

INTERNAL AUDIT – ANNUAL REPORT 2021/22

1.0 INTRODUCTION

- 1.1 The purpose of this report is to advise the Audit and Scrutiny Committee (the Committee) of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2021/22 and advise the Committee of the contents of the Interim Chief Internal Auditor's (CIA) independent annual opinion on the effectiveness of the Council's risk management, internal control and governance processes.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) became effective on 1st April 2013 and require that:

“The chief audit executive [ABC: Chief Internal Auditor] must deliver 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.”

- 1.3 Attached as appendices to this report are:
- Appendix 1 – Summary of the audits completed in 2021/22
 - Appendix 2 – Internal Audit Opinion

2.0 RECOMMENDATIONS

- 2.1 The Audit and Scrutiny Committee endorses the content of this report and the associated annual opinion of the CIA.

3.0 DETAIL

- 3.1 Internal Audit is an independent and objective assurance function designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the Council's risk management, internal control and governance processes.
- 3.2 Internal Audit's purpose, authority and responsibilities are set out in detail in the Internal Audit Charter, which was most recently approved by the Committee in March 2022. Internal Audit reports its outputs regularly throughout the year to the Committee. The Committee also approves

Internal Audit's annual plan and monitors the performance of the function.

- 3.3 The risk based audits contained within the 2021/22 Internal Audit Annual Plan are shown in the table included at Appendix 1. This shows the overall audit opinion for each audit and the number and significance of agreed actions.
- 3.4 Internal audit activity is planned to enable an independent annual opinion to be given by the CIA on the adequacy and effectiveness of internal controls within the authority, including the systems that achieve the corporate objectives of the Council and those that manage the material risks faced by the authority. It should be noted, however, that the presence of an effective internal audit function contributes toward, but is not a substitute for, effective control and it is primarily the responsibility of line management to establish internal controls so that the Council's activities are conducted in an efficient manner, to ensure that management policies and directives are adhered to and that assets and records are safeguarded.
- 3.5 Internal Audit operates as part of the Chief Executive's Unit and whilst I report to the Council's Head of Financial Services on an administrative basis, I also have unrestricted access to those charged with governance, specifically: Elected Members; the Chief Executive; Executive Directors including the Executive Director for Customer Services who is the Council's Monitoring Officer.
- 3.6 The previous Head of Financial Services was appointed as Executive Director whilst retaining the Council's Section 95 officer responsibilities. Backfilling of the Head of Financial Services post was undertaken by the Chief Internal Auditor on an interim basis until December 2021 after which the Finance Manager undertook this role when the post became vacant again. During the year the role of Chief Internal Auditor was subsequently filled on an interim basis in September 2021. I can report that Internal Audit operated throughout 2021/22 with no impairments or restrictions in scope or independence.
- 3.7 Internal Audit activity during the year was undertaken in accordance with the revised Internal Audit Annual Plan.
- 3.8 The 2021/22 audit plan was revised due to a need to redeploy audit resource to priority tasks required to support the Council's response to the pandemic and support Financial Services. The revised Audit Plan was reported to and approved at the March 2022 Committee. 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.
- 3.9 Three changes were made to the 2021/22 audit plan as follows:
 - An audit of Adult Care which was in the approved 2021/22 audit plan was not performed. The high level scope of this audit was to review compliance with internal policies and procedures. The Care Inspectorate, Healthcare Improvement Scotland and Her Majesty's Inspectorate of Constabulary in Scotland carried out a joint

inspection of adult support and protection across Argyll and Bute partnership from June to August 2021 with the report being published in September 2021. This provided an opportunity to identify good practice and support improvement more broadly across Scotland. In summary, the report found that the Argyll and Bute partnership had an established and clear vision, supported by an effective multi-agency Adult Protection Committee. The strategic response to the Covid-19 pandemic was effective with strong community engagement. The partnership was particularly proactive in raising awareness of adult support and protection within the community and with the people responsible for planning, delivering and evaluating care and support. An improvement plan to address the priority areas for improvement as identified in the report has been prepared with key dates identified. An audit will be undertaken in future years.

- An audit of Education Processes which was in the approved 2021/22 audit plan was not performed. The audit was added as a result of a request from the Head of Service with the high level scope to review of education processes that feed into the wider pupil transport service with specific reference to ASN/Complex needs. However, there is currently an internal consultation on ASN provision therefore audit around this area would not be well timed. An audit will be undertaken in future years.
- An audit of HR Project Management - Payroll Business Process Review which was in the approved 2021/22 audit plan was not performed. This audit was added to provide assurance that the Payroll Business Process Review has been carried out in a robust manner. As the project had been completed during 2021/22 and payroll process had been transferred to Financial Services it was felt that the audit was no longer required.

