

# ARGYLL AND BUTE COUNCIL

COMHAIRLE EARRA-GHÀIDHEAL AGUS BHÒID



**INTERNAL AUDIT ANNUAL REPORT 2022-23**

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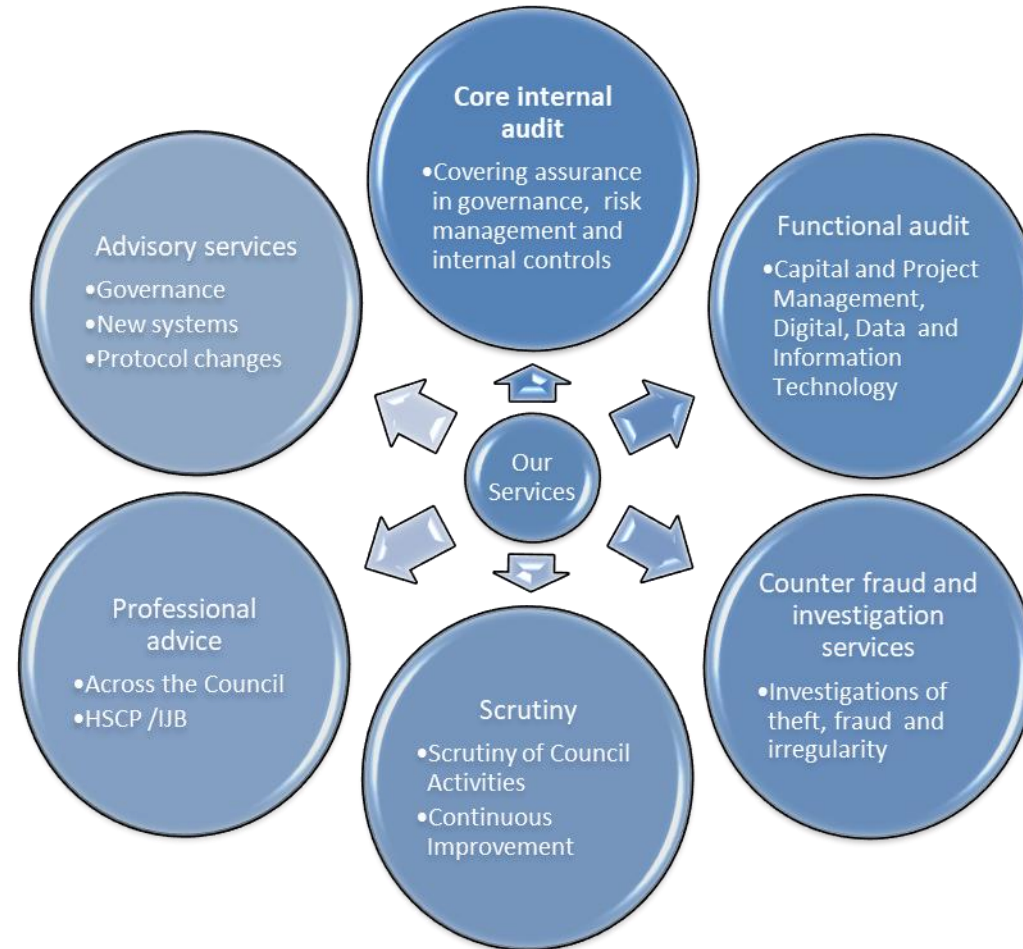
## Introduction

