

South Ayrshire Council

**Report by Chief Internal Auditor
to Audit and Governance Panel
of 26 June 2024**

Subject: Internal Audit Annual Report 2023/24

1. Purpose

- 1.1 The purpose of this report is to present to the Audit and Governance Panel the annual report on the internal audit activity during 2023/24, 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 2024.

2. Recommendation

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

3. Background

- 3.1 South Ayrshire Council's internal audit service is delivered 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.
- 3.2 PSIAS requires the Chief Internal Auditor to prepare an annual report on the activities of Internal Audit and which includes a view on the adequacy of the Council's governance, risk management and internal control frameworks.

4. Proposals

- 4.1 The Panel is asked to note the contents of annual report for financial year 2023/24, together with the statement on internal controls included at [Appendix 1](#).
- 4.2 The revised Internal Audit Plan for 2023/24 (approved by Panel on 22 February 2024) has been substantially completed, one assignment has not yet started (HSCP - Premises) and testing is currently being concluded on two assignments (Main Accounting, Fusion Controls and HR and Payroll Fusion Controls). The objective of these audit assignments is to obtain assurance that there are adequate system controls in place following the implementation of Oracle Fusion. Further assignments in these areas are included in the 2024/25 Internal Audit Plan to test the system controls are operating effectively. On reflection, in order to ensure we provide a complete assessment of these areas, we believe it would add more value to report the two assignments together. External Audit has confirmed this is a reasonable approach. Final audit reports have been issued for 17 assignments with

the remaining five draft reports at clearance stage. Their individual internal control assessments can therefore be included in the overall annual audit opinion.

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 Audit reports include, in the action plans, a separate risk assessment detailing the risk of not implementing each of the Internal Audit recommendation. A recommendation to consider whether the Directorate risk register requires to be updated to reflect issues raised within the report is also included in each audit report. In addition, quarterly meetings have been set up between Risk and Safety and Internal Audit to ensure new emerging risks are included in Council Risk Registers and the Annual Internal Audit Plan where required.

8.2 Risk Implications of Adopting the Recommendations

8.2.1 There are no risks associated with adopting the recommendations.

8.3 Risk Implications of Rejecting the Recommendations

8.3.1 Failure to comply with the Public Sector Internal Audit Standards (PSIAS) and meet our obligation to provide an annual internal audit opinion.

9. Equalities

9.1 The proposals in this report allow scrutiny of performance. The report does not involve proposals for policies, strategies, procedures, processes, financial decisions and activities (including service delivery), both new and at review, that affect the Council's communities and employees, therefore an equality impact assessment is not required.

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 Internal Audit supports the delivery of Council priorities. Therefor the matters referred to in this report contribute to the three priorities in the Council Plan; Spaces and Places; Live, Work, Learn and, Civic and Community Pride.

13. Results of Consultation

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

13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Finance, Human Resources and ICT, and the contents of this report reflect any feedback provided

Background Papers

[Revised Internal Audit Plan 2023-24](#)

[Public Sector Internal Audit Standards \(April 2017\)](#)

Person to Contact

Cecilia McGhee, Chief Internal Auditor
County Buildings, Wellington Square, Ayr, KA7 1DR
Phone 01292 612432
E-mail Cecilia.McGhee2@south-ayrshire.gov.uk

Date: 17 June 2024

Internal Audit Annual Report 2023/24

1. Introduction

- 1.2 The purpose of this report is to provide an overview of the Internal Audit activity for 2023/24 and to provide an independent opinion on the adequacy and effectiveness of South Ayrshire Council's governance, risk management and internal control systems for the year ended 31 March 2024.

2. Background

- 2.1 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.
- 2.2 The Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 (updated 1 April 2017), apply to all internal audit service providers within the public sector and set out the requirements in respect of professional standards for these services. Professional Standard 2450, Overall Opinions, states that "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". In South Ayrshire Council, the "chief audit executive" is the Chief Internal Auditor.
- 2.3 The PSIAS states that the annual report prepared by the chief audit executive must incorporate:
- the annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (*paragraph 10.1*);
 - a summary of the information that supports that opinion (*paragraphs 5.4-5.9 and 6.5*);
 - a disclosure of any impairments to scope and / or independence (*paragraph 11.1*);
 - a statement of conformance with the PSIAS (*paragraph 3.1*); and
 - the results of the quality assurance and improvement programme (relating to any EQAs and PSIAS self-assessments) and progress against any improvement plans (*paragraph 3.3*).
- 2.4 This Internal Audit Annual Report has been prepared on the basis of the requirements outlined above.

