

North Lanarkshire Council

Report

Audit and Scrutiny Panel

approval noting

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Date 03/09/2020

Internal Audit Annual Report 2019-20

From Ken Adamson, Audit and Risk Manager

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Executive Summary

The Public Sector Internal Audit Standards and the Council's Internal Audit Charter require the Audit and Risk Manager to provide the Audit and Scrutiny Panel (and the Chief Executive and Corporate Management Team) with an annual summary of the work undertaken by Internal Audit and to provide an annual independent opinion on the Council's corporate governance, risk management and internal control arrangements.

This report fulfills that requirement by providing an overview of the activities of the Internal Audit section for the year 2019-20, by highlighting a number of the more significant issues which arose from the work undertaken by Internal Audit during the year and by presenting (at Appendix 2) the annual Internal Audit opinion.

The report and annual opinion offer a generally positive view of the Council's governance and internal control arrangements.

This report is being presented to the Panel longer after the year-end than would normally be the case due to the suspension of Council meetings due to the public health emergency. The report was originally submitted to, and considered by, the Corporate Management Team on 12 May 2020.

Recommendations

The Panel is invited to:

- (1) consider the 2019-20 Internal Audit Annual Report and the associated annual opinion of the Audit and Risk Manager; and
- (2) consider whether there are any issues arising on which the Panel wishes to request further reports from Internal Audit and/or relevant management.

The Plan for North Lanarkshire

Priority: All priorities

Ambition statement: All ambition statements

1. Background

- 1.1 Internal Audit is an independent and objective assurance function designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of the Council's risk management, internal control and governance processes.
 - 1.2 Internal Audit's primary objectives are:
 - to provide a high quality and customer focused internal audit service which is responsive and flexible, consistent with best professional practice, focuses on areas that matter, uses resources efficiently and effectively, and is seen by stakeholders as adding value and making a vibrant and relevant contribution to the Council; and
 - to assist the Audit and Scrutiny Panel (the Panel) to effectively discharge its role and responsibilities.
 - 1.3 The purpose, authority, responsibilities and main objectives of the Council's Internal Audit service are outlined in the Internal Audit Strategy 2019-20 to 2021-22 (approved by the Panel in June 2019) and the Internal Audit Charter (approved by the Panel in February 2018).
 - 1.4 Internal Audit reports its outputs regularly throughout the year to the Panel in accordance with the Internal Charter and associated reporting protocol. The Panel also approves Internal Audit's annual audit plan and monitors the performance of the function.
 - 1.5 Internal Audit activity is planned to enable an independent annual opinion to be given by the Audit and Risk Manager on the adequacy and effectiveness of internal controls within the authority, including the systems designed to 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 towards, but is not a substitute for, effective control. It is primarily the responsibility of line management to establish internal controls so that the Council's activities are conducted in an efficient and well-ordered manner, to ensure that management policies and directives are adhered to and that assets and records are safeguarded.
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2. Report

High level overview of Internal Audit activity during 2019-20

- 2.1 Internal Audit activity during the year was undertaken in accordance with the Internal Audit Annual Plan which was approved by the Panel in June 2019. Appendix 2 shows key details (status as at 7 May 2020 when the report was prepared and where appropriate the relevant audit opinion and date reported to the Panel) of all items in the approved 2019-20 Plan. During the year some amendments were made to the list of planned assignments to enable the function to respond flexibly to changing circumstances since the plan was developed and approved and these changes are also detailed at Appendix 2.
- 2.2 Action plans are agreed with management in response to all recommendations made within Internal Audit reports and follow-up reports are presented regularly to the Panel on all 'Red' and 'Amber' recommendations due in the period to provide assurance that the matters being raised by Internal Audit have been appropriately addressed by management and that agreed actions have been implemented. Where follow-up work indicates that inadequate progress has been made, this is brought to the attention of the Panel.