1. This report aims to provide the Audit & Scrutiny Committee with an evaluation of elements of Argyll and Bute Council's internal control, risk management and corporate governance systems based on our work during 2022/23 and to summarise the Internal Audit coverage in the year.
2. Corporate governance is the system by which local authorities direct and control their functions and relate to their communities. The three fundamental principles of corporate governance are openness, integrity and accountability. A sound system of internal control must be maintained to support the Council in operating effective corporate governance arrangements.
3. Good governance practice and internal control suggests that:-
  - Council Members should set appropriate policies on internal control and seek regular assurance that the system of internal control is functioning effectively;
  - management should implement the Council's policies on internal control and design, implement and monitor suitable systems;
  - a well-established and effective Audit and Scrutiny function should be in place within the Council;
  - a local Code of Corporate Governance exists and is reviewed annually; and
  - Internal Audit should provide an independent assessment of the adequacy of the system of internal control.
4. In Argyll and Bute Council a system of good governance is in existence and this is supported by a variety of policies, codes and guidance to promote expected conduct of its business on a day to day basis. The national framework 'Delivering Good Governance in Local government' which was published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief executives (SOLACE) in April 2016 aims to assist authorities in reviewing and assessing their own governance arrangements. The Council has a 'Local Code of Corporate Governance' in place and these arrangements are reviewed periodically and improvements required will be implemented, where necessary.
5. To support the governance statement the Council will need to carry out a review of the effectiveness of internal control, deriving evidence from a variety of sources including Internal Audit, senior managers within the authority with responsibility for developing and maintaining internal control and cognisance of external/internal audit recommendations along with recommendations of other regulatory bodies.
6. This report provides internal audit information in support of the assurance statements and covers the period from 1 April 2022 to 31 March 2023. The attached Appendix reports the Internal Audit activity against the operational audit plan

## Basis of opinion

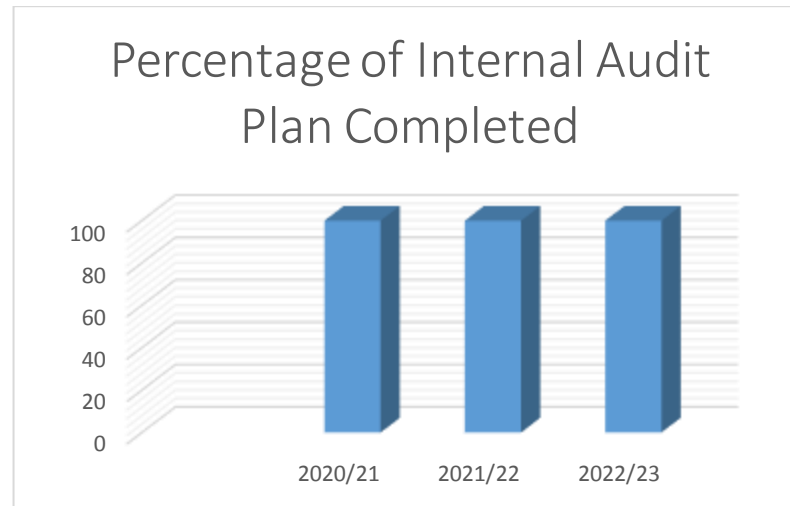
7. We are able to provide assurance on the adequacy of internal controls and governance arrangements within the Council arising only from the results of Internal Audit reviews we have completed during the period in accordance with the programme of Internal Audit work approved by the Audit and Scrutiny Committee. In this context, it is important to note that:
  - (a) it is Management's responsibility to maintain internal control and good governance arrangements on an ongoing basis;
  - (b) the Internal Audit function forms part of the overall internal control and governance structure of the organisation;
  - (c) while we have planned our work so that we have a reasonable expectation of detecting significant control and governance weakness, internal audit procedures alone do not prevent the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances;
  - (d) a sound system of corporate governance and internal control provides reasonable but not absolute assurance that the Council will not be hindered in achieving its objectives or in the orderly and legitimate conduct of its business by circumstances which may reasonably be foreseen. However, a system of corporate governance and internal control cannot provide protection with certainty against any organisation failing to meet its objectives or all material errors, losses, fraud or breaches of laws or regulations;
  - (e) it is the responsibility of Internal Audit to assess the adequacy of the internal control and governance processes as far as it is reasonably possible by reviewing arrangements put in place by management and to perform testing to confirm whether those controls were operating for the period under review; and
  - (f) reasonable expectations of senior management, the Audit and Scrutiny Committee and other stakeholders have been taken into account in terms of our duty to report all matters which come to our attention for the period under review.
8. In our reports issued to date we have made recommendations, where appropriate, to improve internal controls and promote good governance. On the basis of our sample testing of key controls, we concluded that these controls were generally operating as expected during the period under review, with some exceptions that have been reported to management. Appropriate responses to the recommendations made in our reports have been obtained and, if actioned, should provide management with additional comfort that the system of control operates as intended.
9. Summaries of the issues arising in relation to each system or activity covered by the internal audit work in 2022/23 have been reported to management and the Audit and Scrutiny Committee throughout the year. We do not, therefore, propose to repeat the matters in this report. There have been no significant issues which have come to our attention that have not been reported to management.
10. The services provided to the Council in 2022/23 by Internal Audit and Counter Fraud Services are summarised below:-

