

AYRSHIRE SHARED SERVICES JOINT COMMITTEE 24 SEPTEMBER 2024**INTERNAL AUDIT ANNUAL UPDATE REPORT:
AYRSHIRE ROADS ALLIANCE****Report by Chief Auditor, East Ayrshire Council**

SUBJECT: INTERNAL AUDIT ANNUAL UPDATE REPORT

PURPOSE OF REPORT

1. This established annual report is intended to provide, for noting, an update on internal audit work for the Ayrshire Roads Alliance (ARA).

RECOMMENDATIONS

2. It is recommended that Joint Committee:
 - i. notes the positive assurance outcomes regarding the East Ayrshire Council (EAC) Internal Audit function from both external audit and the most recent independent External Quality Assessment (EQA) as laid out at paragraphs 10-11 ensuring that Committee can trust in the work of Internal Audit;
 - ii. notes the outcomes of a wide range of Internal Audit work for ARA carried out by East Ayrshire Council since inception as summarised at paragraphs 13-14 and detailed at Appendices 1 and 2;
 - iii. notes the Chief Auditor's ongoing annual opinion of reasonable assurance for EAC arrangements as laid out at paragraph 15;
 - iv. notes the ARA items included in the 2024/25 EAC Internal Audit plan as referred to at paragraph 16 and listed in Appendices 1 and 2; and
 - v. otherwise notes the contents of this report.

BACKGROUND**FRAMEWORK FOR INTERNAL AUDIT WORK**

3. As the lead authority EAC provides the internal audit service to ARA. South Ayrshire Council (SAC) is able to carry out Following the Public Pound (FtPP) type audits as desired and those reports would be a matter for SAC to consider. The Chief Auditors of both Councils work closely together including through the longstanding Pan-Ayrshire Chief Auditors Group.
4. ARA assignments are included in the annual EAC Internal Audit Plan approved by EAC's Governance and Scrutiny Committee in line with the Public Sector Internal Audit Standards (PSIAS).
5. The Public Sector Internal Audit Standards (PSIAS) require the Chief Auditor to establish a follow-up process to monitor and ensure management actions

have been effectively implemented. We follow-up by testing evidence to gauge implementation of recommendations.

6. Individual internal audit assignment reports and follow-up exercises are shared with both EAC and SAC:
 - EAC - the established readership includes senior management and all Elected Members through the Councillors' Noticeboard.
 - SAC – all reports are copied to the Director of Housing, Operations and Development and shared with the SAC Chief Internal Auditor for onward reporting in line with SAC arrangements.
7. It was previously established that these individual internal audit assignment reports will no longer be brought to the ASSJC as they can be sourced through the established reporting arrangements laid out at paragraph 6.
8. The individual internal audit assignment reports are also shared with the external auditor.
9. The Head of Roads continues to accept and welcome Internal Audit recommendations.

TRUST IN INTERNAL AUDIT - EXTERNAL AUDIT OPINION

10. Internal Audit is subject to annual review by the Council's external auditors, which for 2022/23, the latest report available, was Audit Scotland. On 12 October 2023 Audit Scotland brought their annual report to EAC's Governance and Scrutiny Committee stating that, "We found the council's internal audit to be operating effectively, and in line with the Public Sector Internal Audit Standards (PSIAS) requirements".

TRUST IN INTERNAL AUDIT - EXTERNAL QUALITY ASSESSMENT (EQA)

11. The PSIAS requires a Quality Assurance and Improvement Programme (QAIP) to be in place including an independent EQA to be carried out every five years. EAC's Governance and Scrutiny Committee considered the very positive outcomes from the most recent EQA exercise, carried out by the Chartered Institute of Public Finance & Accountancy (CIPFA), on 20 April 2023 as reported to the ASSJC on 1 September 2023. Our arrangements have remained stable since that EQA.

MAIN REPORT

ASSURANCE OUTCOMES FOR INDIVIDUAL ASSIGNMENT REPORTS

12. Assignment reports, with the exception of some advisory work and fact-finding, conclude with an overall assessment of the controls under review using the list below as a guide. We also consider context including risk and materiality.

sound assurance / sound assurance in most areas – objectives of internal control have been met in all/almost all areas within the scope of the audit; non-compliance has only been identified in low risk or medium risk areas.
reasonable assurance - objectives of internal control have been met in the majority of areas; some weaknesses have been identified in medium risk areas; this tends to be the most common assurance outcome.
limited assurance – the control objectives have not been fully achieved; control weaknesses have been identified in some high risk areas.
no assurance – the control objectives have not been met; significant non-compliance and/or control weaknesses have been identified.

