

Agenda Item	4
Report No	AS/1/20

HIGHLAND COUNCIL

Committee: Audit & Scrutiny Committee

Date: 24th September 2020

Report Title: **Internal Audit Annual Report 2019/20**

Report By: Corporate Audit Manager

1. Purpose/Executive Summary

- 1.1 The attached report includes an assessment of the Council's framework of governance, risk management and control, and the associated opinion which provides information for the Council's Annual Governance Statement.

2. Recommendations

- 2.1 The Committee is invited to note the content of the report, the audit opinion provided and to raise any relevant points with the Corporate Audit Manager.

3. Annual Report 2019/20

- 3.1 The Public Sector Internal Audit Standards requires that the Chief Audit Executive (the Corporate Audit Manager):

“Delivers an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”

These requirements have been met by the report provided at **Appendix 1** with section 2 of the report used to inform the Council’s Annual Governance Statement.

4. Implications

- 4.1 There are no Resource, Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever, Risk or Gaelic implications. Any issues identified have already been addressed within previous reports to Committee.

Designation: Corporate Audit Manager

Date: 14th September 2020

Author: Donna Sutherland

Background Papers:

Appendix 1



The Highland Council

Internal Audit Annual Report 2019/20

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1. INTRODUCTION

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2019 to 31st March 2020, and a report that can be used by the Highland Council to inform its Annual Governance Statement.
- 1.2 This report has been produced in accordance with the requirements of the Public Sector Internal Audit Standards (the Standards) which came into effect from 1st April 2013 and apply to all internal audit service providers. These Standards were developed in collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
- 1.3 Section 2450 of the Standards states that "*the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In addition, the annual report must incorporate:*
- *The opinion;*
 - *The summary of work that supports that opinion; and*
 - *A statement on conformance with the Standards and the results of the quality assurance and improvement programme".*

2. ANNUAL GOVERNANCE STATEMENT

2.1 Internal Control

The Council's Financial Regulations require the Executive Chief Officers to ensure the principles of internal control are incorporated in the working practices of their Services.

Internal control is defined as *"the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance"* regarding the achievement of one or more of the following objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, regulations and contracts.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or plans.

Any system of control can 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 and regulations. Accordingly the Council should seek continual improvement in the effectiveness of its systems of internal control.

2.2 Internal Audit

The Standards define internal auditing as *"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 work undertaken by Internal Audit is documented in an audit report and issued to management. Any areas of concern together with the management agreed actions and target dates for implementation are summarised in an Action Plan within the report. It is the responsibility of management to ensure that implementation of these actions takes place as agreed. The Internal Audit Section will undertake periodic follow-up reviews to ensure that the management agreed actions have been satisfactorily implemented and the results of this are reported to the Audit & Scrutiny Committee.













The Internal Audit Section operates in accordance with the Standards and as required, a risk based tactical audit plan is produced each year, and submitted for approval to the Audit & Scrutiny Committee. Organisational independence is demonstrated by the Corporate Audit Manager reporting in her own name to senior management, and having direct access to the Chief Executive, Audit & Scrutiny Committee, Pensions Committee, and/ or other Members as considered appropriate.


The Standards require that there is periodic self-assessment against the Standard's requirements and that an external assessment is conducted at least once every five years by a qualified, independent assessor from outside the organisation. The Council participates in an arrangement of peer reviews through the Scottish Local Authorities Chief Internal Auditors Group (SLACAIG) which developed a standard methodology and programme of reviews. The next review is due to take place in 2021 and will be assessed by Moray Council.

There is no change from the self-assessment against the standards reported last year whereby full compliance with the standards has been achieved as shown in Table 1 overleaf.

Summary of conformance with the Standards

Table 1

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	Definition of Internal Auditing				
Section B	Code of Ethics				
Section C	Attribute Standards				
1000	Purpose, Authority and Responsibility				
1100	Independence and Objectivity				
1200	Proficiency and Due Professional Care				
1300	Quality Assurance and Improvement Programme				
Section D	Performance Standards				
2000	Managing the internal Audit Activity				
2100	Nature of Work				

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
2200	Engagement Planning				
2300	Performing the Engagement				
2400	Communicating Results				
2500	Monitoring Progress				
2600	Communicating the Acceptance of Risks				

2.3 Internal Audit work

The 2019/20 audit plan was approved by the Audit & Scrutiny Committee on 27/03/19. All audit reports issued are provided as a standing agenda item to each Committee meeting together with progress against the Plan. Where the Plan has required to be adjusted during the course of the year all amendments have been set out in the progress report and have been approved by Members.

