
Report To:	Audit Committee	Date: 29 June 2023
Report By:	Head of Legal, Democratic, Digital & Customer Services	Report No: AC/15/23/IS/APr
Contact Officer:	Andi Priestman	Contact No: 01475 712251
Subject:	INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2022-2023	

1.0 PURPOSE

1.1 For Decision For Information/Noting

1.2 The purpose of this report is to present the Internal Audit Annual Report and Assurance Statement for 2022/2023, which forms part of the Council's Annual Governance Statement.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Audit Committee review and consider the Internal Audit Annual Report and Assurance Statement.

Iain Strachan
Head of Legal, Democratic, Digital & Customer Services

3.0 BACKGROUND AND CONTEXT

3.1 Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor provides a written statement to the Section 95 Officer to support the Annual Governance Statement. This report should present an opinion as to the overall adequacy and effectiveness of the organisation's internal control environment.

3.2 The report should also:

- Disclose any qualifications to that opinion, together with reasons for the qualification;
- Present a summary of the audit work undertaken to formulate the opinion including reliance placed on the work by other assurance bodies;
- Draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the statement on internal control; and
- Compare the work undertaken with work planned.

3.3 The Accounting Code of Practice ("ACOP") requires that the Section 95 Officer produces a signed Annual Governance Statement as part of the Council's Annual Accounts. This report is subject to External Audit scrutiny as part of the year-end audit process.

4.0 PROPOSALS

4.1 The Internal Audit Annual Report and Assurance Statement for 2022/2023 is attached as an Appendix to this report for consideration by Committee. The report concludes that the majority of Inverclyde Council's established internal control procedures operated as intended to meet management's control requirements for each area reviewed by Internal Audit. The overall audit opinion is **Satisfactory**.

4.2 It is also highlighted that, based on the results of the ongoing audit follow up process during 2022-2023, management has continued to make good progress in implementing agreed action plans arising from Internal Audit reviews.

4.3 Members are asked to review and consider the Internal Audit Annual Report and Assurance Statement for 2022-2023.

5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendation is agreed:

SUBJECT	YES	NO	N/A
Financial		X	
Legal/Risk	X		
Human Resources		X	
Strategic (LOIP/Corporate Plan)	X		
Equalities & Fairer Scotland Duty			X
Children & Young People's Rights & Wellbeing			X
Environmental & Sustainability			X
Data Protection			X

5.2 Legal/Risk

There is a risk that failure to deliver the Internal Audit Plan would result in an inability to provide a minimum level of assurance over the Council's system of internal financial control to those charged with governance.

5.3 Human Resources

There are no human resources implications directly arising from this report.

5.4 Strategic

This report helps ensure strong governance, and its findings will help support delivery of the Council Plan adopted by Inverclyde Council on 20 April 2023, and in particular outcome theme 3: Performance, with the Council seeking to provide high quality and innovative services that deliver value for money.

6.0 CONSULTATIONS

6.1 Not applicable. This report summarises the work carried out during 2022-2023 which have been included in separate progress reports to Audit Committee.

7.0 LIST OF BACKGROUND PAPERS

7.1 Internal Audit Annual Strategy and Plan 2022-2023. Internal Audit Progress Reports to Audit Committee in June and October 2022, and January, February and April 2023.



Internal Audit Annual Report and Assurance Statement 2022-2023

30 May 2023

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SECTION 1 – INTRODUCTION

Purpose of this report

- 1.1 Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor provides a written statement to the organisation to inform the Annual Governance Statement. This report constitutes the required statement. As required by PSIAS, this report presents the opinion of the overall adequacy and effectiveness of Inverclyde Council's risk management, control and governance processes based on the work Internal Audit has performed. The scope of internal audit work, the responsibilities of Internal Audit, and the assurance given on the adequacy and effectiveness of the Internal Control System of Inverclyde Council are explained further in Section 4 of this report.