INTERNAL AUDIT WORK – AN OVERVIEW

13. Appendix 1 lists internal audit work since 2013/14 at which point the EAC Chief Auditor was a member of the working group to establish ARA. Internal audit work has been carried out every year since inception on 1 April 2014 with 17 assignments carried out to the end of 2023/24 and another two assignments planned for 2024/25 covering Contract Controls and Stores. The 17 assignments have resulted in generally positive assurance outcomes as laid out in the table below with two assignments resulting in multiple outcomes due to the scope of the work as detailed in Appendix 1.

Assurance Outcome	Number of outcomes	Comments
sound assurance / sound assurance in most areas	4	
reasonable assurance	7	
limited assurance	4	Two of these outcomes relate to one 2022/23 assignment which will be followed up in 2024/25. The other two outcomes relate to two additional assignments which have been followed up resulting in 100% implementation scores.
no assurance	0	
advisory	5	
Total outcomes	20	

14. Appendix 2 lists 10 completed follow-up exercises since 2016/17 to test implementation of internal audit recommendations made since the inception of ARA, with two additional exercises scheduled for 2024/25. Follow-up exercises show improved performance since 2018/19 with all exercises carried out since that year resulting in scores of 100% which means that all recommendations tested were either fully or sufficiently implemented demonstrating ongoing management commitment to continuous improvement.

ANNUAL INTERNAL AUDIT OPINION: EAC 2023/24

15. ARA operates within the control systems of EAC, therefore the Chief Auditor’s annual opinion for EAC is of interest to the ASSJC. The most that Internal Audit can provide in an annual opinion for the Council is reasonable assurance based on the risk based plan and a rolling programme of work. This is similar to the scope of external audit work in the context of the Council’s financial statements which aims to give reasonable assurance on the statements. The Annual Internal Audit Opinion for East Ayrshire Council in 2023/24 stated that, “reasonable assurance can continue to be placed upon the adequacy and effectiveness of the Council’s framework of governance, risk management and control in the year to 31 March 2024”. The opinion was considered by EAC’s Governance and Scrutiny Committee on 18 April 2024.

PLANNED AUDIT ASSIGNMENTS FOR ARA – 2024/25

16. In line with PSIAS obligations a full risk based plan was agreed by EAC’s Governance and Scrutiny Committee on 18 April 2024. The SAC Chief Internal Auditor was consulted during the planning process. It should be noted, that in line with good practice the plan can be changed in year to accommodate emerging priorities and contingencies are held which ARA can make use of. The planned ARA work for 2024/25 is included in Appendices 1 and 2.
17. The EAC Depute Chief Executive (Communities and Economy), the Head of Roads and the EAC Chief Auditor will agree the scheduling and detailed content of assignments in line with established arrangements.

IMPLICATIONS

18. Eight implications have been considered in the preparation of this report.

Implications	Yes	No	Paragraph number in report
1. Policy/Strategic Planning		No	
2. Governance		No	
3. Human Resources		No	
4. Equality and Fairer Scotland Duty		No	
5. Financial		No	
6. Risk	Yes		Para 19
7. Community Wealth Building		No	
8. Net Zero		No	

RISK IMPLICATIONS

19. Each year there is the ongoing risk of significant unplanned work emerging, planned resources not being available and work not being carried out to an acceptable standard which would compromise the ability to complete sufficient work. The likelihood is low to medium risk but the impact would be high risk. The EAC Audit Manager and Chief Auditor oversee operations with the objective of mitigating this risk.

APPENDICES

20. Two appendices support this report:
 - Appendix 1: Internal Audit Assignments: 2013/14 to 2024/25
 - Appendix 2: Internal Audit Follow-Up Exercises 2016/17 to 2024/25

BACKGROUND PAPERS

1. Public Sector Internal Audit Standards (PSIAS) (3rd edition March 2017)
2. Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (2nd edition February 2019)
3. Chartered Institute of Public Finance and Accountancy (CIPFA), Statement on the Role of the Head of Internal Audit in Public Service Organisations (2nd edition April 2019)
4. EAC Governance & Scrutiny Committee, 12 October 2023, Annual External Audit Report
5. EAC Governance & Scrutiny Committee, 18 April 2024, Internal Audit 2023/24 Annual Report and Annual Internal Audit Opinion
6. EAC Governance & Scrutiny Committee, 18 April 2024, Internal Audit Plan 2024/25

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11 September 2024

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INTERNAL AUDIT ASSIGNMENTS: 2013/14 TO 2024/25

