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| Report To: | Audit Committee | Date: | 7 June 2022 |
| Report By: | Interim Director Finance and Corporate Governance | Report No: | AC/09/22/AP/APr |
| Contact Officer: | Andi Priestman | Contact No: | 01475 712251 |
| Subject: | INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2021/2022 | | |

1.0 PURPOSE

- 1.1 The purpose of this report is to present the Internal Audit Annual Report and Assurance Statement for 2021/2022, which forms part of the Council's Annual Governance Statement.

2.0 SUMMARY

- 2.1 The Internal Audit Annual Report 2021/2022 is attached as an Appendix to this report for consideration by Committee. The report concludes that the majority of Inverclyde Council's established internal control procedures operated as intended to meet management's control requirements for each area reviewed by Internal Audit. The overall audit opinion is **Satisfactory**. Appendix 1
- 2.2 It is also highlighted that, based on the results of the ongoing audit follow up process during 2021/2022, management has continued to make good progress in implementing agreed action plans arising from Internal Audit reviews.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Audit Committee review and consider the Internal Audit Annual Report and Assurance Statement.

Alan Puckrin
Interim Director
Finance and Corporate Governance

4.0 BACKGROUND

- 4.1 Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor provides a written statement to the Section 95 Officer to support the Annual Governance Statement. This report should present an opinion as to the overall adequacy and effectiveness of the organisation's internal control environment.
- 4.2 The report should also:
- Disclose any qualifications to that opinion, together with reasons for the qualification;
 - Present a summary of the audit work undertaken to formulate the opinion including reliance placed on the work by other assurance bodies;
 - Draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the statement on internal control; and
 - Compare the work undertaken with work planned.
- 4.3 The Accounting Code of Practice ("ACOP") requires that the Section 95 Officer produces a signed Annual Governance Statement as part of the Council's Annual Report. This report is subject to External Audit scrutiny as part of the year-end audit process.

5.0 CURRENT POSITION

- 5.1 The Internal Audit Annual Report 2021/2022 is attached as an Appendix to this report for consideration by Committee. The report concludes that the majority of Inverclyde Council's established internal control procedures operated as intended to meet management's control requirements for each area reviewed by Internal Audit. The overall audit opinion is **Satisfactory**.
- 5.2 It is also highlighted that, based on the results of the ongoing audit follow up process during 2021/2022, management has continued to make good progress in implementing agreed action plans arising from Internal Audit reviews.

6.0 IMPLICATIONS

- 6.1 There are no direct financial implications arising from this report.

Financial Implications:

One off Costs

| Cost Centre | Budget Heading | Budget Years | Proposed Spend this Report | Virement From | Other Comments |
|-------------|----------------|--------------|----------------------------|---------------|----------------|
| N/A | | | | | |

Annually Recurring Costs/ (Savings)

| Cost Centre | Budget Heading | With Effect from | Annual Net Impact | Virement From (If Applicable) | Other Comments |
|-------------|----------------|------------------|-------------------|-------------------------------|----------------|
| N/A | | | | | |

Legal

- 6.2 There are no direct legal implications arising from this report.

Human Resources

- 6.3 There are no direct HR implications arising from this report.

Equalities

- 6.4 There are no direct equalities implications arising from this report.

Repopulation

- 6.5 There are no direct repopulation implications arising from this report.

7.0 CONSULTATIONS

- 7.1 Not applicable. This report summarises the work carried out during 2021-2022 which have been included in separate progress reports to Audit Committee.

8.0 LIST OF BACKGROUND PAPERS

- 8.1 Internal Audit Progress Reports to Audit Committee in October 2021, and January and February 2022.



Internal Audit Annual Report and Assurance Statement 2021/2022

30 April 2022

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SECTION 1 – INTRODUCTION

Purpose of this report

- 1.1 Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor provides a written statement to the organisation to inform the Annual Governance Statement. This report constitutes the required statement. As required by PSIAS, this report presents the opinion of the overall adequacy and effectiveness of Inverclyde Council's risk management, control and governance processes based on the work Internal Audit has performed. The scope of internal audit work, the responsibilities of Internal Audit, and the assurance given on the adequacy and effectiveness of the Internal Control System of Inverclyde Council are explained further in Section 4 of this report.

Main objectives of Inverclyde Council's Internal Audit Team

- 1.2 Internal Audit is an assurance function that primarily provides an independent, objective opinion to the Council on the control environment. The overall objective of Internal Audit is to review, appraise and report on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. A secondary objective is to advise management on improvements in internal control systems.

Scope of Inverclyde Council's Internal Audit Team

- 1.3 The scope of Internal Audit allows for unrestricted coverage of the Council's activities and unrestricted access to records and assets deemed necessary by auditors in the course of an audit.

