South Ayrshire Council

**Report by Chief Internal Auditor
to Audit and Governance Panel
of XX June 2020**

Subject: Internal Audit Annual Report 2019/20

1.   Purpose

1.1   The purpose of this report is to present to the Panel the annual report on the internal audit activity during 2019/20, and to provide an independent opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control systems for the year ended 31 March 2020.

2.   Recommendation

2.1   It is recommended that the Panel notes the contents of the report.

3.   Background

3.1   The Chief Internal Auditor is required, on an annual basis, to present an annual report and statement on internal controls to the Panel.

4.   Proposals

4.1   The required annual report for financial year 2019/20, together with the statement on internal controls, is included in Appendix 1.

4.2   The revised internal audit plan for 2019/20 (approved by the Panel in November 2019) has been substantially completed; there is no audit fieldwork outstanding, with remaining draft reports at final clearance stage. Their individual internal control assessments can therefore be included in the overall annual audit opinion.

4.3   One assignment (transformation and change management) has been deferred to 2020/21 due to a delay in the approval of the change programme. There are no 'red' reports in respect of 2019/20 audit work.

5.   Legal and Procurement Implications

5.1   There are no legal implications arising from this report.

5.2   There are no procurement implications arising from this report.

6.   Financial Implications

6.1   Not applicable.

7.   Human Resources Implications

7.1   Not applicable.

8.   Risk

8.1   *Risk Implications of Adopting the Recommendations*

    8.1.1   There are no risks associated with adopting the recommendations.

8.2   *Risk Implications of Rejecting the Recommendations*

    8.2.1   Audit reports include, in the action plans, a separate risk assessment detailing the risk of not implementing each of the Internal Audit recommendation.

9.   Equalities

9.1   The proposals in this report have been assessed through the Equalities Impact Assessment Scoping process, and there are no significant positive or negative equality impacts of agreeing the recommendations, therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached at Appendix 2.

10.   Sustainable Development Implications

10.1   *Considering Strategic Environmental Assessment (SEA)* - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11.   Options Appraisal

11.1   An options appraisal has not been carried out in relation to the subject matter of this report.

12.   Link to Council Plan

12.1   The proposals contained in this report link to the Council Plan objectives: 'We will ensure public services work together to deliver for our people and places, minimising duplication, maximising impact and support each other to deliver on priorities.' and linked to that, achieving objectives through 'Systematic review – Designing systems to eliminate duplication; streamline processes; harness technology; improve online service access; and maximise the potential of our assets and workforce'.

13.   Results of Consultation

13.1   There has been no public consultation on the contents of this paper.

Background Papers   **Public Sector Internal Audit Standards April 2017**

Person to Contact   Laura Miller, Chief Internal Auditor
County Buildings, Wellington Square, Ayr, KA7 1DR
Phone 01292 612432
E-mail **laura.miller@south-ayrshire.gov.uk**

Date: **19 May 2020**

Internal Audit Annual Report 2019/20

1. **Introduction**

1.1. The purpose of this report is to summarise the Internal Audit activity for 2019/20.

2. **Internal Control Framework**

2.1. The presence of an effective internal audit function contributes towards, but is not a substitute for, effective control. It is the responsibility of management to have adequate controls in place and to ensure these controls are operating effectively. A sound control system will help safeguard assets, ensure records are reliable, promote operational efficiency and ensure adherence to Council policy and procedure. Such systems of internal control can provide only reasonable and not absolute assurance against loss.

3. **Reporting requirements of the Public Sector Internal Audit Standards (PSIAS)**

3.1. Internal Audit operates in accordance with the PSIAS requirements and 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.

3.2. Internal Audit operates within the Internal Audit Charter, most recently approved by the Audit and Governance Panel on 20 March 2019.

3.3. The PSIAS places a number of reporting obligations on the Chief Internal Auditor in respect of the annual report. These obligations are summarised below:

PSIAS Ref	Requirement	Evidence
1110	The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.	The Chief Internal Auditor reports directly to the Audit and Governance Panel, and unfettered access is available to the Chief Executive as required.
1320	The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.	The results of the self assessment, carried out in summer 2019, were reported to the Audit and Governance Panel Novemer 2019. Progress against these actions is noted in this report.
2450	The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.	This report to Audit and Governance Panel provides the annual statement of assurance on internal controls.

PSIAS Ref	Requirement	Evidence
2450	The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.	This report to Audit and Governance Panel provides the annual statement of assurance on internal controls.
2450	The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.	This report to Audit and Governance Panel provides a statement on the conformance with the PSIAS.