## INTERNAL AUDIT AND COUNTER FRAUD SERVICES



## Analysis of the Internal Audit Coverage and Performance

11. In respect of 2022/23 the Internal Audit days planned and delivered can be summarised as follows:



12. We have been able to achieve 100% of the agreed 2022/23 audit plan. In addition to the Council's audit plan we have completed the agreed work for the Health and Social Care Partnership (HSCP) contract and also that for LiveArgyll. The work demands on the service continue to be high and this is expected to continue, therefore, our focus will remain on our high risk work and core continuous monitoring of our key financial systems. Notwithstanding, the service remains focused on providing a high quality service and output supporting the Council to achieve its desired goals and outcomes for the communities we serve.
13. We have worked with Council services and our appointed External Auditors, Mazars, to focus our work on those areas of the highest business risk to the Council and those on which External Audit may wish to place reliance.
14. At Appendix 1, we provide details of the internal audit work undertaken in 2022/23.
15. In 2022/23, we issued 21 reports, which contained a variety of recommendations to improve the system of control. Follow up internal audit work has been and will continue to be undertaken to establish if the more significant recommendations made in those reports have been implemented as agreed. One planned review was postponed until 2023/24 in order to increase the scope at the request of management and a further review was no longer required to be undertaken due to a recent internal review of that specific area, these were noted as amendments to the audit plan. During the



year we undertook quarterly ‘follow up’ arrangements to report progress made by management in relation to previously agreed recommendations. In addition, regular reporting of outstanding recommendations are considered by the Council’s Strategic Management Team (SMT) on a regular basis to monitor progress and where appropriate seek that managers resolve any outstanding matters where these have gone beyond agreed implementation dates; SMT are supportive in our work and this is helpful in our continued monitoring and progress assessments until such time as our recommendations are fully implemented.

16. We also submitted formal progress reports to the Audit & Scrutiny Committee throughout the course of the year.

## Quality Assurance and Improvement Programme

17. Internal Audit monitors its performance in a number of ways. This allows us the opportunity to gauge the effectiveness of our service and may inform future improvements. Principally, we monitor performance by the use of client questionnaires which are issued after each piece of work and allow client departments to feedback contributions we have made to improve control, address any areas of value for money and raise any concerns. We are pleased to report, from the questionnaires returned, that clients are generally very satisfied with our service. In addition, Internal Audit produce quarterly and annual reports to the Audit and Scrutiny Committee allowing our progress to be monitored and this is further supplemented by our participation in internal performance targets and reporting via Pyramid (Council’s Performance Management system).
18. CIPFA has issued a statement that sets out the role of the Head of Internal Audit in Local Government in 2019. The purpose of this statement is to outline the core activities and behaviours that belong to the role of Head of Internal Audit and how these should influence and champion good governance, risk management and internal control. The Council’s Internal Audit section conforms to the Statement.
19. CIPFA and the Institute of Internal Auditors (IIA) have reviewed the guidance and made amendments in order to have a common set of standards across the whole public sector. These changes are primarily based on the International Professional Practices Framework (IPPF). The new standards termed Public Sector Internal Audit Standards (PSIAS) became effective in April 2013 and amended in 2017. It should, however, be noted that a comprehensive review of the IPPF is well in progress and the development of a new set of standards called the ‘Global Internal Audit Standards’ are likely to be implemented in the near future once appropriate consultation has taken place.
20. A key requirement of the PSIAS is that Internal Audit sections are required to state whether or not they conform with these standards as part of their annual reporting. In addition, they should outline the results of the quality assurance and improvement programme together with progress against any improvements identified during this assessment.
21. In 2022/23 financial year, Internal Audit were subject to an external evaluation against the PSIAS, Local Government Application note and Quality Assurance Improvement Programme. It is a requirement of the new standards that all public sector Internal Audit sections will require to be independently assessed against these standards during a five year rolling period. The assessment found that in all 14 categories the Council’s Internal

