

HIGHLAND COUNCIL

Committee: Audit & Scrutiny Committee

Date: 17th June 2021

Report Title: **Internal Audit Annual Report 2020/21**

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 2020/21

- 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: 4th June 2021

Author: Donna Sutherland

Background Papers:

Appendix 1



The Highland Council

Internal Audit Annual Report 2020/21

Contents

| | |
|--|----------|
| 1. INTRODUCTION | 1 |
| 2. ANNUAL GOVERNANCE STATEMENT | 2 |
| 3. INTERNAL AUDIT GRADINGS AND OPINIONS | 1 |

1. INTRODUCTION

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2020 to 31st March 2021, 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 assessment will be undertaken by Officers from Moray Council during 2021/22.

There is a change this year in the self-assessment against the standards which has moved from full to generally complies. See Table 1 overleaf which shows that there is full compliance in all areas bar one. This has resulted from the limitation in scope as referred to at sections 2.4 and 2.10.

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 2020/21 audit plan was approved by the Audit & Scrutiny Committee on 24/09/20. 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 impact of Covid-19 has affected the Internal Audit Service in that insufficient work could be undertaken during the year in order to provide the annual audit opinion. CIPFA has recognised this risk and issued limitation of scope guidance on 19/11/20. The suggested wording from the guidance has been used and the limitation in scope, and the reasons for this is detailed at section 2.10.

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 2020/21, a total of 55 audit recommendations were made with 18 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 8 – 9. There are no particular trends identified with regard to the audit findings and these are not considered to impact upon the audit opinion provided.

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 normally reported to the Audit & Scrutiny Committee on a six-monthly basis to the June and November meetings. Cancellation of the normal Committee meetings meant that this update was not provided to Committee until 24/09/20 and the next update will be provided on 17/06/21.

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 Directorates

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 Directorate 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 Directorate 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 Directorate 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 Directorate to measure financial and other performance.

- That a formal system of project management, including project governance operates within the Directorate.
 - 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.

The Code of Corporate Governance 2020/21 was approved by the Audit & Scrutiny Committee on 24/09/20. The Code contains a total of 249 actions and review identified that these are shown as complete or on target except for 8 actions which have some slippage. However, these are not considered to have any significant impact upon the effectiveness of the Council's governance arrangements.

The 2019/20 report referred to the emergency governance arrangements put in place in March 2020 as a result of the Covid-19 outbreak. Details of all decisions taken under emergency governance arrangements were homologated by the Council on 25/06/20. During this period, on 08/05/20, a "Covid-19 Good Governance Instruction Note" was adopted by the Covid-19 Officer Gold Group with the aim of ensuring effective governance around decision making and that the appropriate evidentiary records were maintained. The report to Council also referred to the resumption of Council policies and services to their pre-Covid arrangements and return to the normal governance arrangements. This was enabled by the introduction of Microsoft Teams allowing for virtual Committee meetings to recommence. Fortnightly Member briefings were provided with written briefings also provided where required. These arrangements continued with the second national lockdown on 05/01/21.

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 approved by the Audit & Scrutiny Committee in March 2021.

During the year, the process was changed from six to three-monthly reviews of the Corporate Risk Register by the Executive Leadership Team. The results of these reviews are now reported as a standing item to the Audit & Scrutiny Committee.

2.10 Audit Opinion

The results of the work carried out by Internal Audit, taken together with other sources of assurance, are not sufficient to support an annual opinion on the overall adequacy and effectiveness of the Council's framework of control. The results of internal audit work concluded during the year and a summary of where it is possible to place reliance on the work of other assurance providers in respect of governance and risk management is presented in the annual report but this does not result in an opinion on the aspect of control. The Chief Audit Executive has concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance and risk management.

This limitation of scope has arisen due to the impact of Covid-19 which resulted in the majority of audit activities being paused whilst the Council was operating under emergency powers. Also, some members of staff were redeployed to support Covid-19 activities. As a result, a reduced audit plan was approved by the Audit &

Scrutiny Committee on 24/09/20. This was further impacted by delays in commencing a number of planned audits as a result of the second lockdown in January and key staff being involved in preparation of the 2021/22 budget. To avoid similar limitations in future the CAE has/ will undertake the following actions:

- The 2021/22 audit plan has been prepared to ensure sufficient coverage of control systems. This is presented for approval by Committee in a separate agenda item.
- Ensure early identification of any issues with commencing planned audits and take the appropriate action to ensure these take place as planned. Any issues will be addressed with the ELT and reported to the Audit & Scrutiny Committee if necessary.
- Recruitment for a vacant post within the section will be undertaken shortly in order to increase the available audit resources.

3. INTERNAL AUDIT GRADINGS AND OPINIONS

3.1 During the year, a total of 10 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 Chief Audit Executive's annual audit opinion. With regard to the individual audit report opinions, 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 |
| HCC02/002.bf - Car Parks | 15/04/20 | Reasonable | 12 | 2 | 8 | 2 |
| HDD04/005 - ICT Contract Management | 26/06/20 | Limited | 6 | 3 | 3 | 0 |
| HEB03/002 - Flood Defence Capital Projects | 08/08/20 | Substantial | 3 | 0 | 1 | 2 |
| HEC05/001 - Collection of School Meals Income | 09/11/20 | Reasonable | 6 | 3 | 3 | 0 |
| HEL07/001 - Workforce Planning and Staffing Arrangements-Teaching | 12/11/20 | Reasonable | 6 | 2 | 3 | 1 |
| HTE05/001 - LEADER Programme 2019-20 | 12/11/20 | Substantial | 2 | 0 | 2 | 0 |
| HSC03/003 - Investigation into administration and use of SDS package | 17/11/20 | Reasonable | 4 | 2 | 2 | 0 |
| HAB02/001 - Relief Staffing | 26/11/20 | Reasonable | 7 | 1 | 5 | 1 |

| Report Name | Report Date | Audit Opinion | Recommendations | | | |
|---|-------------|---------------|-----------------|-----------|-----------|----------|
| | | | No. | High | Medium | Low |
| HRF30/004 Review of recruitment process for Executive Chief Officer of Education & Learning | 19/01/21 | Limited | 5 | 4 | 1 | 0 |
| HTE05/003 - COVID-19 Grants | 19/03/21 | Reasonable | 5 | 4 | 1 | 0 |
| Totals | | | 55 | 18 | 31 | 6 |