- 2.3 Internal Audit also has responsibility for investigating, as appropriate, alleged frauds and irregularities brought to our attention in accordance with the Council's anti-fraud policy. Where detailed work is carried out, the findings are reported to the Chief Executive and/or the relevant Executive Director and/or the relevant Head of Service with recommendations made which are designed to address any weaknesses identified. Such work is reported to the Panel, as appropriate, in line with the Internal Audit reporting protocol approved by the Panel in June 2019.
- 2.4 During 2019-20, Internal Audit staff continued to liaise closely with Audit Scotland, the Council's appointed external auditors, in order to facilitate their work and to avoid any potential duplication of effort. As part of the external audit process, the external auditor annually assesses the work of Internal Audit and I am pleased to be able to report that during the period covered by this report the external auditors were able to continue to place formal reliance on our work.
- 2.5 Internal Audit operated, in 2019-20, in accordance with the Public Sector Internal Audit Standards (PSIAS). During the year, I assessed the extent to which current Internal Audit activity, policies and procedures conform to expected requirements contained within the PSIAS. The results of that review continued to show a high degree of compliance with the detailed requirements of PSIAS.
- 2.6 In September 2019 the Panel also received a report from the independent external quality assurance review (EQAR) of the internal audit function led by the Chief Internal Auditor of Perth and Kinross Council. The independent external assessment concluded that the Internal Audit Service within North Lanarkshire fully conforms to the PSIAS. An action plan arising from that review was reported to the Panel and further reports on the implementation of agreed actions have and will continue to be reported to the Panel until all outstanding actions are completed.
- 2.7 During 2019-20 Internal Audit operated with no impairments or restrictions in scope and all key stakeholders continued to respect the independence of the function. The role and status of the Internal Audit function within the Council is also in line with best practice. I report directly to the Chief Executive and am also a member of the Council's Corporate Management Team.

Issues arising from Internal Audit activity during 2019-20

- 2.8 Appendix 2 provides an overview of Internal Audit activity against the 2019-20 Annual Plan and includes details of when each assignment was reported to the Panel (where not yet reported, expected future reporting dates as at 7 May 2020 are given). Key issues arising from Internal Audit outputs are highlighted in the Internal Audit Progress Report tabled at each meeting of the Panel.
- 2.9 A small number of audit assignments were reported during 2019-20 which offered only 'limited assurance'. In such cases, management committed to a range of improvement actions and we will continue to monitor progress during 2020-21 to provide assurance that agreed actions are implemented and key controls are operating effectively.
- 2.10 Last year's annual opinion was qualified in respect of transitional nature of the Council's then current performance management arrangements. During 2018-19, the Council had adopted a new Strategic Performance Framework (SPF) as part of the approval in February 2019 of the Plan for North Lanarkshire. The SPF was to comprise a suite of measures of success across three levels to reflect the strategic and operational requirements of the Council and to enable it to demonstrate the impact of its programmes and activities on the people and communities of North Lanarkshire.

- 2.11 The information was also designed to ensure that the Council can meet its Public Performance duties, in line with the Accounts Commission's Statutory Direction. A suite of strategically focused performance information has also been identified to enable the Council's Audit and Scrutiny Panel to effectively discharge its' scrutiny role in respect of Council performance.
- 2.12 Further detail in relation to the SPF was presented to the Policy and Strategy Committee for consideration and approval in September 2019. Development of reporting arrangements in line with business and legislative requirements were expected to follow but have not yet been fully integrated into the Council's governance arrangements.
- 2.13 Progress to date in this area although slower than might have been expected, is sufficient for the qualification of the annual opinion to be removed. However, Internal Audit will revisit this area in 2020-21 to undertake work designed to provide assurance on whether the Council's performance management arrangements are in line with expected good practice and are operating effectively, including whether key stakeholders are receiving adequate and timely information to enable progress to be assessed and scrutinised.
- 2.14 Overall, and notwithstanding the results of some specific individual audit assignments, the results of our work continue to support a generally positive view of the Council's corporate governance, risk management and internal control arrangements.
- 2.15 The results from our detailed work examining the Council's corporate governance arrangements suggest that compliance with the requirements of the corporate governance framework adopted by the Council continues to be positive with no significant weaknesses or areas of concern highlighted.
- 2.16 Our work also suggests that despite significant and increasing challenges, key financial controls and financial management arrangements continue to operate to a generally high standard within the Council.
- 2.17 I am also pleased to be able to report that there were no other weaknesses, material frauds or irregularities resulting in financial loss to the Council identified in 2019-20 that I require to bring to your attention.
- 2.18 Finally, the impact of the COVID-19 pandemic, particularly from mid-March 2020 onwards needs to be highlighted. Clearly, this was and continues to be a significant event impacting hugely on normal governance arrangements, on normal business operations and service delivery and on the Council's risk assessments/exposures.
- 2.19 As a result of the changes to the working arrangements arising from the Council's response to the pandemic, many of the normally expected systems and controls have been subject to often significant change. Internal Audit has been working actively with senior management across the organisation to provide advice and assurance on many of the new working arrangements and proposed changes to internal controls and governance arrangements.
- 2.20 Although I am satisfied that the Council's arrangements remained reasonably robust throughout this period, the timing of the event, the pace and scale of changes made and the limited time available for Internal Audit to undertake work on many of the new arrangements prior to preparing this report mean that the assurance and declaration expressed in the annual opinion must be restricted and necessarily applies only to the 'normal' arrangements that were in place in the period before the emergency governance and service delivery arrangements were put in place in mid to late March 2020.