Audit section were fully compliant. This is the highest level of standard attainable in the assessment and a report outlining the findings was presented to the Council's Audit and Scrutiny Committee in March 2023. Arrangements for the next review will be scheduled in for January 2028. The table below outlines each of the 14 categories of assessment and the level of compliance/conformance achieved.

<b>Assessment Area</b>	<b>Level of Conformance External Independent EQA 2023</b>	<b>Level of Conformance Internal Self-Assessment 2023</b>
Mission of Internal Audit and Core Principles	Fully Conforms	Fully Conforms
Definition of Internal Auditing	Fully Conforms	Fully Conforms
Code of Ethics	Fully Conforms	Fully Conforms
Purpose, Authority and Responsibility	Fully Conforms	Fully Conforms
Independence and Objectivity	Fully Conforms	Fully Conforms
Proficiency and Due Professional Care	Fully Conforms	Fully Conforms
Quality Assurance and Improvement Programme	Fully Conforms	Fully Conforms
Managing the Internal Audit Activity	Fully Conforms	Fully Conforms
Nature of Work	Fully Conforms	Fully Conforms
Engagement Planning	Fully Conforms	Fully Conforms
Performing the Engagement	Fully Conforms	Fully Conforms
Communicating Results	Fully Conforms	Fully Conforms
Monitoring Progress	Fully Conforms	Fully Conforms
Communicating the Acceptance of Risks	Fully Conforms	Fully Conforms

**Assessment Gradings:**

<b>Fully Conforms</b>	<b>Generally Conforms</b>	<b>Partially Conforms</b>	<b>Does Not Conform</b>
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22. In terms of the findings of the EQA a number of areas of good practice were identified:

- Full compliance with the PSIAS;
- Qualified Internal Auditors with extensive local authority experience;
- Internal Audit staff who are enthusiastic, experienced and focused on providing a good and professional service;
- Well defined procedures which ensures that the service provided is robust, reliable and efficient in carrying out audit activity; and
- The ability of External Audit to place reliance on the work of Internal Audit.

The overall conclusion was that the Internal Audit Service Fully Conforms to the PSIAS.

It was, however, noted that the two areas for improvement highlighted in the report are as follows:

- The need to undertake an annual review of the declarations of interest –this has now been implemented.
- Clearer referencing in the internal audit annual report to matters referenced in the Annual Governance Statement –this has now been implemented.

As part of the annual process the Internal audit service undertakes a self-assessment against the PSIAS and this has concurred with the independent assessment which was reported to the Council's Audit and Scrutiny Committee in March 2023. A full copy of the [EQA report](#) can be accessed using the link provided.

## Confirmation of Independence

23. 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.
24. In 2022/23 Internal Audit operated as part of the Chief Executive's Unit and reported to the Council's Head of Financial Services on an administrative basis, however, had 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.

25. Internal Audit operated without restriction and had unfettered access to all staff and documents both electronic and paper to allow full and effective assessment of the work during 2022-23. We are therefore pleased to note that there are no matters which require to be drawn to the Audit and Scrutiny Committee's attention or wider senior management contained within this report regarding the independence of the Internal Audit service during 2022-23.