A summary of the audit reports issued together with the audit opinion and grades is provided at Section 3.2.

2.4 Effect of COVID-19

The global pandemic arising from COVID-19 resulted in a National Emergency being declared by the Scottish Government on 19/03/20. The Council as a Category 1 responder under the Civil Contingencies Act (2004) ceased business as usual working and instigated a number of changes in order to focus on the provision of statutory and priority services to protect vulnerable people, deliver care and support services, and support recovery. This resulted in new ways of working as large numbers of staff moved to home working and others redeployed to other duties. Whilst Direct Access capability was increased initially this was not enough for all staff numbers so was restricted to essential staff which meant that the audit work that could be undertaken was limited. This also resulted in more audit days being carried forward into the 2020/21 audit plan than originally anticipated. The audit plan is provided as a separate agenda item and this includes a number of audits which will consider risks arising from Covid-19.

It is important that the Council, at the appropriate time, undertakes a "lessons learned" review and addresses any areas for improvement identified. This area will also be subject to audit review.

2.5 Areas of concern

Any areas of concern identified from an audit review will result in an audit recommendation being made which is contained within an action plan. These recommendations are graded as high, medium or low; high defined as "*major issues that managers need to address as a matter of urgency*".

During 2019/20, a total of 73 audit recommendations were made with 22 of these classified as high grade. A full breakdown of the audit grades and the overall audit opinions can be found at Table 2 on pages 9 – 10. The majority (16) of the high graded recommendations appeared in reports which had the opinion of Limited Assurance, this included 3 control weakness reports. These reports follow fraud investigations and address the control weaknesses that allowed the fraud to occur and the actions required to address these and improve the systems of internal control. All actions have been satisfactorily implemented except for 1 which remains outstanding as it has a target date of 30/09/20. This will be action tracked in the normal manner after this date. The control weakness reports relate to individual establishments across different Services and no systematic failures were identified. As a result these do not impact upon the audit opinion provided below.

The 2018/19 report referred to 2 audit reports of concern where the findings were highlighted in the Annual Governance Statement:

Inverness and Highland City Region Deal (CRD)

The CRD is a tripartite agreement between the Council, UK and Scottish Governments with a funding package of £53.1m. The audit report contained the opinion of limited assurance due to a number of issues particularly the need to strengthen the governance arrangements.

This was followed-up and the agreed management actions have all been satisfactorily completed including improved governance arrangements agreed by the then EDI Committee on 16/05/19. These changes will enable more effective

Member scrutiny and monitoring of the CRD given its importance to the Council and significant financial sums involved.

Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2017/18

The scheme required carbon use to be reported and internally audited on an annual basis. This audit report contained the opinion of limited assurance for the fourth consecutive year. This was due to concerns about the accuracy and completeness of the information reported, and the failure to implement previously agreed management actions.

2018/19 year was the final year of the scheme before it was abolished and replaced by the climate change levy. The audit review of the 2018/19 compliance included following up the 2017/18 audit's action plan to ensure that this was implemented as agreed.

The 2018/19 audit report contains the opinion of "reasonable assurance". Whilst this is an improvement on previous years, it is of concern that some of the audit findings have been reported in previous years. However, since this was the final year of the Scheme, no further audit recommendations have been necessary.

2.6 Action Tracking

As part of the audit process, all audit recommendations these are action tracked to ensure that the agreed actions were implemented as agreed. The results of the action tracking, including delays in achieving the target dates are reported to the Audit & Scrutiny Committee on a six-monthly basis with reports provided on 13/06/19 and 28/11/19.

The action tracking process also allows for revision of the agreed action target dates. All actions were either satisfactorily implemented or revised target dates were agreed.

2.7 Assurances from Services

As part of the Annual Accounts process, the Chief Executive and the Executive Chief Officers are asked to provide assurance that the following statements are valid:

- That Financial Monitoring Statements are regularly reviewed at Service Management Meetings.
- That Staff have been made aware of Financial Regulations and Contract Standing Orders.
- That Staff have been made aware of the Code of Conduct, Information Systems Security, Fraud and Corruption and Whistle blowing policies.
- That the Service has a robust scheme of delegation and that Staff have been informed of their supervisory and accountability responsibilities and that their responsibilities are documented in a Job Description.
- That segregation of duties is an important control mechanism operation within the Service and where it has not been possible to operate such a control a suitable alternative is in place.
- That appropriate targets have been established within the Service to measure financial and other performance.
- That a formal system of project management, including project governance operates within the Service.
- That appropriate arrangements are in place to govern companies.