Main objectives of Inverclyde Council's Internal Audit Team

- 1.2 The purpose of Inverclyde Council's Internal Audit activity is to provide independent, objective assurance and advisory services designed to add value and improve the Council's operations. The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. The Internal Audit activity helps Inverclyde Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

Scope of Inverclyde Council's Internal Audit Team

- 1.3 The scope of Internal Audit allows for unrestricted coverage of the Council's activities and unrestricted access to records and assets deemed necessary by auditors in the course of an audit.

Acknowledgements

- 1.4 The assistance provided by Council staff in the course of the work undertaken by Internal Audit during 2022-2023 is gratefully acknowledged.

SECTION 2 – ASSESSMENT OF RISK MANAGEMENT, CONTROLS AND GOVERNANCE

Scope

- 2.1 The work undertaken by Internal Audit in 2022-2023 is summarised in Section 3 of this Report.
- 2.2 The overall assessment arising from work undertaken is summarised in paragraphs 2.3 to 2.4 below. In interpreting this assessment, consideration needs to be given to the respective responsibilities of Management and Internal Audit and the related limitations on the assurance that Internal Audit can provide (as explained in Section 4).

Overall assessment

- 2.3 On the basis of Internal Audit work carried out in 2022-2023, the majority of Inverclyde Council's established internal control procedures appeared to operate as intended to meet Management's requirements for the individual systems reviewed by Internal Audit. On the basis of selective testing of key controls it can be concluded that, in the main, controls were generally operating as expected during the period under review, although it does need to be recognised that a number of recommendations were made by Internal Audit to improve controls. The overall opinion is **Satisfactory**.

COVID-19

The significant incident in late March 2020 and the Council's management as a Category 1 responder during the COVID-19 pandemic has continued to test how well the risk management, governance and internal controls framework operated. The longevity of the Covid-19 pandemic and its extension from 2020/21 into 2021/22 meant that the effect on the Council's businesses, residents and workforce remained an area of concern in 2022/23.

The Council's response to the pandemic and the mobilisation of its staff continued to show the benefits of an agile and proactive workforce using amended governance arrangements, new ways of decision-making, leadership and implementation including virtual meetings and secure remote access to systems to allow remote/home working for a significant number of employees within the Council.

The Covid-19 pandemic and its aftermath is likely to have a lasting impact on income levels, resulting from fundamental changes in social movements, behaviours and preferences.

Other matters

- 2.4 Summaries of the issues arising in relation to each system or activity covered by Internal Audit work in 2022-2023 have been reported separately to the Audit Committee. Appropriate responses to the recommendations made in internal audit reports have been obtained. When actioned, the recommendations made in the Internal Audit reports should provide management with additional comfort that the system of internal control operates as intended. It is therefore imperative that the agreed actions are implemented by management.
- 2.5 A monthly follow up process is in place and continues to operate effectively. All actions arising from internal and external audit reviews are subject to follow up and validation by the CMT and the Chief Internal Auditor on a regular basis, with reporting on progress to the Audit Committee.

SECTION 3 – INTERNAL AUDIT WORK CONDUCTED

Internal audit approach

3.1 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards and the agreed Internal Audit annual audit plan.

Progress on the 2022-2023 internal audit plan

3.2 The Annual Internal Audit Operational Plan 2022-2023 was discussed and agreed with the Audit Committee on 22 February 2022.

