

Item: 3

Monitoring and Audit Committee: 25 August 2022.

Internal Audit Annual Report and Opinion.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the Internal Audit Annual Report and Opinion for 2021/22.

2. Recommendations

The Committee is invited to note:

2.1.

That, in terms of the Public Sector Internal Audit Standards:

- The Chief Audit Executive 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.

2.2.

That, based on the internal audit work performed in 2021/22, the overall opinion, stated in the Internal Audit Annual Report and Opinion for 2021/22, attached as Appendix 1 to this report, is that the Council has a framework of controls in place that provides adequate assurance regarding the organisation's governance framework, internal controls, and the management of key risks.

The Committee is invited to scrutinise:

2.3.

The Internal Audit Annual Report and Opinion for 2021/22, attached as Appendix 1 to this report, in order to obtain assurance in respect of the overall opinion stated at paragraph 2.2 above.

3. Background

The Public Sector Internal Audit Standards state that:

- The Chief Audit Executive 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.

4. Audit Report and Assurance Statement

4.1.

The Annual Audit Report and Opinion, attached as Appendix 1 to this report, details the level of completion of work achieved in respect of the 2021/22 audit plan.

4.2.

The Audit Report provides assurance on the systems examined by Internal Audit during the financial year. In respect of the areas subject to audit review during 2021/22, as well as a review of outstanding audit recommendations, it was found that the framework of controls in place provides adequate assurance regarding governance, internal control, and risk management.

5. Corporate Governance

This report relates to the Council complying with its governance and financial processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with this report.

7. Legal Aspects

There are no legal implications associated directly with this report.

8. Contact Officer

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9. Appendix

Appendix 1: Internal Audit Annual Report and Opinion 2021/22.



Internal Audit

Internal Audit Annual Report and Opinion

Issue date: 13 July 2022

Contents

1. Introduction	1
2. Governance	1
3. Risk Management	2
4. Control Framework	2
5. Internal Audit.....	3
6. Overall Opinion	3
7. Achievement of Annual Audit Plan.....	4
8. Quality Assurance and Improvement Programme	5
9. Staffing and Training.....	7
Appendix 1 – 2021-22 Internal Audit Plan.....	9
Appendix 2 – Key to Audit Opinions.....	11

1. Introduction

1.1. The Public Sector Internal Audit Standards state that:

- The Chief Audit Executive 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 purpose of this document is to report on the internal audit work completed during 2021/22 including planned, unplanned and annual audits. The report provides the Chief Internal Auditor's annual internal audit opinion on the Council's framework of governance, risk management and control.

2. Governance

2.1. Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times. The core principles and sub-principles of good governance are:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement.

Good governance in the public sector also requires effective arrangements for:

- Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting and audit, to deliver effective accountability.

2.2. The Council approved a Local Code of Corporate Governance in October 2017 based on the CIPFA/SOLACE publication "Delivering Good Governance in Local Government – Framework". The Code is based on the principles as set out above, detailing best practice that should underpin the governance of local authorities.

2.3. The Local Code includes an annual self-assessment process. The process is undertaken to assess compliance with the principles contained within the Code as detailed at section 2.1 above.

2.4. There is a robust procedure in place to ensure that self-assessments are carried out timeously, employing a consistent approach throughout the Council.

2.5. The results of the self-assessment process were considered as part of the preparation of the Annual Governance Statement for 2021/22. The Statement is structured in accordance with the relevant guidance.

3. Risk Management

3.1. Risk management is the planned and systematic approach to the identification, evaluation and control of risk. The objective of risk management is to secure the assets and reputation of the Council and to ensure the continued financial and organisational well-being of the Council. The Council approved an updated Risk Management policy and strategy for 2020-2022 in October 2020. The measures which the Council has adopted are principles of good management practice which seek to control and balance risk and opportunity.

3.2. The Council has a Risk Management Policy and Strategy in place for 2020-2022. The Council's risk management objectives are to:

- Ensure that risk management is clearly and consistently integrated and evidenced in the culture of the Council.
- Manage risk in accordance with best practice.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Consider compliance with health and safety, insurance and legal requirements as a minimum standard.
- Prevent death, injury, damage and losses, and reduce the cost of incidents and accidents.
- Inform policy and operational decisions by identifying risks and their likely impact.
- Raise awareness of the need for risk management by all those connected with the Council's delivery of service.
- Recognise that good risk management also includes positive risk taking and the identification of opportunities.