The necessary assurances have been provided and no issues have been highlighted which affects the Annual Governance Statement which forms part of the Council's Annual Accounts.

2.8 Governance arrangements

The Council has a Local Code of Corporate Governance which follows the format set out in the CIPFA/ SOLACE Guidance Note for Scottish Authorities – Delivering Good Governance in Local Government (2016). This guidance sets out the seven core principles and their associated sub-principles designed to demonstrate good governance.

An annual report to the Audit & Scrutiny Committee, by the Head of Corporate Governance, is prepared on compliance with the Local Code and any changes required to maintain it and ensure its effectiveness. A report to Committee on 13/06/19 provided details of progress in delivering the 2018/19 Code and presented the 2019/20 Code for approval by Members. Two main actions outlined in the Code were:

- A number of changes arising from recommendations made by the Governance Review Steering Group
- Refreshed governance arrangements in respect of the City Region Deal involving members of the ASC were to be implemented in September 2019 (see 2.5 above).

Emergency governance arrangements were put in place in March as a result of Covid-19 outbreak. This included suspending Council and Committees unless there was an urgent business requirement for these to take place.

The Council's Scheme of Delegation to Officers provides for the Chief Executive to exercise the Council's powers in emergency situations, in consultation with appropriate Officials and/ or Members. A Member Gold Covid-19 Group was established which met at least twice a week in the beginning with the first meeting on 19/03/20. In the interests of transparency, a decision log recording those matters determined under the emergency governance arrangements is published on the Council's website.

A formal report, setting out all of the decisions taken under emergency governance arrangements was homologated by a meeting of the full Council on 25/06/20.

2.9 Risk Management

Risk management is a key element of Corporate Governance. The Council has a risk management strategy which demonstrates its commitment to maintaining a structured approach to risk management and ensuring that it effectively manages its risks. The strategy is reviewed annually with the latest review prepared for approval by Committee in March 2020. This will now be taken forward at the next available Committee meeting which is anticipated to be in September 2020.

The Corporate Risk Register is reviewed on a six-monthly basis and the results of these reviews are normally reported to the March and September meetings of the Audit & Scrutiny Committee. Again, the March 2020 review was on the agenda of the cancelled meeting. This has been revisited and amended to reflect the impact upon the Council arising from COVID-19. An updated risk register will be considered by Committee on 24/09/20.

2.10 Audit Opinion

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31st March 2020.

3. INTERNAL AUDIT GRADINGS AND OPINIONS

3.1 During the year, a total of 15 final reports were issued. Where the report contains an audit recommendation, this is given a grading of high, medium or low. In addition, the report contains an overall audit opinion which is used to inform the annual statement on internal control. With regard to the audit opinion, there are five levels of assurance which have the following definitions:

Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Reasonable Assurance	Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

3.2 Table 2 below, provides a summary of the audit reports issued together with the audit opinion, number of recommendations and a breakdown of the associated grades.

Table 2

Report Name	Report Date	Audit Opinion	Recommendations			
			No.	High	Medium	Low
Financial Assessments	02/04/19	Substantial Assurance	3	0	1	2
Investigation into fraudulent expenditure claims in Social Work office – System Weaknesses Report	08/05/19	Limited Assurance	2	2	0	0
Continuous Auditing Exercises	04/06/19	Reasonable Assurance	9	1	6	2
Review of Information Management Arrangements	06/09/19	Limited Assurance	6	3	3	0
Financial Controls	10/09/19	Full Assurance	2	0	0	2
Investigation into missing housing income	17/10/19	Limited Assurance	4	1	3	0
LEADER Programme 2018-19	08/11/19	Substantial Assurance	3	0	2	1
Pupil Equity Fund	15/11/19	Substantial Assurance	5	0	3	2
Review of Absence Management Arrangements	18/11/19	Limited Assurance	7	3	3	1
Provision of Early Learning and Childcare services	19/11/19	Reasonable Assurance	5	2	3	0
Review of Insurance Arrangements	19/11/19	Reasonable Assurance	5	3	2	0

Report Name	Report Date	Audit Opinion	Recommendations			
			No.	High	Medium	Low
Establishments Investigation - Control Weaknesses	11/02/20	Limited Assurance	10	7	3	0
Local Full Fibre Network Project	06/03/20	Reasonable Assurance	4	0	4	0
Income Systems	17/03/20	Substantial Assurance	6	0	2	4
Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2018-19	18/03/20	Reasonable Assurance	2	0	1	1
Totals			73	22	36	15