Item: 4

Monitoring and Audit Committee: 26 August 2021.

Internal Audit Annual Report and Assurance Statement.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the Internal Audit Annual Report and Assurance Statement for 2020/21.

2. Recommendations

The Committee is invited to note:

2.1.

The Internal Audit Annual Report and Assurance Statement for 2020/21, attached as Appendix 1 to this report.

2.2.

That, subject to exclusions set out within the Internal Audit Annual Report 2020/21, in general there are adequate controls operating in respect of the areas which were subject to audit review.

3. Background

The annual audit report details the internal audit work completed and provides an Internal Audit Opinion on the Council's framework of governance, risk management and control.

4. Audit Report and Assurance Statement

4.1.

The Annual Audit Report and Assurance Statement, attached as Appendix 1 to this report, details the level of completion of work achieved in respect of the 2020/21 audit plan.

4.2.

The Audit Report provides assurances on the systems examined by Internal Audit during the financial year. In respect of the areas subject to audit review during 2020/21 and the review of outstanding audit recommendations it was found that there were adequate controls operating, subject to the exclusions detailed within the body of the report.

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 Assurance Statement 2020/21.

ORKNEY
ISLANDS COUNCIL

Internal Audit

Internal Audit Annual Report and Assurance Statement

Issue date: 30 July 2021

Contents

1. Introduction

1.1. The purpose of this document is to report on the Internal Audit work completed during 2020/21 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 2020/21. 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 2020/21.

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 2020/21 was approved by the Monitoring and Audit Committee in June 2020. 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 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 COVID-19 pandemic and subsequent restrictions and lockdowns tested how well the risk management framework and business continuity plans operated. There were examples of new business processes, new working practices and new technology being embraced in order to deliver services to the community and carry out essential functions. This was achieved using amended governance arrangements, virtual meetings, conference calls, and remote access to IT systems. It will be important for the Council, at the appropriate time, to carry out a post-incident review and highlight any lessons learned.

6.2. The Internal Audit Plan was adjusted mid-year to take account of the restrictions imposed and the majority of planned audit work was completed remotely during the year. As such my annual

opinion has not been limited or restricted by the pandemic. The audit work has confirmed that, for the areas subject to audit review during 2020/21, there were adequate controls operating, subject to the following exclusions which were identified as high priority improvement actions:

6.2.1. Fraud Investigation

At the request of the Head of Finance, Internal Audit conducted an investigation into a fraud. This investigation identified a number of control weaknesses, three high priority recommendations were made which have resulted in changes to procedures.

6.2.2. Quarry Procurement Procedures:

- The Council must ensure it has robust and effective monitoring of compliance with its Financial Regulations, Contract Standing Orders and Sustainable Procurement Policy in all procurement activities. To assist with this and to avoid the possibility of a re-occurrence of this incident, a procurement plan should be submitted to the Procurement Team for all contracts over the value of £10,000.
- The Council should have procedural processes and arrangements for monitoring and governance over the use of lotting strategies.
- The Sustainable Procurement Policy requires that goods, services and works procured should minimise the use of carbon-based energy and its associated emissions. To achieve this a sustainability impact assessment should be carried out for contracts of this nature.
- The Council should review the setting of unlimited amounts for purchase orders and set limits as a control over compliance with its Contract Standing Orders.
- Members must be briefed in sufficient detail to be able to scrutinise proposed activity effectively.

6.3. These actions were all specific to Services' procedures and practices and do not impact on the overall governance arrangements of the Council.

Status of Audit Recommendations

6.4. The Council's performance and risk management system, Aspireview, was replaced by Pentana Risk during the year. This system is used to monitor implementation of agreed internal audit recommendations.

6.5. 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 Senior Management Team.

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

6.7. At the end of the financial year there were 36 out of a total 108 recommendations which were past the agreed target date for completion, of these 4 were high priority, 30 were medium priority and 2 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 2020/21 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	Five audits completed
Other Systems	Five audits completed
Annual Audits	Seven audits completed
Corporate Reviews	One audit completed
IT Audits	One audit completed
Follow Up	All reports monitored via Aspireview/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 2020/21 the contingency element was used for a variety of work, this is shown in the table below.