Annual Internal Audit Opinion

- 2.21 There is a formal requirement for me to prepare an annual opinion on the Council's internal control system. The opinion is presented to members of the Audit and Scrutiny Panel, the Chief Executive and the other members of the Council's Corporate Management Team and is intended to provide independent and objective assurance to these different stakeholders as to the adequacy and effectiveness of internal controls within the Council.
- 2.22 My evaluation of the control environment is informed by a number of sources and in bringing these together, consideration has been given to whether there is evidence that any key controls are absent, inadequate or ineffective and whether the existence of any weaknesses identified, taken independently or with other findings, significantly impairs the adequacy and effectiveness of the Council's overall systems of internal control. Wider issues relating to the Council's corporate governance and risk management arrangements have also been considered.
- 2.23 The nature of individual audit assignments is such that most Internal Audit reports identify some weaknesses or areas where scope for improvement exists. During 2019-20, there have been instances where audit findings indicated that the control environment was not strong enough or complied with sufficiently to prevent risks to the organisation. In these cases, Internal Audit has made recommendations to further improve the systems of control and compliance. Although sometimes significant to the control environment in place for the individual system or areas that have been audited, I do not consider these weaknesses material enough to have a significant impact on the overall opinion on the adequacy of the Council's control environment at the year end. Further work in areas where limited assurance has been given are scheduled to be completed during 2020-2021 to ensure that the actions agreed in response to Internal Audit's recommendations have been implemented and the relevant controls are working well in practice.
- 2.24 My formal annual Internal Audit opinion on the soundness of the Council's internal control systems is presented at Appendix 1. Overall, the results of the work of Internal Audit in 2019-20 taken with other information available to me, did not lead me to conclude that the Council's overall systems of internal control were inadequate or their effectiveness significantly or materially impaired.
- 2.25 Finally, I would like to thank all Council staff who have assisted Internal Audit during the course of our work throughout 2019-20 and to thank senior management and elected members for the consideration and due regard given to our work.

3 Equality and diversity

Fairer Scotland Duty

There is no requirement to carry out a Fairer Scotland assessment in this instance.

Equality Impact Assessment

There is no requirement to carry out an equality impact assessment in this instance.

4 Implications

Financial impact	None identified
HR/Policy/Legislative Impact	None identified
Environmental Impact	None identified
Risk impact	None identified

5 Measures of success

- 5.1 The Council is committed to delivering effective and efficient financial management and financial reporting and high standards of internal control and corporate governance which underpin the delivery of all Council services and the achievement of all planned outcomes and corporate priorities and ambitions.
- 5.2 Both Internal and External Audit report to the Audit and Scrutiny Panel on their assessment of the adequacy and effectiveness of the Council's financial management and corporate governance arrangements (including the adequacy and effectiveness of Internal Audit and compliance with expected standards)
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6 Supporting Documents

Appendix 1 Internal Audit Annual Opinion 2019-20

Appendix 2 Planned assignments 2019-20



Ken Adamson
Audit and Risk Manager

Appendix 1 2019-20 Internal Audit Opinion

To the members of North Lanarkshire Council's Audit and Scrutiny Panel, the Chief Executive and other members of the Council's Corporate Management Team

As Audit and Risk Manager of North Lanarkshire Council, I am pleased to present my annual statement on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control for the year ended 31 March 2020.

Respective responsibilities of management and internal auditors in relation to governance, risk management and internal control

It is the responsibility of the Council's senior management to establish appropriate and sound systems of governance, risk management and internal control and to monitor the continuing effectiveness of those systems. It is the responsibility of the Audit and Risk Manager to provide an independent annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control.

The Council's framework of governance, risk management and internal controls

The main objectives of the Council's framework of governance, risk management and internal controls are to ensure that resources are directed in accordance with agreed plans, policies and priorities and to ensure that there is sound decision-making and clear accountability for the use of those resources in order to achieve the desired outcomes for service users and communities.