4. Compliance with PSIAS

4.1. The Chief Internal Auditor is required to confirm internal audit's compliance with the Public Sector Internal Audit Standards. The last independent external review was carried out in 2018, with an annual self assessment carried out by the Chief Internal Auditor in summer 2019. The external review in 2018 and the self assessment in 2019 both concluded conformance with the PSIAS. The 23 actions points from the 2018 independent review were all implemented, and a further five areas for improvement identified in the 2019 self assessment are either complete or in progress. The next annual self assessment will be carried out in summer 2020.

5. Position and Resourcing of Internal Audit

5.1. Internal Audit and Corporate Fraud is situated within the People Directorate, with line management responsibility to the Depute Chief Executive and Director – People. The Chief Internal Auditor remains functionally responsible to the Audit and Governance Panel and attends all Panel meetings. The Chief Internal Auditor has unfettered access to the Chief Executive where required.

5.2. Internal Audit includes four posts (3.7 FTE), of which three hold professional accountancy qualifications. Corporate Fraud includes a further two posts (2 FTE), with the Senior Investigations Officer holding the Accredited Counter Fraud Specialist qualification.

6. Achievement of Annual Internal Audit Plan 2019/20

6.1. Internal audit activity during the year was undertaken in accordance with the annual internal audit plan. Progress reports have been provided to the Audit and Governance Panel quarterly throughout the year. All assignments included within the revised internal audit plan, approved by the Audit and Governance Panel in November 2019, have been substantially completed with the exception of one assignment which is deferred to 2020/21 (transformation and change management). Sufficient work has been carried out to enable an annual audit opinion on the adequacy of internal controls to be produced.

6.2. The revised 2019/20 internal audit plan estimated 555 direct audit days (2018/19: 440 days). The actual number of days achieved for 2019/20 was 507 days

(2018/19: 439 days). An analysis of audit days by type of audit is summarised in the following table:

Type of Audit	Planned Days 2019/20	Actual Days 2019/20	Variance in days
Core systems	175	197	22
Ongoing assurance	30	19	(11)
Best Value/ Corporate Governance	45	24	(21)
Directorates and other entities	125	114	(11)
Regularity	55	61	6
Self Assessment	10	3	(7)
Other	115	89	(26)
TOTAL	**555**	**507**	**(48)**

6.3. The overall number of days is lower than planned due to ongoing absence within the team which was an unknown factor at the time of the mid-year review of the plan in November 2019. Differences in each of the categories are explained below:

- Core systems – the increase in days used was primarily due to the new approach to auditing core systems. This had not been factored in at the time of the annual audit planning, where it was initially assumed that distinct areas of each core system would be audited rather than the full system;
- Ongoing assurance – this covers continuous auditing, which has been used this year to assess customer payments. Processes and procedures still need to be developed to re-establish customer invoicing and payroll testing. This will be a focus for 2020/21.
- Best Value/Corporate Governance – the lower actual days is due entirely to the deferred review of transformation projects and change management. This assignment is picked up in the 2020/21 internal audit plan.
- Directorates and other entities – the lower actual days is due to two main audits – leisure cards and charges and IJB internal audit work. The IJB work was ongoing beyond the year end and the remainder of the budget will be included in 2020/21.
- Regularity – more days were used against the budget for Community Council accounts, due to the volume of these still being received for auditing.
- Self Assessment – this saving was due to the sharing of information from other authorities who also use a self assessment toolkit for schools. This led to a saving of time against this budget.
- Other – the contingency budget of 35 days was not used to its full amount. Only one review, amounting to 11 audit days, was charged against this budget.

6.4. A total of 20 internal audit reports have been issued for 2019/20 (see summary at Annex A). Management have agreed to implement all action points arising.

6.5. Overall, the audit findings suggested that while some weaknesses were identified and certain elements of control were only partially in place, when taken with other findings they did not significantly impair the overall systems of internal control in the areas reviewed.

6.6. There are five audit assignments which have been completed and the reports drafted, however these will not be issued as final until an appropriate time following

the Covid-19 pandemic. However, their conclusions can still be included in the overall opinion for 2019/20.