3. Compliance with PSIAS

- 3.1 During 2023/24 the Internal Audit Section operated in compliance with PSIAS.
- 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.
- 3.3 The Quality Assurance and Improvement Programme (QAIP) covers all aspects of Audit Services and includes both periodic internal self-assessments and five-yearly External Quality Assessments (EQA). Since the PSIAS came into effect in April 2013,

annual self-assessments have been performed by the Chief Internal Auditor. The latest EQA has been completed and was reported to the Council's Audit and Governance Panel on 29 May 2024. The results of the EQA were broadly in line with the 2023/24 self assessment. The overall conclusion was that Internal Audit fully conforms with 10 areas and generally conforms with 4 areas. There were no areas assessed as partially or not conforming. An action plan containing seven improvement actions in relation low priority areas was prepared and is currently being progressed by Internal Audit. The progress of the implementation of the EQA action plan will be included in the quarterly Internal Audit Progress Reports to the Audit and Governance Panel.

4. Position and Resourcing of Internal Audit

- 4.1. Internal Audit is an independent review activity free from undue influence or other pressures affecting its independence and to that end Internal Audit and Corporate Fraud is situated within the Chief Executives department and has a direct reporting line to the Chief Executive and to the Council's Audit and Governance Panel in its role as the Council's audit committee.
- 4.2. Internal Audit operates within the Internal Audit Charter, most recently approved by the Audit and Governance Panel on 20 March 2024.
- 4.3. There are four professionally qualified posts (3.6 FTE) in Internal Audit. Corporate Fraud includes a further two posts (2 FTE), with the Senior Investigations Officer holding the Accredited Counter Fraud Specialist qualification.

5. Internal Audit Activity 2023/24

- 5.1. Internal Audit activity during the year was undertaken in accordance with the revised internal audit plan. Progress reports have been provided to the Audit and Governance Panel quarterly throughout the year. Assignments included within the revised plan, approved by the Audit and Governance Panel in February 2024, have been substantially completed. Sufficient work has been carried out to enable an annual audit opinion on the adequacy of internal controls to be produced.
- 5.2. The 2023/24 internal audit plan estimated 610 direct audit days. The actual number of days achieved was 629 days. An analysis of audit days by type of audit as at 31 March 2024 is summarised in the following table:

Type of Audit	Planned Days (Revised) 2023/24	Actual Days 2023/24	Variance in days
Key corporate systems	63	17	-46
ICT auditing	15	23	+8
Governance and Best Value	95	57	-38
Directorates and other systems	100	123	+23
Other entities	50	75	+25
Regularity	72	35	-37
Follow Up Reviews	22	40	+18
Other	193	259	+66
TOTAL	610	629	+19

- 5.3. The overall variance of 19 additional days is as a result the Chief Internal Auditor being involved in more operational audits than had been originally planned. This was due to the need to provide training and support throughout the audit process to new members of staff. The variance recorded under “other” mainly relates to additional time being required to complete previous years audit work.
- 5.4. A total of 17 internal audit assignment (including two contingency assignments) have been concluded for South Ayrshire Council for 2023/24 and final reports issued. There are an additional 5 audit assignments from the revised plan which have been completed and the reports drafted, however they are not yet cleared and finalised with the service. (see summary at [Annex A](#)). As the fieldwork is completed, their conclusions can still be included in the overall opinion for 2023/24.
- 5.5. A diverse range of areas throughout the have been reviewed during the year including; Procurement reviews, Participatory Budgeting, Records Management, Social Media Accounts, Waste Management Procedure, Anti-Fraud arrangement within Housing Lets, the Ayrshire Growth Deal, Cash Collection at Leisure Facilities, the Attainment Scotland Fund, Grants Funds and Climate Change. In addition, five follow up assignments were completed and, internal control self-assessment toolkits were completed by Social Work locations and schools.
- 5.6. Of the total 17 South Ayrshire Council internal audit reports have been issued for 2023/24, eight audit opinions resulted in substantial assurance, six in reasonable assurance and three in limited. A further five audit reports are in draft with their fieldwork completed, one has a draft assessment of substantial assurance and four of reasonable assurance. Copies of final Internal Audit reports are shared with all Members via SharePoint.
- 5.7. A total of 74 improvement actions were raised within the final internal audit reports issued for 2023/24. Management agreed to implement all actions raised. Of these 74 actions, 21 were implemented by their due date of 31 March 2024, a further eight were completed ahead of their due date and the remaining 45 were not due as at 31 March 2024. An additional 18 actions from audit report issued prior to 1 April 2023 were outstanding at 31 March 2024, five of these actions were overdue. Management responses in relation to the actions raised in the draft Internal Audit reports are currently being agreed.
- 5.8. In addition to the deliverable assignments for South Ayrshire Council, a further five assignments were delivered for other entities, two assignments were completed for the South Ayrshire Integration Joint Board (SA IJB) and for two were completed for the Ayrshire Valuation Joint Board (AVJB) and one assignment was delivered for the Ayrshire Rural and Island Ambition Fund (ARIA).
- 5.9. 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. 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 6.5)