Acknowledgements

- 1.4 The assistance provided by Council staff in the course of the work undertaken by Internal Audit during 2021/2022 is gratefully acknowledged.

SECTION 2 – ASSESSMENT OF RISK MANAGEMENT, CONTROLS AND GOVERNANCE

Scope

- 2.1 The work undertaken by Internal Audit in 2021/2022 is summarised in Section 3 of this Report.
- 2.2 The overall assessment arising from work undertaken is summarised in paragraphs 2.3 to 2.4 below. In interpreting this assessment, consideration needs to be given to the respective responsibilities of Management and Internal Audit and the related limitations on the assurance that Internal Audit can provide (as explained in Section 4).

Overall assessment

On the basis of Internal Audit work carried out in 2021/2022, the majority of Inverclyde Council's established internal control procedures appeared to operate as intended to meet Management's requirements for the individual systems reviewed by Internal Audit. On the basis of selective testing of key controls it can be concluded that, in the main, controls were generally operating as expected during the period under review, although it does need to be recognised that a number of recommendations were made by Internal Audit to improve controls. The overall opinion is **Satisfactory**.

COVID-19

The significant incident in late March 2020 and the Council's responses as a Category 1 responder during the COVID-19 pandemic continued to test how well the Council's risk management, governance and internal controls framework has operated during the period.

Regular COVID-19 Update reports continued to be presented to P&R Committee throughout 2021/22.

All members of the Council's Corporate Management Team and key stakeholders participated in a variety of Local Authority specific Covid-19/Business Continuity response/recovery groups supported by the Civil Contingencies Service. A comprehensive Covid-19 Risk Register was maintained covering all aspects of service delivery affected by the pandemic which has been maintained on a regular basis.

The Council also maintained its organisational and partnership recovery plans to ensure the Council can continue to meet requirements and achieve the strategic priorities set out in the Corporate Plan.

Other matters

- 2.3 Summaries of the issues arising in relation to each system or activity covered by Internal Audit work in 2021/2022 have been reported separately to the Audit Committee. Appropriate responses to the recommendations made in internal audit reports have been obtained. When actioned, the recommendations made in the Internal Audit reports should provide management with additional comfort that the system of internal control operates as intended. It is therefore imperative that the agreed actions are implemented by management.
- 2.4 A monthly follow up process is in place and continues to operate effectively. All actions arising from internal and external audit reviews are captured within a follow up database and are subject to follow up and validation by the CMT and the Chief Internal Auditor on a regular basis, with reporting on progress to the Audit Committee.

SECTION 3 – INTERNAL AUDIT WORK CONDUCTED

Internal audit approach

- 3.1 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards and the agreed Internal Audit annual audit plan.

Progress on the 2021/2022 internal audit plan

- 3.2 The Annual Internal Audit Operational Plan 2021/2022 was discussed and agreed with the Audit Committee on 23 February 2021.
- 3.3 Progress against planned audit work for the year to 31 March 2022 can be summarised as follows:-

| Planned audit coverage | Status |
|---|---|
| Risk Based Reviews | |
| Learning Disabilities Service – Transitioning to Adult Services | Deferred to 2022/23 Audit Plan |
| Public Protection – Covid-19 Response | Draft Report |
| Registration Process – Births, Deaths and Marriages | Completed |
| Self-Directed Support | Draft Report |
| Residential Care – Childrens' Services | Deferred to 2022/23 Audit Plan |
| Limited Scope Finance Reviews | |
| Insurance | Completed |
| Project Assurance Reviews | |
| Greenock Ocean Terminal | Completed |
| Devolved School Management Arrangements | Completed |
| Regularity Audits | |
| Education Control Self-Assessment | Completed |
| Employee Expenses – Quarterly Checks | Fieldwork |
| Corporate Purchase Cards – Quarterly Checks | Completed |
| Client Accounts – Quarterly Checks | Fieldwork |
| Catering Stock Checks | Completed |
| Other Work | |
| National Fraud Initiative 2020-21 | 2389 out of 2403 matches were completed. The remaining 14 matches will be progressed during 2022/23. To date £98,316 of overpayments/errors have been identified for this exercise. |
| IJB Audit Plan 2021-22 | Audit plan for the Inverclyde IJB including 2 reviews was completed and reported to IJB Audit Committee |
| B/f 2020/21 Audit Plan Reviews | Fieldwork was completed and final reports issued for Cash and Banking, Homelessness and Taxi Licensing during 2021/22. These reviews were included in the internal audit annual report and assurance statement for 2020/2021. |

SECTION 3 – INTERNAL AUDIT WORK CONDUCTED (CONTINUED)

Progress on the 2021/2022 internal audit plan (Continued)