6.7. Twenty two accounts have been prepared and audited for Community Councils and Town Twinning Associations.

7. Performance Indicators

7.1. Internal Audit reports against four key performance indicators:
- Productivity/utilisation (see 7.2)
- Percentage of reviews completed in audit plan (see 7.4)
- Number of ad-hoc requests and investigations (see 7.6)
- Time spent on audits/time taken to complete audits (see 7.7)

Productivity/Utilisation

7.2. Internal Audit measures productivity on a regular basis throughout the year. This is classed as 'direct' audit time. The productivity level is shown in the following table:

	2019/20	2018/19	2017/18
Direct	86.1%	78.8%	74.5%
Indirect*	9.3%	11.9%	8.6%
Management	4.7%	9.3%	16.9%

e.g. administration, training and meetings

7.3. Direct audit time has been higher for 2019/20 than in previous years, albeit the annual target should be around 85%. Indirect time is in line with expectation, however management time is low due to more time spent by the Chief Internal Auditor delivering direct audit work than was originally planned as a result of lower resources within the team.

Percentage of Reviews Completed in Audit Plan

7.4. The revised internal audit plan for 2019/20, approved by the Panel on 6 November 2019, included 27 deliverable assignments. Certain items in the plan do not have individual outputs (such as management and audit development time) and are therefore excluded from this indicator. A summary of the plan completion is included in the following table:

Status	Number	Percentage
Complete	26	96%
Deferred	1	4%
	27	**100%**

Number of ad-hoc requests and investigations

7.5. An analysis is maintained by the Chief Internal Auditor of all additional work arising through investigations and ad-hoc requests for advice. Often, the advice which is provided to services is that which extends beyond the original scope of the audit work (e.g. advice/guidance on the implementation of audit action points). There were 14 areas of ad-hoc and advisory work provided to services across the Council. For example advisory work beyond the initial completion of planned assignments and ongoing advice in respect of previous investigatory work. Three

investigations were carried out which resulted in the issuing of a controls report to the service.

Time spent on audits/time taken to achieve audits

7.6. The time spent on audits and the time taken to achieve audits is monitored on a continual basis by the Chief Internal Auditor. A single indicator does not exist for this measure, as the various audit assignments are significantly different in the type of audit work undertaken and the budget required to achieve the audit objectives. The performance information maintained for this indicator includes the measurement of time against budget as well as the elapsed time taken from the agreement of the Terms of Reference through to the issuing of the final report. This information is used to track completion of the audit plan and to assign work within the team.

8. Counter Fraud Work

8.1. The Corporate Fraud team has responsibility for investigating any alleged fraud or irregularity which has been highlighted to them. They also undertake pro-active work in identifying circumstances of fraud perpetuated against the Council (either from outwith the Council or from within). Assistance will be provided by Internal Audit in cases where a lack of internal controls has contributed to a fraud taking place. There was one such employee investigation arising in 2019/20.

8.2. Separate Corporate Fraud update reports are provided to the Audit and Governance Panel for scrutiny on a six monthly basis.

9. Other Responsibilities

9.1. The Chief Internal Auditor of the Council is also the Chief Internal Auditor for the South Ayrshire Integration Joint Board (IJB) and the Ayrshire Valuation Joint Board (AVJB). In the interests of information sharing, the results of the IJB and AVJB audit work is shared with Members of the Council.

10. Internal Audit and Corporate Fraud Development

10.1. Internal Audit and Corporate Fraud engage in a supportive network of auditors and fraud investigators across Scotland. On a quarterly basis, the following quarterly group meetings are attended by members of the Internal Audit and Corporate Fraud team:

Group	Attended by
Scottish Local Authorities Chief Internal Auditors Group (SLACIAG)	Chief Internal Auditor
Computer Audit Sub-Group (CASG)	Senior Auditor
Scottish Local Authorities Investigators' Group (SLAIG)	Senior Investigations Officer

10.2. These meetings are a valuable source of training and sharing of information with counterparts across Scotland. In June 2019, the SLACIAG two-day conference was attended by two members of the team, which represents a value for money source of up to date, relevant training. The conference covered procurement and

cyber security, both of which were included in the Council's 2019/20 internal audit plan.

10.3. IT Audit Basecamp training, which was a three day training course organised through SLACIAG and delivered by Mindgrove, was also attended by two members of the team in January 2020. The aim of the training is to develop the team to undertake more in depth reviews of IT systems throughout the Council.

10.4. Pan-Ayrshire meetings are held with the other Chief Auditors for North and East Ayrshire Council.

10.5. Other opportunities for training and development are explored as and when they arise.

11.   Audit Opinion

11.1. There is a formal requirement for the Chief Internal Auditor to prepare an assurance statement on the adequacy of internal control systems within the Council. The statement is included in Annex B.