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:

	Target 2023/24	2023/24	2022/23	2021/22
Direct	83%	82%	83%	76%
Indirect*	11%	12%	10.1%	18%
Management	6%	6%	6.9%	6%

**e.g. administration, training and meetings*

- 6.3. Indirect time is slightly higher than the target for 2023/24 as a higher proportion of time was allocated to training and developing new members of staff.

Percentage of South Ayrshire Reviews Completed in Audit Plan

- 6.4. The revised internal audit plan for 2023/24, approved by the Panel on 22 February 2024, included 23 deliverable assignments for South Ayrshire Council. Certain items in the plan do not have individual outputs (such as management and audit development time and National Fraud Initiative) and are therefore excluded from this indicator. A summary of the plan completion is included in the table below:

Status	Number	Percentage
Complete/Draft report issued	20	87%
Work in progress	2	9%
Not started	1	4%
	23	100%

Number of ad-hoc requests and investigations

- 6.5. A total of 47 days was used from the 2023/24 Internal Audit Plan to complete investigations, contingency assignments and advice and guidance. Ten separate pieces of work were completed in the year to 31 March 2024.

- Two contingency assignments were completed by Internal Audit in 2023/24. One assignment involved a review of the grant award process within Thriving Communities and one involved procurement of training within Health and Social Care (HSC). Internal Audit reports were issued, and action plans agreed for both reviews. (14 days)
- Advice and guidance is provided throughout the year on an ad-hoc basis as required. Advice provided in the year to 31 March 2024 included advice on; safe checks, anti-fraud checks within the grant process in Thriving Communities, the treatment/recording of Museum archives, advice on proposed changes to employability grant procedures and the process to award grants to businesses impacted by the transport restrictions as a result of the former Ayr Station Hotel fire, the proposed guidance note, application form and operational procedures for the Communities Empowerment Fund and on financial limits and process for requesting budget virement. (9 days)
- There were three referrals for investigations received in 2023/24. One investigation was taken forward and concluded by the Service, this investigation related to a fraudulent attempt to change bank details which was not actioned by the service. Procedures were updated by the Service to strengthen

existing controls. The remaining two investigations were taken forward by Internal Audit. One investigation was in relation to cash collection, and one was in relation to the award of grants. Neither referral was substantiated. (24 days)

Time taken to deliver audit assignments

- 6.6. The total time taken to deliver audit assignments is monitored on a continual basis by the Chief Internal Auditor. A single indicator does not exist for this measure, 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 report to the Chief Internal Auditor and 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 however there were no such cases in 2023/24.
- 7.2. One Anti Fraud review (Housing Lets procedures) was included in the 2023/24 Internal Audit Plan. The draft report is currently being agreed with the service and has concluded in reasonable assurance being provided. This assignment is included in the statistics reported at paragraphs 5.4, 5.6 and 6.4.
- 7.3. The Corporate Fraud team completed 1,072 investigations in 2023/24, 988 of which related to investigation of National Fraud Initiative single person discount matches. Total financial savings of approximately £152,000 were identified through Corporate Fraud Team work.
- 7.4. Separate Corporate Fraud Team activity 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. The training needs of the service continue to be reviewed on an ongoing basis, and where gaps are identified action is taken to address these. Networking opportunities are continually explored, with the Chief Internal Auditor attending the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) and the Senior Auditor attending the Computer Audit Sub-Group of SLACIAG (CASG) and the Data Analytics user groups and the Senior Investigation Officer attending the Scottish Local Authorities Investigators Group (SLAIG). These meetings are a valuable source of training and sharing of information with counterparts across Scotland.
- 9.2. Pan-Ayrshire meetings are held with the other Chief Auditors for North and East Ayrshire Council.

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

10. Audit Opinion

10.1. 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 2024.