3.3 Progress against planned audit work for the year to 31 March 2023 can be summarised as follows:

Planned audit coverage	Status
Risk Based Reviews	
Residential Care – Children’s Services (b/f)	Completed
Workforce Planning Arrangements	Completed
Supplier Management	Deferred to 2023-2024 Audit Plan
Cyber Security Arrangements	Completed
Freedom of Information Arrangements	Completed
Climate Change – Utilities Management	Completed
Limited Scope Finance Reviews	
Debt Recovery	Completed
Project Assurance Reviews	
Learning Disability Hub (b/f from 2021-22)	Completed
Swift Replacement System (Social Work IT System)	Ongoing – included on 2023-2024 Audit Plan
Regularity Audit Work	
Education Control Self-Assessment	Completed
Discretionary Payments	Completed
Client Accounts – Quarterly Checks	Fieldwork
Catering – Quarterly Stock Checks	Fieldwork
Education Establishment Placing Requests	Completed
Corporate Purchase Cards	Fieldwork
Other Work	
National Fraud Initiative	Matches have been received during January to March 2023 for the 2022-23 exercise. Investigations are underway.
IJB Audit Plan 2022-23	Audit plan for the Inverclyde IJB including 2 reviews was completed and reported to IJB Audit Committee
B/f 2021-22 Audit Plan Reviews	Fieldwork was completed and final reports issued for Self-Directed Support; Public Protection - Covid-19 Response; and Employee Expenses.

SECTION 3 – INTERNAL AUDIT WORK CONDUCTED (CONTINUED)

Progress on the 2022/2023 internal audit plan (Continued)

3.4 The total number of issues raised in the risk-based audits is set out in the following table:

Report	Red	Amber	Green	Overall Grading	Previous Grading
2021/22 Audit Plan					
Self-Directed Support	0	0	3	Satisfactory	N/A
Public Protection – Covid-19 Response	0	0	2	Strong	N/A
Employee Expenses	0	2	3	Satisfactory	Satisfactory
2022/23 Audit Plan					
Residential Care – Children's Services (b/f)	0	2	6	Satisfactory	N/A
Workforce Planning Arrangements	0	0	1	Strong	Satisfactory
Cyber Security Arrangements	0	2	2	Satisfactory	N/A
Freedom of Information Arrangements	0	0	6	Satisfactory	Satisfactory
Climate Change – Utilities Management	0	3	2	Satisfactory	N/A
Debt Recovery	0	0	1	Strong	Strong
Education Control Self-Assessment	0	3	1	Satisfactory	N/A
Total	0	12	27		

Progress on Implementation of Action Plans

3.5 A number of action plans were agreed in relation to the risk-based audit reports generated for the 2022-2023 annual audit plan. The following table sets out the total number of actions agreed for each report issued and the status of completion at 31 March 2023 as follows:

Report	No of Actions Agreed	No of Actions Complete at 31/3/23	No of Actions Revised at 31/3/23	No of Actions Not Due at 31/3/23
2021/22 Audit Plan				
Self-Directed Support	5	3	1	1
Public Protection – Covid-19 Response	2	2	0	0
Employee Expenses	8	6	1	1

Report	No of Actions Agreed	No of Actions Complete at 31/3/23	No of Actions Revised at 31/3/23	No of Actions Not Due at 31/3/23
2022/23 Audit Plan				
Residential Care – Children’s Services (b/f)	9	9	0	0
Workforce Planning Arrangements	2	1	1	0
Cyber Security Arrangements	9	4	0	5
Freedom of Information Arrangements	6	1	0	5
Climate Change – Utilities Management	10	3	0	7
Debt Recovery	3	0	0	3
Education Control Self-Assessment	10	0	0	10
Total	64	29	3	32

3.6 It is encouraging to note that of the 64 agreed actions subject to follow-up procedures, 29 out of 32 actions (91%) which were due for completion by 31 March 2023 have now been fully implemented. All actions are subject to ongoing follow up by Internal Audit and are included within the Internal Audit action plan follow up reports to the Corporate Management Team and the Audit Committee on a regular basis.