12.   Conclusion

12.1. The 2019/20 internal audit plan was satisfactorily completed.

Internal Audit Reports Issued/Drafted 2019/20

Report Ref	Description	Assurance	Actions Arising			
			High	*Medium*	*Low*	*Total*
2020-05	Follow Up – Oracle User Access*	Substantial	-	-	-	-
2020-06	Cash Check at Masonhill Crematorium	Substantial	0	0	0	0
2020-13	Year End Stores Control – Property Maintenance	Substantial	0	0	2	2
2020-16	Follow Up – GDPR*	Substantial	-	-	-	-
2020-22	Discretionary Housing Payments	Substantial	0	1	3	4
2020-24	Creditors System Review	Reasonable	0	4	7	11
2020-25	Unannounced Stock Check – Property Maintenance	Reasonable	0	1	0	1
2020-26	Rent Arrears Management	Substantial	0	0	0	0
2020-27	Pupil Equity Funding	Reasonable	0	1	0	1
2020-28	Sundrum Children's Home	Substantial	0	0	0	0
2020-29	LEADER 2018-19	Substantial	0	0	1	1
2020-30	Millrock Court and Panrock Court Sheltered Housing Unit	Substantial	0	0	0	0
2020-31	Fuel Controls within Grounds Maintenance	Reasonable	1	2	1	4
2020-32	Leisure Cards and Charges	Reasonable	0	1	1	2
2020-33	Council Tax – Billing, Collections and Refunds	Full	0	0	0	0
2020-34	Revenue Contract Review	Reasonable	0	0	0	0
2020-36	Health & Safety Arrangements	Reasonable	0	3	2	5
2020-37	Treasury Management	Substantial	0	1	1	2
2020-38	Controls over Governance Arrangements in HSCP	Reasonable	0	1	0	1
2020-40	Fleet Management	Substantial	0	0	0	0
2020-44	AVJB Business Continuity and Risk Management Arrangements[#]	Substantial	0	0	3	3
2020-45	Payroll – Starters & Leavers[#]	Reasonable	0	2	1	3

Report Ref	Description	Assurance	Actions Arising			
			High	Medium	Low	Total
2020-46	IJB Governance Arrangements[#]	Reasonable	0	0	0	0
2020-47	Cyber Security (Briefing Paper) [#]	N/A	0	0	0	0
2020-48	NDR – Billing, Collections and Refunds[#]	Substantial	0	0	0	0

Follow up audits are based on previous actions only, therefore no new actions generated.
[#]*Assignments are complete and reports drafted/cleared with client, however final audit reports will not be issued until an appropriate time following the Covid-19 pandemic.*

Internal Audit Annual Statement on the Adequacy of Internal Controls

To the Members and Chief Executive of South Ayrshire Council

As Chief Internal Auditor for South Ayrshire Council, I am pleased to present my annual statement on the overall adequacy and effectiveness of the framework of governance, risk management and control of the Council for the year ended 31 March 2020.

Respective responsibilities of management and internal auditors in relation to governance, risk management and control

It is the responsibility of the Council's senior management to determine, establish and maintain sound systems of governance, risk management and control to ensure that the organisation's resources are properly applied in a manner and on the activities intended and that these arrangements are sufficient to address the risks facing their services. This includes responsibility for the prevention and detection of fraud. Management is also charged with monitoring the continuing effectiveness of these arrangements and taking action as appropriate. It is the responsibility of the Chief Internal Auditor to provide an annual assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Sound internal controls

The main objectives of the Council's internal control systems are to:

- ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- safeguard assets;
- ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.

The work of internal audit

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. The Internal Audit section operates in accordance with United Kingdom Public Sector Internal Audit Standards which came into force with effect from 1 April 2013 (and updated in March 2017). The requirements under PSIAS represent best practice and are mandatory.

The Chief Internal Auditor prepares an annual internal audit plan which outlines the programme of work to be undertaken. The plan is developed utilising a risk-based methodology and takes into account the requirement placed upon the Chief Internal Auditor to deliver an annual internal audit opinion. The plan needs to be flexible to reflect the changing risks and priorities of the organisation. The plan, and any material changes to the plan during the year, are approved by the Audit and Governance Panel.

All internal audit reports are brought to the attention of management, including system weaknesses and/or non-compliance with expected controls, together with agreed action plans. It is management's responsibility to ensure that due consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. This includes management taking remedial action where appropriate, or accepting that there may be a level of risk exposure if the weaknesses identified are not addressed for operational reasons. Internal Audit is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Matters arising from internal audit work are reported to all Members, Chief Executive, Depute Chief Executive and Director (People), Head of Finance and ICT (as Section 95 Officer), Head of Regulatory Services (as Monitoring Officer) and external audit.