Category of Work	Status
Business Support Grants	Complete
PPE Modelling	Complete
Unplanned Audit Reviews	Two audits complete
Fraud Investigations	Two investigations 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 IJB Budgetary Processes as well as the Chief Internal Auditor's preparation and attendance at IJB Audit Committees.

7.7. This year the audit team was also involved in work to support the Council's response to the COVID-19 pandemic. Assistance was given with Business Support Grant processing and setting up a spreadsheet for ordering and stock control of personal protective equipment required during the pandemic.

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.

Fraud

7.8. All frauds over £5,000 require to be reported to Audit Scotland. The fraud investigation at 6.2.1. exceeded the threshold and was duly reported to Audit Scotland.

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. 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, an internal and an 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) was adopted 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 produces a mid-year report for the Monitoring and Audit Committee on progress made against the approved plan.

8.5. Internal assessment also includes a self-assessment which is completed periodically 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 Employee Review and Development (ERD) 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 2020/21, all recommendations made by Internal Audit were accepted by the clients.

Indicator	Measure	Target	Achieved
Quality			
Customer surveys	a. Return rate for customer surveys b. Percentage of surveys with overall score of 8 or more	90% 90%	66% 100%
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%	87%
Issue of final report	Percentage of final reports issued within 5 days of final comments received	90%	87%
Delivery			
Delivery of plan	Percentage of audits in the plan completed in year	90%	92%
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 Quality Assurance and Improvement Plan 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 June 2016, the assessment on this Council's service was completed by the Executive Manager for Audit, Risk and Improvement from Shetland Islands Council.

8.9. The results of the assessment were reported to the Monitoring and Audit Committee on 29 September 2016. The overall conclusion of the assessment was that the Internal Audit Service substantially conforms with the PSIAS requirements.

8.10. The next assessment is currently underway and a report from this should be available for the Monitoring and Audit Committee to be held in November 2021.

8.11. 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 2019/20 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.

8.12. In their annual audit plan, February 2020, Audit Scotland confirmed that they planned to place formal reliance on the work of the internal audit service as part of their 2019/20 audit.

8.13. 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 consists of 3 full time equivalent members of staff. This includes 1 FTE Chief Internal Auditor and 2 FTE Internal Auditors.

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

- Cyber Preparedness and Vulnerability Management - an Introduction for Auditors.
- Continuity Management and disaster Avoidance - an Introduction for Auditors.
- Agile Project Management - an Introduction for Auditors.
- Fraud Risk management Certificate.

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 2020/21. 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 June 2020.

Andrew Paterson MSc CMIIA

Chief Internal Auditor

Appendix 1 – 2020-21 Internal Audit Plan (updated)

Ref	Name of Audit	Status	Opinion
A	**Financial Systems**		
1	Housing Benefit and Council Tax Reduction	Complete	Substantial
2	Treasury Management	Complete	Adequate
3	Election Expenses	Complete	Substantial
4	Financial Controls	Complete	Substantial
5	Flights Expenses Analysis	Complete	N/A
B	**Other Systems**		
1	Carers (Scotland) Act	Complete	Adequate
2	EL&H Projects	Ongoing	N/A
3	Quarry Management	Complete	Substantial
4	Strategic Projects	Complete	Substantial
5	Property Asset Management	Complete	Substantial
6	EDRMS Project	Complete	N/A
7	Health and Safety Management	Ongoing	N/A
C	**Annual Audits**		
1	Orkney College – Credits Audit	Complete	Adequate
2	Orkney College – Discretionary & 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	Contract Management	Complete	Adequate
E	**Follow up of Action Plans**	Complete	N/A
F	**Computer Audit**		
1	IT Security – Remote Working	Complete	Substantial
G	**Contingency Allocation**		
1	Business Support Grants	Complete	N/A
2	PPE Modelling	Complete	N/A
3	Care Contribution Charging	Complete	Adequate
4	Fraud Investigation	Complete	N/A
5	Fraud Investigation	Complete	Adequate
6	Quarry procurement	Complete	Unsatisfactory

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.