Corporate Fraud Activity

3.7 The undernoted table sets out corporate fraud activity in the period 1 April 2022 to 31 March 2023:

Investigations 1/4/2022 to 31/3/2023	
National Fraud Initiative	20 matches were investigated in the period.
Whistleblowing/Service/Other Referrals	108 other enquiries were investigated in the period.
SPOC Referrals 1/4/2022 to 31/3/2023	
DWP	There were 3 referrals in the period.
LAIEF	There were 37 referrals in the period.
Other Work	
Matches for the National Fraud Initiative for the 2022 exercise were received in January to March 2023. Work is ongoing to investigate these matches with regular reporting on progress to Audit Committee.	
Work was also undertaken in relation to Education Establishment Placing requests. There were no significant issues identified although some further work was required in some cases to establish the validity of the request. In addition, there was a continued focus on client money accounts, corporate purchase cards and catering stock checks. Work is ongoing to finalise these reviews.	
Financial Results	
For 2022/23, the corporate fraud team identified non-NFI overpayments of council tax discounts and exemptions of £59,070.	

Ad hoc assignments

3.8 Internal Audit undertook the following ad hoc assignments during 2022-2023:

Ad hoc assignment	Status
Co-ordination of Annual Governance Statement and supporting self-assessment processes for 2022-2023.	Completed
Providing input to FOI requests as appropriate.	Completed
Regular attendance at CRMT to provide relevant updates in relation to fraud risk alerts received and risk control advice as required.	Completed

Performance Measures

3.9 The following performance measures were in place for 2022/2023:

Measure	Description	Target	Actual
1. Final Report	Percentage of final reports issued within 2 weeks of draft report.	100%	78%
2. Draft Report	Percentage of draft reports issued within 3 weeks of completion of fieldwork.	90%	33% (1)
3. Audit Plan Delivery	Percentage of audits completed v planned.	85%	90%
4. Audit Budget	Percentage of audits completed within budgeted days.	80%	45% (2)
5. Audit Recommendations	Percentage of audit recommendations agreed.	90%	100%
6. Action Plan Follow Up	Percentage of action plans followed up – Internal and External Audit.	100%	100%
7. Customer Feedback	Percentage of respondents who rated the overall quality of internal audit as satisfactory or above.	100%	100%
8. Staff compliance with CPD	Number of training hours undertaken to support CPD.	140	140
9. Management engagement	Number of meetings with CMT and DMTs as appropriate.	4 per quarter	6

(1) Delays were encountered in the overall reporting stages of some audits due to officer availability within some services to respond to points arising.

(2) Some audits incurred additional time to finalise reports with management as well as inefficiencies identified in the planning stage of some audits.

Reliance by external audit

3.10 During the year under review, liaison has taken place with the Council's External Auditors through joint attendance at the Audit Committee, meetings, ad hoc discussions and the sharing of audit plans and reports. External Audit have indicated that they will consider the findings of the work of internal audit as part of their planning process to minimise duplication of effort and to ensure the total resource is used efficiently and effectively.

SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE

Approach

- 4.1 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Internal Audit Standards and the agreed annual audit plans. The overall scope of the internal audit work encompasses Inverclyde Council's risk management practices, governance and internal control procedures.
- 4.2 The Annual Audit Plan is based on a formal risk assessment which is revised on an ongoing basis to reflect evolving risks and changes within the Council. The Internal Audit Annual Strategy and Plan for 2022-2023 was discussed and agreed at the Audit Committee on 22 February 2022. In addition, consultation on the content and coverage of the audit plan took place with members of the Corporate Management Team.

Responsibility and reporting lines of the Chief Internal Auditor

- 4.3 The Chief Internal Auditor reports functionally to the Council's Monitoring Officer and has a right of access and freedom to report in her own name to all officers and members and particularly those charged with governance. The adoption of these arrangements enables the Council to conform with the reporting line requirements of the International Standard on Auditing ("ISA") (UK and Ireland) 610 and the Public Sector Internal Audit Standards which were adopted by Local Government in the United Kingdom on 1 April 2013.
- 4.4 The Chief Internal Auditor also has a specific responsibility to the Council's s95 Officer to provide assurances which informs the preparation of the Annual Governance Statement for inclusion in the Council's Annual Accounts.