Year	Name	Summary	Assurance Outcomes
2013/14	Support to working group to establish ARA	Advisory to support governance, risk management and internal control arrangements.	Advisory
1 April 2014 – ARA goes live			
2014/15	Plant Hire Contract (coverage included ARA and other services)	<p>Objectives were to:</p> <ul style="list-style-type: none"> • ensure that hires are awarded to the correct service provider in accordance with the framework agreement; • ensure that processes for managing plant on and off hire are rigidly controlled and properly recorded; and • ensure that the correct contractual prices are paid for plant hires provided in accordance with the framework terms and conditions. 	Reasonable
2014/15	Inventory Inspections (unannounced visits)	<p>Objectives of the assignment were to:</p> <ul style="list-style-type: none"> • verify the accuracy of inventory levels recorded within the store • report any areas for improvement identified, and • recommend actions to address areas for improvement. 	Reasonable
2014/15	PROFESS Costing System	<p>The objectives of the assignment were to:</p> <ul style="list-style-type: none"> • consider the overall costing and financial reporting arrangements put in place for the Ayrshire Roads Alliance; • assess the status of implementation and roll-out of the PROFESS costing system, including the integration of inputs from the former East and South Ayrshire roads services; • consider whether the information needs of management and stakeholders are being met by the current arrangements; • report any areas for improvement identified, and recommend actions to address areas for improvement 	Reasonable

2015/16	TRIPS System Advisory	Advisory to support governance, risk and internal control arrangement regarding the development of the established Transparent Roads Infrastructure Procurement Software (TRIPS) system used to manage the Roads Minor Works Framework Contract to support best value.	Advisory
2016/17	Parking Income and Penalty Charge Notices (PCNs)	The objective of the assignment was to: <ul style="list-style-type: none"> • review the systems for Parking-related income • report any areas for improvement identified, and • recommend actions for improvement. 	Reasonable
2017/18	Performance Bonds	The objectives of this audit assignment were to verify: <ul style="list-style-type: none"> • policy and procedures accord with Scottish Government strategy and national guidance on best practice; • corporate governance and reporting arrangements are fit for purpose and effectively applied; • practical processes and supervisory controls are in place in ARA for implementing approved policy; • ARA' s bond management is supported by effective partnership arrangements with third parties (for example with South Ayrshire Council and with EAC's Planning and Economic Development, Finance and ICT and Legal); • bond values reflect application of the above and give sufficient budget to fund any necessary remedial work. 	Limited
2017/18	Use of Contractors	The objectives of this audit assignment were to: <ul style="list-style-type: none"> • establish the process for awarding roads works contracts procured through the Transparent Roads Infrastructure Procurement Software (TRIPS) • ensure roads works are being awarded appropriately in line with Standing Orders Relating to Contracts and assess whether Best Value is being achieved. • ensure adequate controls are in place with regards to processes for awarding works, payment of invoices and 	Reasonable

		monitoring of contractor performance.	
2018/19	Girvan Harbour – office administration (unannounced visit)	The objectives of this audit assignment were to: <ul style="list-style-type: none"> • understand the operation of Girvan Harbour and ensure that there are adequate arrangements in place to control income collected in respect of harbour operations • to identify areas for potential future audits. 	Limited
2018/19	Payment Controls	The aims and objectives of this audit assignment were to: <ul style="list-style-type: none"> • review the procedures in place for payment of contractors • verify that there are adequate controls in place to verify the work completed prior to approving invoices for payment. 	Sound
2018/19	Bridge Inspections	The EAC Depute Chief Executive (Safer Communities) with assistance from Internal Audit reviewed ARA-East’s arrangements for bridge inspection and reporting. Following this work, in 2019/20 Internal Audit undertook a full examination of arrangements for the Principal Inspections of road bridges.	Advisory
2019/20	Arrangements for the Principal Inspection (PI) of road bridges	The objectives of this audit assignment were to: <ul style="list-style-type: none"> • update the findings of 2018/19 advisory work to reflect the undertaking and completion of the outsourced Principal Inspection programme and work done by ARA further to the Client Response agreed actions set out in the draft audit report and accompanying advisory note of 2018/19. 	Two outcomes: Sound in South and Reasonable in East
2019/20	Road Bonds review of new processes	The objectives of this audit assignment were to: <ul style="list-style-type: none"> • verify procedures in relation to roads bonds are adequate, have been updated to reflect the findings of previous audit work and have been fully implemented within the service, and • the audit will also seek to confirm that ARA’s internal review of the process, and scrutiny by external assessor (SGS Ltd), have verified control effectiveness; and that if necessary, procedures have been further revised to improve controls. 	Sound in most areas
2020/21	Roads Maintenance: materials and stores	The objectives of this audit assignment were to: <ul style="list-style-type: none"> • obtain assurance that the service has adequate 	Reasonable