This includes ensuring that appropriate internal controls and risk management arrangements are in place in order to effectively manage issues which might impact on the delivery of Council services, the achievement of corporate and service objectives, ambitions and priorities and public confidence in the Council. The Council also requires effective internal controls and risk management arrangements to safeguard its employees, to protect its assets, to maintain effective stewardship of public funds, to ensure good corporate governance, to ensure compliance with statutory requirements and to ensure it continues to deliver best value.

The work of Internal Audit

Internal Audit is an independent and objective assurance function established by the Council designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the Council's risk management, control and governance processes and by providing an independent and objective opinion on the Council's internal control environment. It also objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Council's resources.

The Internal Audit section operated throughout 2019-20 in accordance with the Public Sector Internal Audit Standards (PSIAS). As part of the Internal Audit quality assurance and improvement programme, I have assessed the extent to which current internal audit activity, policies and procedures conform to expected requirements. The results show that the section substantively complies with the PSIAS. This was also confirmed by the independent External Quality Assurance Review undertaken and reported to the Audit and Scrutiny Panel during the year.

The section undertakes an annual programme of work formally approved by the Audit and Scrutiny Panel. The audit plan is determined following a risk based audit needs assessment that is revised on an ongoing basis to reflect my assessment of the 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 include 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.

Appendix 1 (continued) 2019-20 Internal Audit Opinion

Internal Audit is required to ensure that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or, where appropriate, that management has understood and assumed the risk of not taking action. Significant matters (including non-compliance with audit recommendations) arising from internal audit work are reported regularly to the Chief Executive, to the Corporate Management Team and to the Audit and Scrutiny Panel.

COVID-19

The COVID-19 pandemic has, from mid-March 2020 onwards, impacted significantly on normal business operations and risk assessments. As a result of changes to the working arrangements arising from the Council's response to the pandemic, many of the normal expected systems and controls have been subject to change and not all these revised arrangements have been reviewed by Internal Audit in the limited time available. The assurance and declaration expressed in this statement therefore relate to the Council's established arrangements that were in place throughout most of 2019-20 and exclude those arrangements introduced in response to the pandemic from mid to late March 2020 onwards.

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 2020;
- the assessment of risk completed during the preparation of the 2019-20 and 2020-21 annual audit plans;
- my wider knowledge of the Council's corporate governance, risk management and performance management arrangements;
- assessments of the general control environment within individual Services in 2019-20 completed by relevant Executive Directors and/or Heads of Service; and
- reports issued by the Council's external auditors during 2019-20, together with reports from other external review and inspection bodies.

Basis of Qualified Opinion paragraph

I require to qualify my opinion in relation to the impact of the COVID-19 pandemic, which means that, for the reasons outlined above, the audit opinion relates to the arrangements in place prior to emergency governance and service delivery arrangements that were implemented from mid-March 2020 onwards.

Qualified Opinion on the Council's internal control systems

It is my opinion, except for the matters described in the qualified opinion paragraph above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and internal control for the year ended 31 March 2020.



Ken Adamson CPFA
Audit and Risk Manager

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7 May 2020

APPENDIX 2 INTERNAL AUDIT PLANNED ASSIGNMENTS 2019-20

PLANNED AUDIT ASSIGNMENTS	Current status	Level of assurance	Date to A&SP
1. Risk management	Fieldwork	Note 1	September 2020*
2. Corporate governance	Complete	Reasonable	March 2020
3. Performance management	Note 2		
4. Public performance reporting	Note 2		
5. Best Value	Complete	Reasonable	December 2019
6. Digital NL and change programme	Fieldwork	Note 3	September 2020*
7. Enterprise contract – strategic procurement	Complete	Reasonable	March 2020
8. Housing New Supply Programme	Complete	Reasonable	March 2020
9. Housing Investment Programme	Fieldwork	Note 1	September 2020*
10. Early years learning and childcare	Complete	Limited	December 2019
11. Participatory budgeting	Draft report	Note 1	June 2020*
12. City Deal	Note 7		
13. Carbon management	Complete	Reasonable	June 2020
14. Review of health and social care integration	Draft report	Note 1	June 2020*
15. Management of strategic change	Complete	Reasonable	March 2020
16. IT Network Controls (Management of ICT systems)	Complete	Reasonable	September 2019
17. Self-directed support	Fieldwork	Note 4	September 2020*
18. Community empowerment and community engagement	Draft report	Note 1	June 2020*
19. Financial systems key controls – Debtors	Complete	Limited	December 2019
20. Financial systems key controls – Income/cash collection / First Stop Shops	Complete	Substantial	September 2019
21. Regularity work - financial systems – Housing Benefit	Complete	Reasonable	September 2019
22. Regularity work - financial systems - Creditors	Complete	Limited	March 2020
23. Regularity work - financial systems – Payroll (selected key controls)	Complete	Reasonable	December 2019
24. Review of the Council's Anti-Fraud arrangements	Complete	Reasonable	June 2020
25. Integrated Health and Social care - North Lanarkshire JIB	Complete	Various	To NL IJB
26. Liaison with external audit	Complete	N/A	N/A
27. Facilitating the work of the Audit and Scrutiny Panel	Complete	N/A	N/A
28. Follow-up of IA and EA recommendations	Complete	N/A	Each meeting

