

South Ayrshire Council

**Report by Chief Internal Auditor
to Audit and Governance Panel
of 28 June 2023**

Subject: Internal Audit Annual Report 2022/23

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 2022/23, 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 2023.

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 required annual report for financial year 2022/23, together with the statement on internal controls, is included at [Appendix 1](#).
- 4.2 The revised internal audit plan for 2022/23 (approved by this Panel in February 2023) has been substantially completed; audit fieldwork is outstanding on two Council assignments (HubSW Arrangements and Transformational Change), with remaining draft reports at final 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 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/

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 [Internal Audit Plan 2022-23](#)

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

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Internal Audit Annual Report 2022/23

1. Introduction

- 1.1 The purpose of this report is to provide an overview of the Internal Audit activity for 2022/23 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 2023.

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 10.2*);
- a summary of the information that supports that opinion (*paragraphs 5.4-5.7 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*).

- 2.3 This Internal Audit Annual Report has been prepared on the basis of the requirements outlined above.

3. Compliance with PSIAS

- 3.1 During 2022/23 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, including 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, and one EQA (2018) has been completed and reported to the Audit and Governance Panel. The service was externally assessed as ‘generally conforms’ with PSIAS in 2018 and an action plan prepared. The actions were full implemented and self assessments since then confirm the service ‘fully conforms’. A second EQA is currently ongoing and the results of this assessment will be reported to Panel once completed together with the results of the most recent self-assessment.

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 22 March 2023.
- 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.
- 4.4. Internal Audit experienced staffing resource issues in the first six months 2022/23 which resulted in a reduction of available days available to complete audit assignments. The 2022/23 Internal Audit Plan approved by Panel in June 2022 (and the subsequent revised plan approved on 22 February 2023) reflected this and risk was also considered when developing the annual plan to ensure there was no limitation of scope which could have a negative impact on the provision the annual audit opinion for 2022/23. Internal Audit has been fully resourced since September 2022.

5. Internal Audit Activity 2022/23

- 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 2023, 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 2022/23 internal audit plan estimated 497 direct audit days. The actual number of days achieved was 582 days. An analysis of audit days by type of audit as at 31 March 2023 is summarised in the following table:

Type of Audit	Planned Days 2022/23	Actual Days 2022/23	Variance in days
Key corporate systems	30	26	-4
ICT auditing	30	70	40
Governance and Best Value	70	34	-36
Directorates and other systems	90	136	46
Other entities	50	13	-37

Type of Audit	Planned Days 2022/23	Actual Days 2022/23	Variance in days
Regularity	31	30	-1
Follow Up Reviews	21	34	13
Other	175	239	64
TOTAL	497	582	85

- 5.3. The overall variance of 85 additional days is mainly as a result the Chief Internal Auditor and the Senior 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. Time allocated to Governance and Best Value, Other entities and Management and Development was reduced in the year to 31 March 2023 to allow for this increase.
- 5.4. A total of 14 final internal audit reports have been issued for 2022/23. There are an additional 6 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 2022/23.
- 5.5. Of the 14 final reports issued 10 audit opinions give substantial assurance and four reasonable assurance. Of the six audit reports in draft, two have an assessment of substantial assurance, three of reasonable and one of limited. Copies of final Internal Audit reports are available to all Members via SharePoint.
- 5.6. Management has agreed to implement all 21 actions raised within the final internal audit reports issued. Management responses in relation to the actions raised in the draft Internal Audit reports are currently being agreed. It should be noted that a management restructure had taken place and processes and procedures updated to address the issues highlighted in the area assessed limited assurance prior to the issue of the draft Internal Audit report. Audit testing did not cover the changes introduced however it is expected that they will mitigate the risks highlighted in the draft report.
- 5.7. 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:

	2022/23	2021/22	2020/21
Direct	83%	76%	76.9%
Indirect*	10.1%	18%	18.0%
Management	6.9%	6%	5.1%

*e.g. administration, training and meetings

- 6.3. Additional unplanned time was spent by the Chief Internal Auditor to support new members of the team in completing audit testing which resulted in an increase in time allocated to direct audit time.

Percentage of Reviews Completed in Audit Plan

- 6.4. The revised internal audit plan for 2022/23, approved by the Panel on 23 February 2022, included 22 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 following table:

Status	Number	Percentage
Complete/Report Drafted	20	90%
Work in progress	2	10%
	22	100%

