

South Ayrshire Council

**Report by Chief Internal Auditor
to Audit and Governance Panel
of 29 May 2019**

Subject: Internal Audit Annual Report 2018/19

1. Purpose

- 1.1 The purpose of this report is to present to the Panel the annual report on the internal audit activity during 2018/19, 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 2019.

2. Recommendation

- 2.1 **It is recommended that the Panel considers 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 2018/19, together with the statement on internal controls, is included in [Appendix 1](#).
- 4.2 The revised audit plan for 2018/19 (approved by the Panel in November 2018) 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 has been deferred to early 2019/20 due to other audit and service commitments (pupil equity funding). One 'red' report has been issued for 2018/19 (Oracle access controls). Follow up work has been carried out in early 2019/20 by Internal Audit to assess the implementation of the action points; indications are that management are making good progress with the action points. A further potential 'red' report is currently at clearance stage (revenue contracts), with the service already sighted on most of the issues raised and are working towards implementation of the actions.

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](#)

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Date: 20 May 2019

Internal Audit Annual Report 2018/19

1. Introduction

- 1.1. The purpose of this report is to summarise the Internal Audit activity for 2018/19.

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 external assessment were reported to Audit and Governance Panel of 21 March 2018. Six monthly exception reports commenced in August 2018.
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.

- 3.4. As noted above, the Chief Internal Auditor is required to confirm internal audit's compliance with the Public Sector Internal Audit Standards (ref 2450). On 21 March 2018, the Panel received a report detailing the results of the independent external review by East Renfrewshire's Chief Internal Auditor, together with a 23 point action plan to address areas of improvement identified. The overall opinion from that review was that the Council's internal audit service generally conforms to the PSIAS. A six monthly reporting regime was introduced to keep the Panel informed of progress against this action plan. Twenty two actions have been completed, with the final action due for completion summer 2019 (evidence to be retained for the annual self assessment process).

4. Position and Resourcing of Internal Audit

- 4.1. 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.
- 4.2. Internal Audit includes four posts (3.8 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.

5. Achievement of Annual Internal Audit Plan 2018/19

- 5.1. Internal audit activity during the year was undertaken in accordance with the annual internal audit plan. Progress reports have been provided to Audit and Governance Panel regularly throughout the year, including summaries of reports issued. All assignments included within the revised internal audit plan, approved by the Audit and Governance Panel in November 2018, have been substantially completed with the exception of one assignment which was deferred to early 2019/20 (pupil equity funding). Sufficient work has been carried out to enable an annual audit opinion on the adequacy of internal controls to be produced.
- 5.2. The revised 2018/19 internal audit plan estimated 440 direct audit days (2017/18: 485 days, including 35 outsourced days). The actual number of days achieved for

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

Type of Audit	Planned Days 2018/19	Actual Days 2018/19	Variance in days
Core systems	110	111	1
Ongoing assurance	3	3	0
Best Value/ Corporate Governance	101	116	15
Directorate risks	90	57	(33)
Regularity	51	70	19
Other	85	82	(3)
TOTAL	440	439	(1)

5.3. The overall number of days is in line with planned, with some minor differences to note within the type of audit carried out:

- time spent on the 'best value/corporate governance' plan was higher than expected, primarily due to more time spent on the GDPR assignment;
- time spent on the 'directorate risks' plan was lower than expected mainly due to savings on the AVJB planned assignment and the deferral of the pupil equity funding assignment into 2019/20; and
- the time spent on the 'regularity' plan was higher than expected, half of which was due to time spent on community council accounts and the other half being accounted for by minor differences in the remaining regularity assignments. The role of Internal Audit in relation to community councils is being reviewed as part of the wider review of the community council scheme.

5.4. A total of 20 internal audit reports have been issued for 2018/19 (see summary at [Annex A](#)). Management have agreed to implement all action points arising.

5.5. 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. There are two exceptions to this:

- Oracle access controls. Follow up work has been carried out in early 2019/20 by Internal Audit to assess the implementation of the action points; indications are that management are making good progress with the action points and the internal audit follow up report will be issued to all Members once finalised.
- Revenue contracts. The fieldwork for this assignment is concluded, and the draft report provided to the service for clearance. Early indications are that this may be a 'red' report, however this is still subject to final agreement. The service was already aware of most of the issues raised, and are working towards achievement of the draft action points. In line with established practice, the report will be provided in full to all Members and in summary to the Panel in due course.

5.6. There are four audit assignments which are substantially completed and are at the clearance stage.

5.7. Six accounts have been prepared and audited for Community Councils and Town Twinning Associations.

6. Performance Indicators

- 6.1. Internal Audit reports against four key performance indicators:
- Productivity/utilisation (see 6.2)
 - Percentage of reviews completed in audit plan (see 6.4)
 - Number of ad-hoc requests and investigations (see 6.6)
 - Time spent on audits/time taken to complete audits (see 6.7)

Productivity/Utilisation

- 6.2. 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:

	2018/19	2017/18	2016/17
Direct	78.8%	74.5%	83.1%
Indirect*	11.9%	8.6%	3.8%
Management	9.3%	16.9%	13.1%

*e.g. administration, training and meetings

- 6.3. The outturn for the year is in line with expectation, also demonstrated in the total audit days achieved in the table at 5.2. Indirect audit time is slightly higher than in the previous year, attributable to induction training undertaken by two new members of the team in 2018/19 (the Chief Internal Auditor and the Auditor).

