

## **Appendix 2 - 2019/20 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 (Interim Executive Director)**

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 2020.

### **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. A further self-assessment process was undertaken and reported to Committee in September 2019 which provided further assurance Internal Audit's compliance with PSIAS.

Internal Audit 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 of the quarterly meetings of SLACIAG during 2019/20 and was appointed as deputy chairperson in 2020.
- SLACIAG Computer Audit sub group: there was no attendance at this forum during 2019/20, however, outputs and communications are regularly exchanged 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, Falkirk Council and Inverclyde 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 including consistent use of benchmarking indicators.

## **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 2020, 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 2020
- the assurance statement signed by the Chief Executive for the overall Council for the year ended 31 March 2020
- 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.

- The Council's management response to the COVID-19 pandemic tested how well the risk management framework is operating. There were examples of innovations, new business processes and solutions, and new technology being embraced in order to deliver services to communities, in particular Caring for the Vulnerable; Liaising with Resilience Partners; and Supporting Economic Recovery. This was achieved using amended governance arrangements, new ways of decision-making, leadership and implementation including virtual meetings, conference calls, and systems remote access.

### **Limitation to Resources or Scope of Internal Audit Work**

With effect from 6 January 2020, at the request of the Chief Executive, the Head of Financial Services has been acting as interim Executive Director whilst retaining the Council's Section 95 officer responsibilities. This will continue until the post is filled on a permanent basis. Backfilling of the Head of Financial Services post has been shared, on an interim basis, by myself as CIA, the Council's Finance Manager and the Council's Revenues and Benefits Manager. The role has been split in such a manner that, in conjunction with other appropriate arrangements being established, I can report that Internal Audit operated throughout 2019/20 with no impairments or restrictions in scope or independence.

The COVID-19 pandemic meant the 2019/20 audit plan could not be completed in its entirety due to a need to redeploy audit resource to priority tasks required to support the Council's response to the pandemic. This resulted in six audits not being fully complete by the targeted deadline of June 2020. Of these six, two were at draft report stage, three were well advanced through the fieldwork stage and one was in the initial planning stage. Furthermore there was an ongoing special investigation which was at draft report stage. The work to complete the 2019/20 plan will be reviewed and incorporated into a revised 2020/21 internal audit plan. As all, bar one, of the incomplete audits are well advanced, I am of the opinion this does not affect my ability to provide an opinion on the Council's systems of governance and internal control.

### **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 2020.

### **Signature:**



**Title: Chief Internal Auditor**

**Date: 16 June 2020**