## Counter Fraud Services

26. The Counter Fraud Team (CFT) was established in September 2020 on a two year trial basis, during this period significant successes have been made in identifying monies due to the Council and issuing a bill for the rightful charges. In September 2022, on conclusion of the trial period and having demonstrated a need for the service and its continued success the arrangements were made permanent. The work of the CFT is wide in nature, covering complaints of theft, fraud, dishonesty and irregularity to reviewing and proactively working to maximising the Council's revenue streams by reducing the amount of benefit fraud, not to mention educating and training staff on such issues. The Council also participates in the National Fraud Initiative (NFI) which uses data analysis and matching to highlight potential irregularities that are reported back to each participating authority to investigate.
27. The CFT consist of two full time staff who have formal qualifications in CIPFA Accredited Fraud investigators course. Indeed, both members of staff have significant public sector experience in dealing with such matters and this has contributed to a successful approach.
28. The table below summaries the total income recovered by the team to date. This has been broken down into reactive work through referrals, which can also be quantified in terms of numbers, and proactive work such as large scale council tax reviews. The total funds recovered by the Fraud Team are:

Reactive Work	Total	Pursued/ Concluded/Upheld	Rejected/Refuted/ Not Upheld	Rebilled Value (£)
Employee	6	4	2	21,000
Council Tax	34	18	16	51,302
Blue Badge	6	6	0	0
DWP	10	10	0	0
Grants	5	5	0	0
Other	8	8	0	0
Welfare Fund	0	0	0	0
<b>Total</b>	<b>69</b>	<b>50</b>	<b>19</b>	<b>72,302</b>

<b>Proactive Work</b>	<b>Rebilled Value (£)</b>
<b>Total combined work rebilled</b>	<b>876,573</b>
<b>Total combined work recovery</b>	<b>683,897</b>

29. These figures represent the rolling total since the inception of the team to date and so far 78% of the income due that has been rebilled has been paid to the Council. The rebilled accounts are routinely monitored and recovery is updated routinely. It is not within the CFT's remit to pursue rebilling as that rests with the Debt Recovery teams. The CFT will liaise with Debt Recovery for long term debts, work closely together to maximise the income for the Council. The CFT monitor recovery for its own records. The unquantifiable work carried out by the CFT also raises awareness of the potential for suspicious activity toward the Council and information is passed nationally to other local authorities and Police Scotland.
30. Local visits throughout Argyll and Bute were undertaken in the year and this will form part of a rolling programme of visits going forward, focusing on maximising the income due to the Council. In addition the CFT are raising awareness of the Council's zero tolerance to fraud and this will help act as a deterrent to fraud being perpetrated in the first place.
31. In addition to the above role the CFT undertake investigative work on complaints received regarding allegations against staff and where these require to be looked at in terms of fraud, theft or other irregularity then a full examination of the facts will follow and be reported. This work can be and often is time consuming and is fitted in to the overall demands of the role. The nature of this work is sensitive and confidential and reporting is therefore restricted in terms of data protection and associated rights.

## Opinion, Conclusions and Observations

32. We agreed a rolling programme of Internal Audit coverage based on an assessment of risk factors with Management and the Audit and Scrutiny Committee. This programme related to the level of available resources, focusing on higher risks and areas identified by management as requiring audit review within the Council. On the basis of the internal audit systems and work completed in respect of this year, we consider that the assessment of key systems are noted below. A certificate of opinion is noted within Appendix 2 of this document reflecting our opinion.

**Governance****Risk Management****Internal Control**

	<b>Classification and Assessment</b>
	<b>Poor and Requiring Improvement</b> – Does not meet any key areas of good practice or partially or fails to meet most key areas of good practice.
	<b>Adequate and/or Improving</b> - Attempting to meet or meets most key areas of good practice/ with effort being made to improve further.
	<b>Reasonable/Satisfactory</b> - Substantially meets all key areas of good practice.