Number of ad-hoc requests and investigations

- 6.5. An analysis is maintained by the Chief Internal Auditor of all additional work arising through investigations and ad-hoc requests for advice. A total of 61 days was allocated from the 2022/23 Internal Audit Plan to complete investigations, contingency assignments and advice and guidance in 2023. Eighteen separate pieces of work were completed in the year to 31 March 2023.
- Investigations – there were seven complaints received in the year to 31 March 2023. Two investigations were concluded by Internal Audit and were not substantiated, one was concluded by the Corporate Fraud Team and was passed to the relevant Service for information and consideration of further action. Four investigations were completed by the relevant service with input from Internal Audit where required. A controls report (2023-28- 04, Golf Clubhouse Cash Handling Controls) including recommended improvement actions was issued for one area. (28 days)
 - Advice and guidance is provided throughout the year on an ad-hoc basis as required. Advice provided in the year to 31 March 2023 included advice in relation to; Service Users' cash, the Council's Travel Policy, Social Work facility supper club, the Household Boost Fund, Early Years Funded Provider payments, email auto complete, SeeSaw data security and invoice processing in Property Maintenance. (6 days)
 - Contingency – time was allocated from contingency to review the arrangements for awarding grants through the Ayrshire Rural and Island Ambition Fund (ARIA) and to sample check grants awarded through this fund. Time was also allocated to review the to the audit of the Network Support Grant claim and to identify the circumstances which led to the delay in removing the EE Masts from Riverside Place. (27 days)

Time spent on audits/time taken to achieve audits

- 6.6. 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.

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 2022/23.
- 7.2. In 2022/23 the Corporate Fraud team carried out a Blue Badge spot check in conjunction with the Ayrshire Roads Alliance (ARA). The Corporate Fraud team also carried out unannounced spot checks on businesses in receipt of Non Domestic Rates Empty Property Relief to ensure there was still entitlement to the relief and assisted Internal Audit in the completion of the Education Maintenance Allowance Assignment.
- 7.3. 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. 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) as well as the IDEA software user group for data analytics 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. In 2022/23, 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 2023.
- 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 2022/23 is included in [Annex B](#).

11. Conclusion

- 11.1. The 2022/23 internal audit plan was satisfactorily completed. There are no limitations of scope to the issued audit opinion.

Internal Audit Reports Issued/Drafted 2022/23 For South Ayrshire Council

Report Ref	Description	Assurance	Actions Arising			
			High	Medium	Low	Total
2023-01	Anti- Fraud Review - NDR Relief #	Substantial	0	1	1	2
2023-02	Conflict of Interests	Reasonable	0	2	0	2
2023-03	Ayrshire Growth Deal-SAC Governance Arrangements#	Limited	4	4	0	8
2023-07	Systems Access Controls#	Reasonable	0	10	4	14
2023-08	Void Repairs	Reasonable	0	5	2	7
2023-09	Fostering & Adoption Payments#	Reasonable	0	5	4	9
2023-10	Education Maintenance Allowance (Data Match)	Substantial	0	0	0	0
2023-11	Implementation of Care Inspectorate/Scottish Government Improvement Plans#	Substantial	0	2	1	3
2023-12	Climate Change Public Sector Report (CCPSR)	Reasonable	0	1	3	4
2023-13	Review of COVID-19 business grants (LACER)	Reasonable	0	4	1	5
2023-14	Internal Control Self-Assessment Toolkit Schools#	Reasonable	0	3	6	9
2023-15	Internal Control Self-Social Work	Substantial	0	0	3	3
2023-16	Continuous Auditing	Substantial	0	0	0	0
2023-18	Follow Up - Benefits - Scottish Welfare Fund*	Actions Sufficiently Implemented	-	-	-	-
2023-19	Follow Up – Ayrshire Growth Deal*	Actions Sufficiently Implemented	-	-	-	-

Report Ref	Description	Assurance	Actions Arising			
			High	Medium	Low	Total
2023-20	Follow Up – PCI DSS *	Actions Sufficiently Implemented	-	-	-	-
2023-21	Follow Up – Capital contract *	Actions Sufficiently Implemented	-	-	-	-
2023-22	Follow Up – Controls around Hall letting Procedure *	Actions Sufficiently Implemented	-	-	-	-
2023-23	Follow Up – Controls around fuel systems *	Actions Sufficiently Implemented	-	-	-	-
2023-24	Follow Up – Carefirst *	Actions Sufficiently Implemented	-	-	-	-

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

#Assignments are complete and draft reports issued, the number of actions 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 2023.

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 (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, Chief Executive, Head of Finance, ICT and Procurement (as Section 95 Officer), Head of Legal and Regulatory Services (as Monitoring Officer) and external audit.

Summary of Internal Audit Activity 2022/23

A total of 14 internal audit reports have been issued for 2022/23. Ten audit opinions resulted in substantial assurance and four in reasonable assurance. A further six audit reports are in draft with their fieldwork completed, two of these have an assessment of substantial assurance, three of reasonable and one of limited. A diverse range of areas have been covered during the year including Non Domestic Rate Reliefs, Conflict of Interest, Covid Business Grants, Transformation and Change management, the Ayrshire Growth Deal, Systems Access, Void repairs, Fostering and Adoption and Climate Change. In addition and seven follow up assignments were completed. Added to this, the internal control self-assessment toolkit was completed by Social Work and a similar tool kit rolled out within schools. As well as these planned assignments, Internal Audit also undertakes special investigations and 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 2022/23 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 21 action points raised in the final reports issued have been accepted by management and 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 report 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 2023;
- 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

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 2023.

Cecilia McGhee
Chief Internal Auditor
South Ayrshire Council
26 May 2023