiny Committee</b>
Date of Meeting:	<b>26 January 2022</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>2022/2023 Internal Audit Plan</b>
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## **1. Purpose of Report**

1.1. The purpose of the report is to:-

- ◆ seek approval for the proposed interim Internal Audit Plan for 2022/2023

## **2. Recommendation(s)**

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

- (1) that the proposed interim Internal Audit Plan for 2022/2023 be approved; and
- (2) that it be noted that this Audit Plan is formally reviewed in June 2022 and re-presented to the Committee setting out the proposed programme of audits within Council Resources (currently 326 days within the interim Audit Plan).

## **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 2022/2023 interim Internal Audit Plan and will be fully demonstrated when the Plan is reviewed and updated in June 2022.

3.2. The Annual Plan is usually presented to the Risk and Audit Scrutiny Committee (RASC) around March of each year but has been brought forward for 2022/2023 to allow the Plan to be presented to the last meeting of this Committee ahead of local government elections in May 2022. To reflect the significantly earlier presentation of the Plan this year, and to allow time to fully assess resources available in 2022/2023, and the extent of the function's role within the Oracle Fusion project, areas of the Plan that detail audit work within Resources will not be fully scoped until the first quarter of 2022/2023. The Plan will then be refreshed and re-presented to the first meeting of the new Risk and Audit Scrutiny Committee in June 2022.

3.3. The content of the Audit Plan is determined by the requirement to deliver a programme of work that informs the annual audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control arrangements. The interim Audit Plan supports this objective with an initial focus on:-

- ◆ committing resources to support corporate activity
- ◆ prioritising assignments to ensure key areas of work are completed in year

- 3.4. Presenting the Audit Plan in this way in 2022/2023 will ensure that the Plan is current, relevant and deliverable.

#### **4. Internal Audit Plan 2022/2023**

- 4.1. 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 1.
- 4.2. A copy of the proposed interim Internal Audit Plan for 2022/2023 is attached at Appendix 2. Where relevant, this shows 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.
- 4.3. The suggested interim 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.
- 4.4. The Council's top risks were last assessed in 2021/2022 and, as in recent years, did not significantly change. Previously identified risks were mostly still valid albeit the majority of the top risks had been impacted by the pandemic. An exercise to map the full Audit Plan to the Council's top risks will be completed in June 2022 and the outcome reported to the Committee.
- 4.5. Capacity planning has reflected the anticipated resources required to assist with the implementation of Oracle Fusion as well as other known resourcing pressures in 2022/2023 arising from planned leave and a secondment to the election office for the local government elections in May 2022.
- 4.6. Progress against the Audit Strategy will be monitored and reported to the Committee as part of regular monitoring reports that are presented at each meeting. Delivery of the Strategy will be evidenced by the completion of the 2022/2023 Plan. The risk of significant subsequent changes to the Plan, arising from a change in the Council's priorities or risks, are reduced given the proposed approach in 2022/2023 with a level of contingency time built in to provide some flexibility throughout the year. Key performance indicators will continue to be reported to the Committee within routine activity reports and as part of the annual assurance report.
- 4.7. The Committee is asked to approve the proposed approach in 2022/2023 and the draft interim Audit Plan attached at Appendix 2.

#### **5. Employee Implications**

- 5.1. A full employee capacity plan was prepared at the commencement of the audit planning process. This determined that 1,303 audit days can be delivered in 2022/2023 (inclusive of days to deliver an internal audit service to external clients). This is broadly similar to the number of days that were available in 2021/2022.

#### **6. Financial Implications**

- 6.1. The detailed 2022/2023 budget for Internal Audit has not been finalised. Capacity planning has been based on a prudent projected 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 implications for climate change, sustainability or the environment in terms of the information contained in 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. Evidence is available of a level of consultation during preparation of the interim Plan with a further review exercise planned for Quarter One of 2022/2023.

**Paul Manning**

**Executive Director Finance and Corporate Resources**

11 January 2022

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

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

### **Previous References**

- ◆ 2021/2022 Internal Audit Plan – Six Months to 30 September 2021, 3 March 2021
- ◆ 2021/2022 Internal Audit Plan – Six Months to 31 March 2022, 17 November 2021

### **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:-

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## **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.



Lead Resource	Audit assignment	Outline Scope	Expected days
<b>Key year end tasks</b>			
FCR	External Audit	Provide 2021/2022 general ledger data to External Audit for the audit of the financial accounts for the year ended 31 March 2022.	11
All	2021/2022 Annual Report	Prepare annual statement of assurance for 2021/2022. Present to RASC.	10
All	Governance Statement	Undertake review of evidence that supports SLC's Annual Governance Statement and provide 2021/2022 annual assurance statement for Glasgow City Region – City Deal.	5
<b>Corporate tasks</b>			
All	Attend internal and external working groups	Attend, respond to requests, participate in consultations and providing updates.	39
All	Committee reporting	Prepare reports to present to RASC and to External Client Committees and Boards.	10
FCR	Fusion	Support implementation of project.	309
All	2023/2024 Audit Plan	Undertake consultation, risk assessment, Resource and Section planning, set scopes and objectives and seek approval through preparation of reports.	10
All	NFI	Coordinate data uploads for new NFI exercise in 2022/2023. Develop and communicate plan for investigation of matches in 2023/2024.	15
All	Advice and guidance	Provision of advice and guidance on online banking for school funds and on the revision of duplicate invoice checks.	50
<b>Core programme of audit work</b>			
All	Informal Follow Up	Prompt Resources on a quarterly and monthly basis of actions due within that period. Collate responses for reporting.	6
All	Follow Up	For all Council Resources, identify audit recommendations due in the period April 2021 to March 2022. Risk assess and follow-up to ensure implementation of all high risk actions.	20
CER/HTR/FCR	Follow Up	Undertake follow up of procurements audits within Roads and Property Services and debtors review within Benefits and Revenue Services.	65

<b>Lead Resource</b>	<b>Audit assignment</b>	<b>Outline Scope</b>	<b>Expected days</b>
All	Anti-fraud checks	Rolling programme of anti-fraud checks – including procurement, petty cash and purchase cards.	58
All	CCM	Continue to download data in current Continuous Controls Monitoring (CCM) areas. Use data for analysis and to inform internal and external audit testing.	25
EDR	Optimisation software	Review of optimisation software to establish benefit of using within other Council Services.	20
FCR/CER	Investigative contingency	Undertake investigations as required (including COVID-19 grants).	95
All	General contingency	Conclude all 2021/2022 audits and responded to requests for unplanned work 2022/2023.	117
All	Resource audits	Deliver a programme of risk-based audits across Council Resources (to be presented June 2022)	326
N/A	Audit Plan	Deliver internal audit service to External Clients	112
<b>Total Audit Days 2022/2023</b>			<b>1,303</b>