33. However, we would point out the following exceptions and/or observations:

- Across Scotland’s public sector significant pressures continue as a result of financial settlements and this has been particularly compounded as a result of inflationary pressures and rising costs of fuel, gas and electricity, together with the risk of unfunded or partly funded pay settlements. These pressures are likely to remain going into 2023/24 financial year and will continue to add an element of uncertainty in relation to the overall financial picture affecting the Council. The Council continues to undertake appropriate medium to long term financial planning using a scenario modelling approach which helps to provide Members with a thorough overview of the implications of funding and cost pressures.
- During our planned work for 2022/23, we found no significant reporting issues that have not already been drawn to the Audit and scrutiny Committee’s attention. In relation to our work on ‘Client Funds’ a detailed action plan has been agreed and fully supported by management

and, if actioned, it is likely to reduce the risk and improve control in this area. However, this audit review on its own does not imply any wider concern and therefore we do not need to amend our final opinion as a result of our findings.

- The Work of our CFT continues to be supportive and preventative in approach and where there is evidence of error, fraud or complaint which has a financial impact on the Council, every attempt will be made to actively recover monies due in order to maximise income and serve as a deterrent.
- Our findings contained within this report should be considered in the preparation and reporting of the Council's Annual Governance Statement which can be found on the [Council's web page](#).

34. Finally, we would also like to highlight our appreciation to the Council's Audit & Scrutiny Committee for their strong support, together with the helpful co-operation of the Council's Management Team and the development of a good working relationship with the appointed External Auditors, Mazars.

## Appendix 1 – Summary of Internal Audit Plan 2022/23

### Appendix 1 - Summary of 2022/23 Internal Audit Plan

Report Title	Overall Opinion	No. of Recommendations			
		High	Medium	Low	VFM
Payroll Processes	Reasonable	0	5	0	0
Management of Debt/Debt Recovery	Reasonable	0	4	3	1
Early Years	High	0	0	0	0
Counselling in Schools	Substantial	0	0	2	0
Purchasing Cards	Reasonable	0	9	4	0
Procurement	High	0	0	0	0
Externally Funded Projects	Substantial	0	2	1	0
Heritage Assets	Substantial	0	1	5	0
Burial Records	Reasonable	1	3	2	0
Oban Airport	High	0	0	0	0
Building Standards	High	0	0	1	1
Private Sector Grants & Housing Adaptations	Substantial	0	1	2	0
Equality and Socio-economic Impact Assessment	Substantial	0	1	4	0
Customer Service Centre	High	1	0	5	1
Cyber Security	Substantial	0	5	1	0
Client Funds	Limited	8	2	0	0
Events Management	High	0	0	0	0
Establishment Visits	High	0	0	0	0
Local Government Benchmarking Framework	Substantial	0	0	0	0
Education Maintenance Allowance	High	0	0	0	0
SPT Concessionary Fares	High	0	0	0	0

## Appendix 2 – Certificate of Internal Audit Opinion 2022/23

### **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**

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 2023.

#### **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 East Dunbartonshire Council 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 March 2023. It concluded that the internal audit service demonstrates full compliance/conformance with PSIAS and identified many areas of strong practice including the internal audit team is highly qualified, delivers a high quality service, good engagement and clear reporting lines and clear evidence of supervision and audit follow up.

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. We have attended meetings of SLACIAG during 2022/23.
- SLACIAG Computer Audit sub group: a member of the audit team attends this forum and contributes to outputs and communications that are regularly exchanged with the aim of ensuring that audit teams are better equipped to perform technical information systems audits.

- The CIA also meets 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 2023, 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 2023.
- the assurance statement signed by the Chief Executive for the overall Council for the year ended 31 March 2023.
- 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**

I can report that Internal Audit operated throughout 2022/23 with no impairments or restrictions in scope or independence.

There were sufficient resources available to deliver the amended programme of audit assignments contained within the 2022/23 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 2023.

Signature:

Paul Macaskill FCPFA CMIIA

Title: Chief Internal Auditor

Date: 20 June 2023