3.3. Good progress has been made with the improvements identified in our 2019/20 audit of Corporate Governance and Risk Management that should ensure the Council continues to meet the above objectives.

4. Control Framework

4.1. The policies, procedures and activities that are part of a control framework are designed and operated to ensure that risks are contained within the level that the organisation is willing to accept.

4.2. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.

- Human resource policies and practices.
- Competence of personnel.

5. Internal Audit

5.1. The Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014.

5.2. These regulations established the statutory duty for the Council to have in place a professional and objective Internal Auditing Service in accordance with recognised standards and practices.

5.3. The Internal Audit Charter 2020-22, as approved by the Monitoring and Audit Committee in June 2020, defines the purpose, authority and responsibility for the Internal Audit Service. The Charter conforms to the Definition of Internal Auditing, the Code of Ethics and the Standards contained in the Public Sector Internal Audit Standards (PSIAS) updated in March 2017.

5.4. Internal Audit has organisational independence, and this independence was maintained throughout 2021/22.

5.5. The responsibilities, role and authority of Internal Audit are summarised in the Council's Financial Regulations which state:

"The primary role of Internal Audit is that of an assurance function which provides an independent and objective opinion on the adequacy of the Council's control environment. Internal audit work is designed to add value and improve an organisation's operations, in particular in evaluating and improving the effectiveness of risk management, control and governance processes. In addition to the provision of assurances, Internal Audit undertakes non-assurance work including consulting services and fraud related work."

5.6. The Internal Audit Strategy is reviewed and approved annually. The Strategy for 2021/22 was approved by the Monitoring and Audit Committee in April 2021. A risk-based planning exercise is carried out each year to determine priorities and to establish and achieve objectives. This helps to control and direct audit work and to ensure the efficient and effective use of resources.

5.7. In carrying out the audit planning, consultation is carried out with senior management throughout the Council to produce an audit universe which includes a detailed list of Council services which are assessed on a number of risk factors. Emphasis is also placed on the Council's risk registers when preparing the audit universe and considering which areas should be subject to audit.

6. Overall Opinion

6.1. The restrictions imposed due to the COVID-19 pandemic meant that the majority of planned audit work was completed remotely for a second year. The team have adapted well to this way of working so my annual opinion has not been limited in any way by the restrictions.

6.2. On the basis of the audit work performed in 2021/22, my opinion is that the Council has a framework of controls in place that provides adequate assurance regarding the organisation's governance framework, internal controls, and the management of key risks.

6.3 The actions identified during the audit work carried out did not impact on the overall governance arrangements of the Council.

6.4. Furthermore, I can confirm that there were no fraud issues to report to the external auditors for the financial year.

6.5. My opinion has not been limited by any shortfall in resources, absence of skills, or any limitation of scope of internal audit activity that would adversely affect my ability to form an opinion.

6.6. In coming to my opinion, I have not relied on assurance from any other assurance providers.

Status of Audit Recommendations

6.7. The Council's performance and risk management system, Pentana Risk, is used to monitor the implementation of agreed internal audit recommendations.

6.8. When internal audit reports have been finalised, they are uploaded to Pentana Risk and the officers responsible for implementing the audit recommendations are then required to provide updates on progress. The status of all recommendations is reported quarterly to the Corporate Leadership Team.

6.9. Due to the ongoing restrictions for the COVID-19 pandemic and the reduction or redeployment of resources, the target dates for some actions have been extended.

6.10. At the end of the financial year there were 30 recommendations which were past the agreed target date for completion. Of these 5 were high priority, 20 were medium and 5 were low priority.

7. Achievement of Annual Audit Plan

Planned Audit Work

7.1. The internal audit plan included audits of core financial systems, other systems, annual audits, corporate reviews, follow up work and IT auditing. A detailed summary of the 2021/22 plan is included as Appendix 1 to this report.

7.2. The internal audit section has completed the following level of planned work:

Category of Audit	Status
Financial Systems.	Six audits completed.
Other Systems.	Seven audits completed.
Annual Audits.	Seven audits completed.
Corporate Reviews.	One audit completed.
Follow Up.	All reports monitored via Pentana Risk.