The work of Internal Audit

- 4.5 Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- 4.6 In accordance with the principles of Corporate Governance, the Chief Internal Auditor reports with independence and impartiality to the Council's Audit Committee on a regular basis. The Chief Internal Auditor prepares an annual report containing a view on the adequacy and effectiveness of the systems of internal controls.
- 4.7 The Internal Audit team operates in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards. Internal Audit undertakes an annual programme of work approved by the Council's Audit Committee. The Annual Audit Plan is based on a formal risk assessment, which is revised on an ongoing basis to reflect emerging risks and changes within the Council.
- 4.8 All Internal Audit reports identifying system improvements or non-compliance with expected controls are brought to the attention of management and include agreed action plans. It is management's responsibility to give proper consideration to Internal Audit reports and take appropriate action on audit recommendations.

SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE (CONTINUED)

The work of Internal Audit

4.9 The Chief Internal Auditor is required to confirm that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or that management has understood and accepted the risk of not taking action. Management progress on implementing significant actions, which have been categorised as Red or Amber, is reported to the Corporate Management Team on a bi-monthly basis, and to the Council's Audit Committee at each committee cycle.

Quality and Improvement Programme

4.10 PSIAS requires that a Quality Assurance and Improvement Programme (QAIP) is developed in order to provide assurance that the 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.

4.11 An internal self-assessment of internal audit practices has been carried out by Internal Audit every year since PSIAS became effective on 1st April 2013, with improvements identified and implemented as appropriate.

4.12 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." The current external review was due to be carried out during 2020-21 however this was deferred due to the pandemic. The review has now been rescheduled for July 2023. The internal self-assessment exercise for 2022-2023 confirms a high level of compliance and that the Internal Audit Section generally conforms with the requirements of PSIAS.

Responsibilities of Management and Internal Audit

4.13 It is Management's responsibility to maintain systems of risk management, internal control and governance.

4.14 Internal Audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal Audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal Audit cannot be held responsible for internal control failures.

4.15 Internal Audit's role includes assessing the adequacy of the risk management, internal controls and governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

4.16 Public Sector Internal Audit Standards (PSIAS) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that all staff members involved in 2022-23 internal audit reviews were independent of operational processes and their objectivity was not compromised in any way.

Basis of the internal audit assessment

- 4.17 In accordance with the Public Sector Internal Audit Standards, the assessment on risk management, control and governance is based upon:
- Internal Audit work undertaken by the Internal Audit Team during the year to 31 March 2023 (in accordance with the annual audit plan approved by the Audit Committee);
 - The assessments of risk completed during the preparation and updating of the annual audit plan;
 - Reports issued by Audit Scotland, the Council's External Auditors; and
 - Internal Audit's knowledge of the Council's governance, risk management and performance management and monitoring arrangements.

Limitations on the assurance that Internal Audit can provide

- 4.18 It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of risk management, internal control and governance are adequate. The most that internal audit can provide to the Chief Executive, S95 Officer and Audit Committee is reasonable assurance based on the work performed.
- 4.19 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from this engagement. These limitations include the possibility of faulty judgment in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 4.20 Organisations and their internal control needs differ by type, size, culture and management philosophy. One organisation's internal control system may be very different from another's in relation to similar processes. Also, decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Satisfactory	<p>Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A limited number of Amber rated issues may have been identified, but generally only green issues have been found in individual audit assignments. • None of the individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.
Generally Satisfactory with some improvement needed	<p>A few specific control weaknesses were noted: generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A number of Amber rated issues identified in individual audit assignments that collectively do not significantly impact the system of internal control. • Red rated issues that are isolated to specific systems or processes. • None of the individual assignment reports have an overall opinion of <i>Unsatisfactory</i>.
Major improvement needed	<p>Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A high number of Amber rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A number of Red rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A small number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.
Unsatisfactory	<p>Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • Amber and Red rated issues identified in individual assignments that collectively are widespread to the system of internal control. • A high number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.