		arrangements in place to ensure proper control over the receiving, storing and issuing of materials and stores, and that these processes are operating efficiently and effectively.	
2021/22	Whistleblowing allegations – fact-finding	Final report issued in 2021/22 to both Councils; interim outputs issued prior to that to support decision-makers following referral in summer 2019.	Advisory
2022/23	Payment Controls (including measurement of works)	<p>We aimed to verify that payments made to contractors accurately reflect the quality and quantity of works carried out. If controls are absent or ineffective, then works may be incomplete, sub-standard or over-charged;</p> <ul style="list-style-type: none"> • our audit involved reviewing ARA’s procedures for approving contractors’ invoices / certificates for payment, and confirming there are effective controls in place and operating to confirm the payments made for goods and services are appropriate; • we backed this up with a sample check of fifteen transactions, to confirm that approved procedures are being followed and controls applied to ensure the accuracy of payments and verify the evidencing of appropriate checks by the service; • our audit focussed on three high spend areas - bridge strengthening, road resurfacing and traffic management. 	<p>Three outcomes: Limited through to sound assurance across the three areas examined.</p> <p>Our audit confirmed that ARA has appropriate procedures in place incorporating robust controls, which when applied in practice, should ensure sound control of expenditure, and accurate payments to contractors.</p> <p>We noted an operational impact due to staff absence.</p> <p>ARA has responded positively to our findings.</p>

2023/24	Flood Risk Management	<p>The aims and objectives of this assignment are to support ARA self-assessment with regard to:</p> <ul style="list-style-type: none"> • governance arrangements for statutory flood risk management duties, with a view to ensuring these are fit for the purpose of supporting strategic oversight, decision-making and accountability; • ARA's contributions to the Local Flood Management Plans covering constituent council areas, with a view to ensuring Plans are consistent with East and South Ayrshire's exposure to (and risk appetite for) flood risks; • Statutory obligations with regard to a watercourse inspection and clearance regime. 	<p>Advisory. Service engaged with process; self-assessment checklist developed with assurance session being progressed with Depute Chief Executive and Head of Roads.</p>
2024/25	Contract Controls	<p>This is a procurement and contract audit with the detailed Audit Brief to be agreed with the service.</p>	<p>Work scheduled during 2024/25.</p>
2024/25	Stores	<p>The aims and objectives of this audit assignment are to:</p> <ul style="list-style-type: none"> • Review processes for managing inventory within the Ayrshire Roads Alliance (ARA) stores. • Confirm that the security arrangements for ARA inventory are adequate. • Determine the arrangements for replenishing inventory when required and confirm adequate controls are in place. • Ensure inventory movements are recorded accurately and reviewed; and confirm inventory on site can be matched to records. 	<p>Work underway to carry out unannounced visits to ARA stores.</p>

INTERNAL AUDIT FOLLOW-UP EXERCISES: 2016/17 TO 2024/25

Year	Name	Summary	Score
1 April 2014 – ARA goes live			
2016/17	PROFESS Costing System – Follow-up	To test implementation of the ten recommendations made in 2014/15.	Score 67%. Six recommendations tested – four fully or sufficiently implemented and two not implemented. The four other recommendations were dependent on the completion of the definitive build of PROFESS and could not be tested at the time of the follow-up; the Head of Service signed a Client Assurance Statement at that time agreeing actions required.
2016/17	Plant Hire – Follow-up	To test implementation of four recommendations made in 2014/15.	Score 75%. Three recommendations fully implemented and one partially implemented.
2016/17	Inventory Inspections – Follow-up	To test implementation of the five recommendations made in 2014/15.	Score 60%. Three recommendations fully or sufficiently implemented; one partially and one not implemented.
2017/18	Parking Income and PCNs – Follow-up	To test implementation of the 13 recommendations made in 2016/17.	Score 92%. Twelve recommendations fully or sufficiently implemented and one partially implemented.
2018/19	Performance Bonds – Follow-up	To test implementation of the two recommendations made in 2017/18.	Score 100%. Both recommendations sufficiently implemented.
2018/19	Use of Contractors – Follow-up	To test implementation of the two recommendations made in 2017/18.	Score 100%. Both recommendations fully implemented.

2019/20	ARA Girvan Harbour - Follow-up	To test implementation of the five recommendations made in 2018/19.	Score 100%. All recommendations either fully or sufficiently implemented.
2019/20	Arrangements for the Principal Inspection (PI) of road bridges – Follow-up	To test implementation of the five recommendations made earlier in 2019/20.	Score 100%. All recommendations either fully or sufficiently implemented.
2021/22	Roads Maintenance: materials and stores - Follow-up	To test implementation of the five recommendations made in 2020/21.	Score 100%. All recommendations fully implemented.
2021/22	Road Bonds review of new processes – Follow-Up	To test implementation of the six recommendations made in 2019/20.	Score 100%. All recommendations either fully or sufficiently implemented.
2024/25	Payment Controls (including measurement of works) – Follow-Up	Follow up testing of implementation of the three recommendations made during the 2022/23 assignment.	Follow-up work scheduled during 2024/25.
2024/25	Flood Risk Management – Follow-Up	Advisory support as required for the self-assessment process created in 2023/24. Additionally, testing of the implementation of the one recommendation made in 2023/24 may be performed depending on the agreed implementation timetable.	Follow-up work scheduled during 2024/25.

END