Summary of Internal Audit Activity 2019/20

A total of 20 internal audit reports have been issued for 2019/20. The opinions given have mostly been substantial or reasonable assurance. A diverse range of areas have been covered during the year including payroll, customer payments, contract audit, cyber security, pupil equity funding, health and safety, location audits, stores controls, LEADER programme and follow up reviews. Added to this, progress was made to implement an internal control self assessment toolkit for schools. As well as these planned assignments, Internal Audit also offers advice and guidance on the Council's control environment as and when required.

A range of recommendations have been raised in the areas covered by the 2019/20 internal audit plan. Many expected key controls have been in place and operating effectively, however Internal Audit has also identified scope for improvement in some systems. All action points raised in the year have been accepted by management and will result in continued improvement of the Council's governance, risk management and control environment.

Basis of Opinion

The evaluation of the control environment is informed by a number of sources:

- the audit work undertaken by Internal Audit during the year to 31 March 2020;
- the audit work undertaken by Internal Audit in previous years and knowledge of any significant audit findings after the year end;
- the assessment of risk completed during the preparation of the strategic audit plan;
- assessment of the general control environment within individual departments as completed by each Head of Service and Director;
- reports issued by the Council's external auditors and other review and inspection agencies (including reports issued by East Ayrshire Council auditors for Ayrshire Roads Alliance);
- knowledge of the Council's governance, risk management and performance monitoring arrangements; and
- any other items brought to the attention of internal audit by whatever means which may warrant further investigation.

The timing of the Covid-19 pandemic does not have an adverse effect on the internal audit opinion for 2019/20 as the audit plan was substantially completed on time. As noted above, the period after the year-end date is also used to inform the evaluation of the governance, risk management and control enviorment. The Covid-19 pandemic has

tested that the Council's risk management framework is operating effectively in these unprecendented circumstances. The period after the year end has demonstrated a number of examples of innovative, efficient and effective ways of working to ensure the ongoing delivery of existing and new critical services to business and the wider community. There has been ongoing engagement between Internal Audit and services where changes have been required to the existing internal control arrangements, often within tight deadlines. In particular, Internal Audit has acted in an advisory capacity in respect of the new Covid-19 business support grant funding.

It will be important that, at an appropriate time, the Council carries out a post-incident review to highlight any lessons learned from this significant event.

Opinion

On the above basis, Internal Audit can provide reasonable assurance over the framework of governance, risk management and control and that adequate controls were in place, and were operating throughout the Council in 2019/20.

Laura Miller
Chief Internal Auditor
South Ayrshire Council
19 May 2020

South Ayrshire Council   Equalities Scoping Template   Appendix 2

1. Policy details

Policy Title	Lead Officer
Internal Audit Annual Report 2019/20	**Laura Miller**

2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts

Community, Groups of People or Themes	Negative Impacts	Positive impacts
The whole community of South Ayrshire	-	-
People from different racial groups, ethnic or national origin.	-	-
Women and/or men (boys and girls)	-	-
People with disabilities	-	-
People from particular age groups for example Older people, children and young people	-	-
Lesbian, gay, bisexual and heterosexual people	-	-
People who are proposing to undergo, are undergoing or have undergone a process to change sex	-	-
Pregnant women and new mothers	-	-
People who are married or in a civil partnership	-	-
People who share a particular religion or belief	-	-
Thematic Groups: Health, Human Rights, Rurality and Deprivation.	-	-

3. Do you have evidence or reason to believe that the policy will support the Council to:

General Duty and other Equality Themes	Level of Negative and/or Positive Impact (high, medium or low)
Eliminate discrimination and harassment faced by particular communities or groups	**Low impact**
Promote equality of opportunity between particular communities or groups	**Low impact**
Foster good relations between particular communities or groups	**Low impact**
Promote positive attitudes towards different communities or groups	**Low impact**
Increase participation of particular communities or groups in public life	**Low impact**
Improve the health and wellbeing of particular communities or groups	**Low impact**
Promote the human rights of particular communities or groups	**Low impact**
Tackle deprivation faced by particular communities or groups	**Low impact**

4. Summary Assessment

Is a full Equalities Impact Assessment (EQIA) required? (A full EQIA must be carried out on all high and medium impact policies**)**	**YES** ☐	**NO**	**X**
Rationale for decision: This report provides Members with the Internal Audit Annual Report and opinion for 2019/20. Their consideration of this report has no specific equality implications.			
Signed Laura Miller (Chief Internal Auditor)			
Date: 19 May 2020	Copy to equalities@south-ayrshire.gov.uk		