APPENDIX 2 (continued) INTERNAL AUDIT PLANNED ASSIGNMENTS 2019-20

PLANNED AUDIT ASSIGNMENTS	Current status	Level of assurance	Date to A&SP
29. Follow-up: Audit Scotland/Accounts Commission national reports	Complete	N/A	N/A
30. PSIAS self-assessment and Quality Assurance Programme	Complete	N/A	N/A
31. Provision of ad hoc advice on systems development and control issues	Complete	N/A	N/A
32. Participation in a range of Corporate Working Groups	Complete	N/A	N/A
33. Community Councils - Facilitating the audit of community councils	Complete	N/A	N/A

ADDITIONAL AUDIT ASSIGNMENTS NOT INCLUDED IN THE ORIGINAL APPROVED PLAN	Current status	Level of assurance	Date to A&SP
1. Regularity work - financial systems – Payroll Overtime	Draft report	Reasonable	June 2020*
2. Municipal Bank	Complete	Reasonable	September 2019
3. Governance of capital projects (Note 6)	Complete	Reasonable	December 2019
4. COVID-19 Small Business support grants	Complete	Note 5	June 2020*
5. COVID-19 Arrangements for free school meals	Complete	Note 5	June 2020*
6. COVID-19 Payroll arrangements for staff redeployments	Complete	Note 5	June 2020*
7. COVID-19 Newly self-employed hardship fund	Complete	Note 5	June 2020*
8. COVID-19 Resilience of Creditors arrangements	Complete	Note 5	June 2020*
9. COVID-19 Scottish Welfare Fund – resilience and performance arrangements	Complete	Note 5	June 2020*

Note 1	All items marked * are underway at the time of drafting this annual report but not yet complete and are expected to be reported to the Panel in line with the stated date.
Note 2	Reviews postponed pending implementation in 2019-20 of the new performance management framework approved by the Council during 2018-19 as part of the We Aspire and further detailed arrangements approved in November 2019. These areas will be the subject of considerable audit focus during 2020-21.
Note 3	Agreed initially with senior management to undertake this review in early 2020. The review was initially delayed when Audit Scotland selected North Lanarkshire in January-February 2020 as one of the sites they wished to visit in January-February as part of a national performance audit on Scottish councils' digital agendas. Postponed until March, the exercise was then further delayed by the COVID-19 pandemic which placed significant pressures on the Service. It was agreed with management to delay this exercise which is now underway and expected to be reported to the Panel after the summer recess.
Note 4	Work was underway when impacted by the COVID-19 pandemic. Given the significant pressures facing the Service and the difficulty of carrying out the necessary audit work, it was agreed with management to delay this exercise, which is now expected to be completed and reported to the Panel after the summer recess.
Note 5	The nature of these audit outputs which were providing advice and/or critical comment on proposed arrangements being put in place by management meant that no formal audit assurance rating was given. In view of the nature of these reports, while commentary on the scope and findings will be reported as part of Internal Audit progress reports, the individual reports will not be included in the supplementary pack of audit outputs presented to each Panel meeting.
Note 6	This review was originally included within the 2018-19 annual audit plan but it was agreed with senior management to delay this review until 2019-20 in view of expected timescales in bringing forward detailed proposals as to how the Council intended to progress this issue.
Note 7	Specific work on City Deal in 2019-20 was not undertaken due to work on the Council's City Deal programme undertaken by the Internal Audit team of Glasgow City Council (which provided positive assurance) as part of work done by them in relation to the GCR Programme Management arrangements.