3.4 The total number of issues raised in the risk-based audits is set out in the following table:

| Report | Red | Amber | Green | Overall Grading | Previous Grading |
|---|----------|----------|----------|-----------------|------------------|
| 2021/22 Audit Plan | | | | | |
| Registration Process – Births, Deaths and Marriages | 0 | 0 | 1 | Strong | Satisfactory |
| Insurance | 0 | 1 | 2 | Satisfactory | Satisfactory |
| Greenock Ocean Terminal | 0 | 0 | 1 | Strong | N/A |
| Devolved School Management | N/A | N/A | N/A | Satisfactory | N/A |
| Education CSA | 0 | 0 | 3 | Satisfactory | N/A |
| Total | 0 | 1 | 7 | | |

Progress on Implementation of Action Plans

3.5 A number of action plans were agreed in relation to the risk-based audit reports generated for the 2021/2022 annual audit plan. The following table sets out the total number of actions agreed for each report issued and the status of completion at 30 April 2022 as follows:

| Report | No of Actions Agreed | No of Actions Complete at 30/4/22 | No of Actions Revised at 30/4/22 | No of Actions Not Due at 30/4/22 |
|---|----------------------|-----------------------------------|----------------------------------|----------------------------------|
| 2021/22 Audit Plan | | | | |
| Registration Process – Births, Deaths and Marriages | 1 | 1 | 0 | 0 |
| Insurance | 5 | 4 | 1 | 0 |
| Greenock Ocean Terminal | 1 | 0 | 0 | 1 |
| Devolved School Management | N/A | | | |
| Education CSA | 3 | 1 | 0 | 2 |
| Total | 10 | 6 | 1 | 3 |

3.6 It is encouraging to note that of the 10 agreed actions subject to follow-up procedures, 6 out of 7 actions (86%) which were due for completion by 30 April 2022 have now been fully implemented. All actions are subject to ongoing follow up by Internal Audit and are included within the Internal Audit action plan follow up reports to the Corporate Management Team and the Audit Committee on a regular basis.

SECTION 3 – INTERNAL AUDIT WORK CONDUCTED (CONTINUED)

Corporate Fraud Activity

3.7 The undernoted table sets out corporate fraud activity in the period 1 April 2021 to 31 March 2022:

| Investigations 1/4/2021 to 31/3/2022 | |
|---|---|
| National Fraud Initiative | 84 matches were investigated in the period. |
| Whistleblowing/Service/Other Referrals | 44 other enquiries were investigated in the period. |
| SPOC Referrals 1/4/2021 to 31/3/2022 | |
| DWP | There were 10 referrals in the period. |
| LAIEF | There were 12 referrals in the period. |
| Other Work | |
| Work was undertaken in relation to: | |
| Quarterly reviews of corporate purchase cards. There were no significant issues identified. | |
| Quarterly reviews of catering stock checks. There were no significant issues identified. | |
| Review of employee expense claims. Work is ongoing to finalise the review. | |
| Review of client money accounts. Work is ongoing to finalise the review. | |

Ad hoc assignments

3.8 Internal Audit undertook the following ad hoc assignments during 2020/21:

| Ad hoc assignment | Status |
|---|---------------|
| Co-ordination of Annual Governance Statement and supporting self-assessment processes for 2021/2022. | Completed |
| Providing input to FOI requests as appropriate. | Completed |
| Provision of risk control advice to Service in relation to process changes as a result of responding to the Pandemic. Regular attendance at CRMT to provide relevant updates in relation to fraud risk alerts received and risk control advice as required. | Completed |

SECTION 3 – INTERNAL AUDIT WORK CONDUCTED (CONTINUED)**Performance Measures**

3.9 The following performance measures were in place for 2021/2022:

| Measure | Description | Target | Actual |
|------------------------------|---|---------------|---------------|
| 1. Final Report | Percentage of final reports issued within 2 weeks of draft report. | 100% | 100% |
| 2. Draft Report | Percentage of draft reports issued within 3 weeks of completion of fieldwork. | 90% | 75% |
| 3. Audit Plan Delivery | Percentage of audits completed v planned. | 85% | 70% |
| 4. Audit Budget | Percentage of audits completed within budgeted days. | 80% | 100% |
| 5. Audit Recommendations | Percentage of audit recommendations agreed. | 90% | 100% |
| 6. Action Plan Follow Up | Percentage of action plans followed up – Internal and External Audit. | 100% | 100% |
| 7. Customer Feedback | Percentage of respondents who rated the overall quality of internal audit as satisfactory or above. | 100% | 100% |
| 8. Staff compliance with CPD | Number of training hours undertaken to support CPD. | 140 | 140 |
| 9. Management engagement | Number of meetings with CMT and DMTs as appropriate. | 4 per quarter | 10 |

Reliance by external audit

3.10 During the year under review, liaison has taken place with the Council's External Auditors through joint attendance at the Audit Committee, meetings, ad hoc discussions and the sharing of audit plans and reports. External audit have indicated that they will consider the findings of the work of internal audit as part of their planning process to minimise duplication of effort and to ensure the total resource is used efficiently and effectively.

SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE

Approach

- 4.1 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Internal Audit Standards and the agreed annual audit plans. The overall scope of the internal audit work encompasses Inverclyde Council's risk management practices, governance practices and internal controls.
- 4.2 The Annual Audit Plan is based on a formal risk assessment which is revised on an ongoing basis to reflect evolving risks and changes within the Council. The Internal Audit Annual Audit Plan 2021/2022 was discussed and agreed at the Audit Committee on 23 February 2021. In addition, consultation on the content and coverage of the audit plan took place with Corporate Directors and the Chief Executive.

Responsibility and reporting lines of the Chief Internal Auditor

- 4.3 The Chief Internal Auditor reports functionally to the Council's Monitoring Officer and has a right of access and freedom to report in her own name to all officers and members and particularly those charged with governance. The adoption of these arrangements enables the Council to conform with the reporting line requirements of the International Standard on Auditing ("ISA") (UK and Ireland) 610 and the Public Sector Internal Audit Standards which were adopted by Local Government in the United Kingdom on 1 April 2013.
- 4.4 The Chief Internal Auditor also has a specific responsibility to the Council's s95 Officer to provide assurances which informs the preparation of the Annual Governance Statement for inclusion in the Council's Annual Accounts.

The work of Internal Audit

- 4.5 Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- 4.6 In accordance with the principles of Corporate Governance, the Chief Internal Auditor reports with independence and impartiality to the Council's Audit Committee on a regular basis. The Chief Internal Auditor prepares an annual report containing a view on the adequacy and effectiveness of the systems of internal controls.
- 4.7 The Internal Audit team operates in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards. Internal Audit undertakes an annual programme of work approved by the Council's Audit Committee. The Annual Audit Plan is based on a formal risk assessment, which is revised on an ongoing basis to reflect emerging risks and changes within the Council.
- 4.8 All Internal Audit reports identifying system improvements or non-compliance with expected controls are brought to the attention of management and include agreed action plans. It is management's responsibility to give proper consideration to Internal Audit reports and take appropriate action on audit recommendations.

SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE (CONTINUED)

The work of Internal Audit

The Chief Internal Auditor is required to confirm that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or that management has understood and accepted the risk of not taking action. Management progress on implementing significant actions, which have been categorised as Red or Amber, is reported to the Corporate Management Team on a bi-monthly basis, and to the Council's Audit Committee on each committee cycle.

Responsibilities of Management and Internal Audit

- 4.9 It is Management's responsibility to maintain systems of risk management, internal control and governance.
- 4.10 Internal Audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal Audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal Audit cannot be held responsible for internal control failures.
- 4.11 Internal Audit's role includes assessing the adequacy of the risk management, internal controls and governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.
- 4.12 Public Sector Internal Audit Standards (PSIAS) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that all staff members involved in 2021/22 internal audit reviews were independent of operational processes and their objectivity was not compromised in any way.

Basis of the internal audit assessment

- 4.13 In accordance with the Public Sector Internal Audit Standards, the assessment on risk management, control and governance is based upon:
- Internal Audit work undertaken by the Internal Audit Team during the year to 31 March 2022 (in accordance with the annual audit plan approved by the Audit Committee);
 - The assessments of risk completed during the preparation and updating of the annual audit plan;
 - Reports issued by Audit Scotland, the Council's External Auditors; and
 - Internal Audit's knowledge of the Council's governance, risk management and performance management and monitoring arrangements.

Limitations on the assurance that Internal Audit can provide

- 4.14 It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of risk management, internal control and governance are adequate. The most that internal audit can provide to the Corporate Director Environment and Regeneration, s95 Officer and Audit Committee is reasonable assurance based on the work performed.

SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE (CONTINUED)

- 4.15 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from this engagement. These limitations include the possibility of faulty judgment in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 4.16 Organisations and their internal control needs differ by type, size, culture and management philosophy. One organisation's internal control system may be very different from another's in relation to similar processes. Also, decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

| | |
|--|--|
| Satisfactory | <p>Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A limited number of Amber rated issues may have been identified, but generally only green issues have been found in individual audit assignments. • None of the individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>. |
| Generally Satisfactory with some improvement needed | <p>A few specific control weaknesses were noted: generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A number of Amber rated issues identified in individual audit assignments that collectively do not significantly impact the system of internal control. • Red rated issues that are isolated to specific systems or processes. • None of the individual assignment reports have an overall opinion of <i>Unsatisfactory</i>. |
| Major improvement needed | <p>Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A high number of Amber rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A number of Red rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A small number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>. |
| Unsatisfactory | <p>Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • Amber and Red rated issues identified in individual assignments that collectively are widespread to the system of internal control. • A high number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>. |