Allocation of Audit Days

7.3. In preparing the audit plan the time required to complete each audit was estimated and days then allocated within the plan. The planning process cannot be an exact science as unplanned

issues often arise which have to be addressed immediately. In addition, there will be situations where the planned input must be exceeded; this may be due to the number or materiality of findings encountered, or changes in the personnel involved. A contingency element is allowed for within the annual plan in anticipation of these types of issues arising.

7.4. At the end of the year the actual days to complete each audit has been compared to the estimated days. The comparison shows that there were audits which were completed more quickly than expected as well as audits which took longer. Where audits required a higher number of days, this was generally to extend audit testing to verify results.

Unplanned Audit Work

7.5. Each year the Internal Audit team are asked to undertake audit work that is not included in the annual plan, and a contingency element is built into the plan to allow for this. During 2021/22 the contingency element was used for the work shown in the table below.

Category of Work.	Status.
Sustainability Payments for Social Care Providers.	Complete.
Lifestyles Service Audit.	Complete.

7.6. The contingency allowance is also used to complete work connected with the Integration Joint Board (IJB). Time from the contingency allowance was used for the audit of Information Governance and Data Sharing as well as the Chief Internal Auditor’s preparation and attendance at IJB Audit Committees.

7.7. Again, this year the audit team was also involved in work to support the response to the COVID-19 pandemic. Assistance was given with the review of Sustainability Payments to Social Care Providers.

7.8. Various other tasks have been carried out throughout the year; whilst these on an individual level do not impact greatly on the audit plan, cumulatively they have taken up several days. These tasks include responding to service queries, carrying out smaller fact-finding exercises, provision of information to external bodies or persons and attending internal meetings.

8. Quality Assurance and Improvement Programme

8.1. Internal Audit monitors its performance to gauge the effectiveness of the service and to inform future service improvements.

8.2. The PSIAS introduces a specific requirement for the Internal Audit Service to have in place a Quality Assurance and Improvement Programme (QAIP). The purpose of the programme is to “enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunity for improvement.”

8.3. There are two aspects to the programme, internal and external assessment.

Internal Assessment

8.4. Internal assessment includes the ongoing monitoring of the performance of internal audit activity. A suite of Key Performance Indicators (KPIs) is in place to measure aspects of the service provided; the results are shown in the table below. Part of the day-to-day work of the Chief Internal Auditor includes supervision and file review of all audit assignments completed. In addition, Internal Audit produce a mid-year report for the Monitoring and Audit Committee on progress made against the approved plan.

8.5. Internal assessment also includes a periodic self-assessment which is completed by the Chief Internal Auditor. The “Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note” produced by CIPFA was used for the self-assessment. This provides a very detailed examination of the service and assesses conformance with the PSIAS. A self-assessment was completed in December 2019 which resulted in an action plan to address two minor issues which have now been completed.

8.6. The quality of the service provided by Internal Audit is measured via the issue of customer satisfaction surveys following completion of each audit. The results of these surveys feed into reviews of working practices and the annual staff appraisal process.

8.7. A further indicator of the quality of internal audit reporting is the number of recommendations made within audit reports that are accepted by the client. During 2021/22 a total of 78 recommendations were made by Internal Audit and all were accepted by the clients.

Indicator	Measure.	Target.	Achieved.
Quality.			
Customer surveys.	Return rate for customer surveys. Percentage of surveys with a score of 8 or more.	90%. 90%.	58%. 93%.
Recommendations accepted.	Percentage of recommendations accepted by the client.	90%.	100%.
Efficiency.			
Issue of draft report.	Percentage of draft reports issued within 10 days of fieldwork completion.	90%.	94%.
Issue of final report.	Percentage of final reports issued within 5 days of final comments received.	90%.	94%.
Delivery.			
Delivery of plan.	Percentage of audits in the plan completed in year.	90%.	84%.
Resource.			
Cost of Internal Audit.	Manage the costs of the team within agreed budget.	N/A.	Achieved.

External Assessment

8.8. The Monitoring and Audit Committee approved the Internal Audit QAIP in September 2020. Within this plan, the Internal Audit teams in Orkney, Shetland and the Western Isles co-ordinate the external assessment of the three Internal Audit services using a framework developed by The Scottish Local Authorities Chief Internal Auditors Group. In May 2022, the assessment on this Council's service was completed on behalf of Shetland Islands Council by the Glasgow City Council Internal Audit Service.