10.2. There is a formal requirement for the Chief Internal Auditor to prepare an annual assurance statement on the adequacy of internal control systems within the Council.

10.3. The internal audit annual statement on the adequacy of internal controls for 2023/24 is included in [Annex B](#).

11. Conclusion

11.1. The 2023/24 internal audit plan was satisfactorily completed to deliver an annual opinion. There are no limitations of scope to the issued audit opinion.

Internal Audit Reports Issued/Drafted 2023/24 For South Ayrshire Council

Report Ref	Description	Assurance	Actions Arising			
			High	Medium	Low	Total
2024-03	Procurement (Fusion Controls)#	Reasonable	0	3	4	7
2024-05	Ayrshire Growth Deal (Follow Up of 2022/23 Actions/testing of process changes)	100% Sufficiently Implemented	N/A			
2024-06	Procurement – Framework Agreements	Limited	2	3	0	5
2024-07	Participatory Budgets#	Reasonable	0	2	0	2
2024-08	Records Management#	Reasonable	0	2	1	3
2024-09	Social Media Accounts	Reasonable	5	8	2	15
2024-10	Waste Management Review	Reasonable	3	4	2	9
2024-11	Anti-Fraud Review – Housing Let#	Reasonable	2	1	3	6
2024-12	Attainment Scotland Fund (Strategic Equity Fund Review)	Substantial	0	0	1	1
2024-15	Climate Change Duty Return	Substantial	0	0	0	0
2024-16	Cash Collection Arrangements – Leisure Facilities	Reasonable	4	3	3	10
2024-17	Continuous Auditing#	Substantial	0	0	0	0
2024-19	Network Support Grant	Grant Claim Agreed	0	0	0	0
2024-20	Internal Control Self Assessment Toolkit – Schools	Reasonable	0	2	7	9
2024-21	Internal Control Self Assessment Toolkit – Social Work Locations	Reasonable	0	1	5	6
2024-22	Follow Up of actions from 2021/22 Audit Assignment - Museum Stores	100% Sufficiently Implemented	N/A			
2024-25	Follow up of Actions from 2022/23 Audit Assignment - Void repairs	100% Sufficiently Implemented	N/A			

Report Ref	Description	Assurance	Actions Arising			
			High	Medium	Low	Total
2024-26	Follow up of Actions from 2022/23 Audit Assignment - Fostering and Adoption	100% Sufficiently Implemented	N/A			
2024-27	Follow up of Actions from 2022/23 Audit Assignment - NDR Relief Review	100% Sufficiently Implemented	N/A			
2024-30	Follow up of Actions from 2022/23 Audit Assignment - Golf Club House Income Controls	77% Sufficiently Implemented	0	0	5	5
2024-36-02	Thriving Communities - grants	Limited	4	3	2	9
2024-36-01	Procurement of Training Service (HSC)	Limited	2	3	0	5

#Assignments are complete and draft reports issued, the number of actions and risk rating may be subject to change following clearance with Services, but the assurance level is unlikely to reduce.

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 2024.

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 is designed to manage risk to a reasonable level. Internal controls cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only 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.

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 (PSIAS) 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 considers 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, the Chief Executive, the Chief Financial Officer (as Section 95 Officer), the Chief Governance Officer (as Monitoring Officer) and external audit.

Summary of Internal Audit Activity 2023/24

A total of 17 South Ayrshire Council internal audit reports have been issued for 2023/24. Eight audit opinions resulted in substantial assurance, six in reasonable assurance and three in limited. A further five audit reports are in draft with their fieldwork completed, one has an assessment of substantial assurance and four of reasonable assurance.

Many expected key controls were in place and operating effectively, however Internal Audit has also identified scope for improvement in some systems. A total of 74 improvement actions were raised in the areas covered by the 2023/24 internal audit plan. All action points raised in the final reports issued were accepted by management, 18 actions were implemented by their due date of 31 March 2024 and a further eight were implemented ahead of their due date. The remaining 45 were not due as at 31 March 2024. Implementation of all actions will result in continued improvement of the Council's governance, risk management and control environment. Steps have already been taken to address the issues raised within the draft reports which concluded in limited assurance.

Basis of Opinion

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

- the audit work undertaken by Internal Audit for the year to 31 March 2024;
- 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 annual 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;
- 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/

Opinion

On the above basis it is my opinion 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 2024.

Cecilia McGhee
Chief Internal Auditor
South Ayrshire Council
31 May 2024