

Appendix 2 - 2018/19 Internal Audit Opinion

To the Members of Argyll and Bute Council, the Chief Executive, other members of the Council's Senior Management Team including the Section 95 Officer (Head of Strategic Finance)

As the Chief Internal Auditor of Argyll and Bute Council (the Council), I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Group Accounts prepared by the Council for the year ended 31 March 2019.

Respective responsibilities of management and internal auditors in relation to internal control

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal financial control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Internal Auditor to provide an annual overall assessment of the robustness of the internal financial control system.

The Council's framework of governance, risk management and internal control

The Council has a responsibility to ensure that its business is conducted in accordance with legislation and proper standards. The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and how it accounts to communities. It enables the Council to monitor the achievement of its strategic priorities and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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
- economic, efficient, effective and safe use of resources and assets
- the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records
- compliance with statutory requirements.

The system of internal control is a significant element of the governance framework. 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 in order to identify and prioritise the risks that would prevent the achievement of the Council's strategic objectives.

The work of internal audit

Internal auditing 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 Council's Internal Audit Section operates in accordance with the *Public Sector Internal Audit Standards* (PSIAS) which have been agreed to be adopted from 1 April 2013 by the relevant public sector Internal Audit Standard setters. PSIAS applies the Institute of Internal Auditors International Standards to the UK Public Sector.

PSIAS requires that a Quality Assurance and Improvement Programme (QAIP) is developed in order to provide assurance that internal audit activity:

- is conducted in accordance with an Internal Audit Charter
- operates in an efficient and effective manner
- is perceived to be adding value and improving operations.

PSIAS also requires, as outlined in Standard 1300 "QAIP", that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation".

To meet this requirement, a reciprocal arrangement to complete a programme of inspections has been developed by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG). This process identified FTF Consortium as the body to undertake the independent review of the Council's Internal Audit function's level of compliance with PSIAS. This output of this review was presented to the Audit and Scrutiny Committee in September 2018. It concluded that the internal audit service demonstrates overall compliance with PSIAS and identified many areas of strong practice including sound governance, robust self-assessment, good engagement and clear reporting lines and clear evidence of supervision and audit follow up. It also highlighted four areas for improvement with all four centred around the theme of risk and the extent to which internal audit can evidence a link between audit work and the Council's risk management registers. These improvement actions have all been delivered through internal audit's QAIP.

The Internal Audit Section undertakes an annual programme of work based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Council.

All Internal Audit reports identifying system weaknesses and / or non-compliance with expected controls are brought to the attention of management and the Audit and Scrutiny Committee together with appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations.

The internal auditor 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. A programme of follow-up on assignment findings and recommendations provides assurance on the complete and timeous implementation of internal audit recommendations.

Internal Audit staff regularly attended the following external user group meetings:

- SLACIAG, the purpose of which is to develop and improve the practice of internal audit activity with Scottish local authorities. It achieves this by meeting to discuss issues of common concern, commissioning work to develop ideas, sharing good practice, working in partnership with other professional / governing bodies and promoting SLACIAG as the representative body for internal audit in local authorities. I have attended all bar one of the quarterly meetings of SLACIAG since my appointment in October 2017 and have recently been appointed to the SLACIAG Management Committee.
- SLACIAG Computer Audit sub group: a member of the audit team attends this forum which has the aim of ensuring that audit teams are better equipped to perform technical Information Systems auditing.
- I also meet the Chief Internal Auditors of West Dunbartonshire Council, East Dunbartonshire Council, West Lothian Council and Falkirk Council on a quarterly basis to discuss developments and share knowledge. In-between these meetings we are in regular contact to share information which helps deliver audit plans more efficiently and we are in the process of establishing benchmarking indicators that will be used going forward

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- the audit work undertaken by Internal Audit during the year to 31 March 2019, including risk based audits, continuous monitoring and follow-up activity
- the assurance statements signed by the executive directors and heads of service on the operation of the internal financial controls for the services for which they were responsible during the year to 31 March 2019
- the assurance statement signed by the Chief Executive for the overall Council for the year ended 31 March 2019
- reports issued by the Council's external auditors, Audit Scotland, and other external review agencies
- my knowledge of the Council's governance, risk management and performance monitoring arrangements.

Limitation to Resources or Scope of Internal Audit Work

There were sufficient resources available to deliver the programme of audit assignments contained within the 2018/19 internal audit Plan and no significant threats emerged to the independence of the internal audit activity such as inappropriate scope or resource limitations.

Opinion

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's systems of governance, risk management and internal control in the year to 31 March 2019.

Signature:

A handwritten signature in blue ink, consisting of a stylized 'S' followed by a horizontal line.

Title: Chief Internal Auditor

Date: 18 June 2019