- 3.10 I am pleased to report that, whilst COVID has had an impact on the completion of audit actions, council officers have continued to make progress in terms of implementing agreed audit recommendations. Furthermore there are robust follow up procedures in place with reports taken to the SMT on a quarterly basis and reported as a standard item to the Committee.
- 3.11 There is a formal requirement for me to prepare an annual opinion on the Council's internal control system. The opinion is presented to members of the Committee and is intended to provide independent and objective assurance as to the adequacy and effectiveness of internal controls within the Council.
- 3.12 In addition to the work carried out by internal audit, my opinion is also informed by:
- the work of External Audit
 - the work of other external inspection agencies who report on the Council's work
 - statements of assurances provided by the Chief Executive, Executive Directors and Heads of Service providing their opinion on the effectiveness of control, governance and risk management within their

areas of responsibility.

- 3.13 My evaluation of the control environment is informed by these sources and in bringing these together, consideration has been given to whether there is evidence that any key controls are absent, inadequate or ineffective and whether the existence of any weaknesses identified, taken independently or with other findings, significantly impairs the Council's overall systems of internal control. Wider issues relating to the Council's corporate governance and risk management arrangements have also been considered.
- 3.14 The nature of individual audit assignments is such that most Internal Audit reports identify some weaknesses or areas where scope for improvement exists. However, I am pleased to report that, generally across the Council, there continues to be a strong recognition amongst management of the importance of proportionate but effective internal controls. Senior management has also established an operating culture where good standards of governance are seen as a key requirement in the way in which the Council conducts its activities.
- 3.15 During work undertaken in 2021/22 there have been instances where the control environment was not strong enough or complied with sufficiently to prevent risks to the organisation. In these cases, Internal Audit has made recommendations to further improve the systems of control and compliance. Although sometimes significant to the control environment in place for the individual system or areas that have been audited, I do not consider these weaknesses material enough to have a significant impact on the overall opinion on the adequacy of the Council's control environment at the year end.
- 3.16 My formal annual Internal Audit opinion on the soundness of the Council's internal control systems is presented at Appendix 2. Overall, the results of the work of Internal Audit in 2021/22 taken with other information available to me did not lead me to conclude that the Council's overall systems of internal control were significantly or materially impaired.
- 3.17 It has been a busy year for the internal audit team as they have supported the Chief Internal Auditor in the further development of our work practices including introducing the new counter fraud team. The team have worked hard to deliver the internal audit plan, and in response to COVID-19 they willingly redeployed to provide assistance to the wider Financial Services team to help administer and process a variety of Business Support Grants. It is my opinion that the profile of Internal Audit continues to improve within the Council as does the quality of the work it delivers and is evident in the feedback received from post-audit surveys indicating a satisfaction rate of 96%.
- 3.18 As required by the PSIAS a five-yearly external assessment took place in 2018-19 and actions raised were addressed through the quality assurance and improvement programme. A further self-assessment process was also undertaken and reported to Committee in September 2021 which provided further assurance over the work of the team. All identified actions for improvement have been tracked through our quality assurance

improvement programme with updates reported to Committee as part of a standard agenda item.

- 3.19 On behalf of my team I would like to thank all Council staff who have assisted Internal Audit during the course of our work throughout 2021/22 and to thank senior management and elected members for the consideration and due regard given to our work.

4.0 CONCLUSION

- 4.1 Subject to the matters listed in the Annual Governance Statement reasonable assurance can be taken that the systems of governance and internal control are operating effectively. Internal Audit continues to develop and improve as a service.

5.0 IMPLICATIONS

- 5.1 Policy – None
- 5.2 Financial – None
- 5.3 Legal – None
- 5.4 HR – None
- 5.5 Fairer Scotland Duty – None
 - 5.5.1 Equalities– None
 - 5.5.2 Socio-Economic – None
 - 5.5.3 Islands Duty – none
- 5.6 Climate Change - None
- 5.7 Risk– None
- 5.8 Customer Service– None

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23 June 2022

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APPENDICES

1. Summary of the audits completed in 2021/22
2. 2021/22 Internal Audit Opinion