Percentage of Reviews Completed in Audit Plan

- 6.4. The revised internal audit plan for 2018/19, approved by the Panel on 2 November 2018, 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	22	81%
In progress	4	15%
Not started	1	4%
	27	100%

- 6.5. It should be noted that while four audit assignments are classified as work in progress, these are substantially completed with only final clearance outstanding and therefore the draft results from these assignments can be included by the Chief Internal Auditor for the purpose of the annual audit opinion.

Number of ad-hoc requests and investigations

- 6.6. 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 17 pieces of ad-hoc and advisory work provided to services across the Council. For example:

- Advisory work beyond the initial completion of planned assignments;
- Advice over cash controls at customer service centres;
- Review of policy and strategy documentation; and
- Cash handling advice within sport facilities.

Time spent on audits/time taken to achieve audits

6.7. 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.

7. Counter Fraud Work

7.1. 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 were such no employee investigations arising in 2018/19.

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

8. Other Responsibilities

8.1. 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.

9. Internal Audit and Corporate Fraud Development

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

Meeting	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

9.2. These meetings are a valuable source of training and sharing of information with counterparts across Scotland. In June 2019, the SLACIAG two-day conference will also be attended by the team, which represents a value for money source of up to

date, relevant training. This year's conference covers procurement and cyber security, both of which are included in the Council's 2019/20 internal audit plan.

- 9.3. The annual report covering SLACIAG, CASG and SLAIG (prepared by the Chair of SLACIAG) has been issued to all Members and is available on [Re-Wired](#).
- 9.4. Pan-Ayrshire meetings are held with the other Chief Auditors for North and East Ayrshire Council, as well as the internal auditors for NHS Ayrshire and Arran (Grant Thornton LLP).
- 9.5. Other opportunities for training and development are explored as and when they arise.

10. Audit Opinion

- 10.1. 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](#).

11. Conclusion

- 11.1. The 2018/19 internal audit plan was satisfactorily completed.

Internal Audit Reports Issued 2018/19

Report Ref	Description	Assurance	Actions Arising			
			High	Medium	Low	Total
2018-45	Performance Indicators	Substantial	0	1	0	1
2019-03	LEADER	Substantial	0	0	1	1
2019-04	GDPR	Limited	3	2	0	5
2019-05	Oracle Access Controls	None	3	2	1	6
2019-06	Museums (Follow Up)*	Limited	-	-	-	-
2019-08	SAC Monitoring Arrangements of ARA (Follow Up)*	Substantial	-	-	-	-
2019-09	Stores Control	Limited	2	4	2	8
2019-10	Cash Checks at Council Premises	Limited	1	1	0	2
2019-11	Performance Indicators 2017/18	Substantial	0	0	0	0
2019-12	Heathfield Primary School	Substantial	0	0	0	0
2019-15	Social Work Location – Whitletts Centre	Full	0	0	0	0
2019-16	Customer Invoicing System	Limited	3	2	2	7
2019-17	Justice Service Review	Limited	4	4	0	8
2019-18	SEEMiS User Access	Substantial	0	0	0	0
2019-20	ESF	Substantial	0	0	0	0
2019-22	Council Tax Reduction Scheme	Substantial	0	0	0	0
2019-24	AVJB Electoral Registration	Substantial	0	0	2	2
2019-25	Review of Financial Regulations and Scheme of Delegation	Substantial	0	0	0	0
2019-26	IJB – Progress with Integration	Limited	3	3	1	7
2019-27	Property Leases	Limited	0	5	1	6

* Follow up audits are based on previous actions only, therefore no new actions generated.

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 2019.

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 2018/19

A total of 20 internal audit reports have been issued for 2018/19. The opinions given have mostly been substantial or limited assurance, with one full assurance and one no assurance report issued. A diverse range of areas have been covered during the year including payroll, access controls (Oracle), segregation of duties (SEEMiS), revenue contracts, debtors, benefits, review of financial regulations and scheme of delegation, ESF funding, property leases, school and social work location audits, cash checks, stores controls, LEADER programme and follow up reviews. 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 2018/19 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. The review of Oracle access controls identified a lack of controls, which management has responded positively to and has taken steps to address the weaknesses identified. There are early indications that improvements are required to contract monitoring arrangements but this relates to one area only which the service was already aware of, and work is already underway to consider the findings and mitigating actions going forward. 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 2019;
- 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 Directorates as completed by each Director or Head of Service;
- 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.

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 2018/19.

Laura Miller
Chief Internal Auditor
South Ayrshire Council
3 May 2019

1. Policy details

Policy Title Internal Audit Annual Report 2018/19	Lead Officer Laura Miller
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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 <input type="checkbox"/> NO <input checked="" type="checkbox"/>
Rationale for decision: This report provides Members with the Internal Audit Annual Report and opinion for 2018/19. Their consideration of this report has no specific equality implications.	
Signed Laura Miller (Chief Internal Auditor)	
Date: 3 May 2019	Copy to equalities@south-ayrshire.gov.uk