8.9. The results of the assessment were reported to the Monitoring and Audit Committee on 9 June 2022. The overall conclusion of the assessment was that the Internal Audit Service conforms with the PSIAS requirements.

8.10. The Council's external auditors, currently Audit Scotland, assess the Internal Audit Service annually to determine the extent of reliance that can be placed on the work of the Service. The external auditors reported in their 2020/21 Annual Audit Report to members and the Controller of Audit that they had reviewed the Council's Internal Audit arrangements in accordance with International Standards on Auditing and concluded that they would place reliance on the work of Internal Audit.

8.11. In my opinion the Council's Internal Audit Service substantially complies with the Public Sector Internal Audit Standards.

9. Staffing and Training

9.1. The Internal Audit Section staff allocation is three full time equivalent (FTE) members of staff. This would normally include 1 FTE Chief Internal Auditor and 2 FTE Internal Auditors. At the moment this stands at 1.6 FTE as we have a part time vacancy which we have been unable to fill.

9.2. Training undertaken, by various members of staff, during 2020/21 included:

- Institute of Internal Auditors podcasts on Cyber Security and Climate Change.
- Data Protection Essentials.
- CIPFA Accredited Counter Fraud Specialist.
- CIPFA Summer and Winter update webinars.
- IOSH Working Safely.

ILEARN courses including:

- General Data Protection Regulation.
- Information Security.
- Equality and Diversity.
- Manual handling.
- Freedom of Information.
- Protect against Terrorism.
- Core health, safety and wellbeing.
- Display screen equipment awareness.
- Fire safety awareness.
- Regulation of Investigatory Powers.

9.3. The Chief Internal Auditor is the Council's representative on the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG). The Group held four virtual meetings to discuss current audit issues and to share best practice during 2021/22. All of these meetings were attended by the Chief Internal Auditor. The internal auditor who leads on fraud has attended the SLACIAG subgroup meetings for fraud.

9.4. In accordance with the Council's Employee Review and Development Scheme, reviews took place for all Internal Audit staff during July 2021.

Andrew Paterson MSc CMIIA

Chief Internal Auditor

Appendix 1 – 2021-22 Internal Audit Plan

Ref.	Name of Audit.	Status.	Opinion.
A.	Financial Systems.		
1.	Non-Domestic Rates.	Complete.	Adequate.
2.	Financial Planning and Corporate Budget Setting.	Complete.	Substantial.
3.	Budget Monitoring Process.	Complete.	Adequate.
4.	Members Expenses.	Complete.	Substantial.
5.	Staff Travel and Expenses.	Complete.	Substantial.
6.	Election Expenses.	Complete.	Substantial.
B.	Other Systems.		
1.	Kinship Payments and Adoption Allowances.	Complete.	Adequate.
2.	Elderly Residential Care Homes - Hamnavoe House.	Complete.	Adequate.
3.	Roads Operations.	Deferred to 22/23	
4.	School Establishment Audit.	Deferred to 22/23 now complete.	
5.	Rent Arrears.	Complete.	Adequate.
6.	St Andrew's School Project.	Complete.	Substantial.
7.	EL&H Projects - Museums/Lifelong learning.	Deferred to 22/23	
8.	Strategic Projects – Wind Farms/Port Master Plan.	Complete.	Substantial.
9.	EDRMS Project.	Complete.	N/A.
10.	Vehicle and Plant Disposal.	Complete.	Adequate.
C.	Annual Audits.		
1.	Orkney College – Credits Audit.	Complete.	Substantial.
2.	Orkney College – Discretionary and Childcare Funds	Complete.	Substantial.
3.	LEADER Grant Claims.	Complete.	Substantial.
4.	Statutory Performance Indicators.	Complete.	Substantial.
5.	Finance Performance Indicators.	Complete.	Substantial.
6.	Stock Checks.	Complete.	Substantial.
7.	Miscellaneous Grant Claims.	Complete.	N/A.
D.	Corporate Reviews.		
1.	Business Continuity.	Complete.	Adequate.
E.	Follow up of Action Plans.	Complete.	
F.	Computer Audit.		
1.	Disaster Recovery.	Deferred to 22/23	
G.	Contingency Allocation.		

1.	Sustainability Payments for Social Care Providers.	Complete.	N/A.
2.	Lifestyles Service.	Complete.	Adequate.
3.	IJB Internal Audit.	Complete.	N/A.

Appendix 2 – Key to Audit Opinions.

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.