

North Lanarkshire Council

Report

Audit and Scrutiny Panel

approval noting

Ref KA/ASPJune21

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Internal Audit Annual Report 2020-21

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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 2020-21, 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 1) the annual Internal Audit opinion.

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

Recommendations

The Panel is invited to:

- (1) note the 2020-21 Internal Audit Annual Report and the associated annual opinion of the Audit and Risk Manager; and
- (2) identify whether there are any issues arising on which the Panel wishes to request further reports from Internal Audit and/or relevant management.

Links

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 which 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 Audit and Scrutiny 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.

2. Report

High level overview of Internal Audit activity during 2020-21

- 2.1 I can confirm that during 2020-21 Internal Audit operated with no impairments or restrictions in scope and that all key stakeholders continued to respect the independence of the function. The Audit and Risk Manager (who acts as the Council's 'Chief Audit Executive' per the Public Sector Internal Audit Standards (PSIAS)) reports directly to the Chief Executive and is a member of the Council's Corporate Management Team. The role and status of Internal Audit function within the Council is therefore in line with best practice.
- 2.2 Internal Audit activity during the year was undertaken in accordance with the Internal Audit Annual Plan which was approved by the Audit and Scrutiny Panel in September 2020. Appendix 2 shows key details (status and where appropriate the relevant audit opinion and date presented to the Panel) of all items in the approved 2020-21 Plan. During the year some amendments were made to the plan to enable the function to respond flexibly to changing circumstances since the plan was developed and approved (most notably changes arising from the impact of, and response to, the public health pandemic) and these changes are shown at Appendix 2.

- 2.3 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 Audit and Scrutiny Panel to provide assurance that matters 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.
- 2.4 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.
- 2.5 During 2020-21, Internal Audit staff continued to liaise closely with Audit Scotland, the Council's appointed external auditors, 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.
- 2.6 Internal Audit operated in 2020-21 in accordance with the Public Sector Internal Audit Standards (PSIAS). In September 2019 the Panel received a report from the independent external quality assurance review (EQAR) of the internal audit function which concluded that the Internal Audit Service within North Lanarkshire fully conformed with the PSIAS. During 2020-21, I assessed the extent to which current Internal Audit activity, policies and procedures conform to expected requirements contained within the PSIAS and am pleased to be able to report that the results of that review continued to show a high degree of compliance with the detailed requirements of PSIAS. As previously reported, progress implementing all agreed actions arising from the EQAR has been impacted by competing priorities arising from the public health emergency, but all outstanding issues are now actively being addressed and a status report on implementation will be submitted to the next meeting of the Panel.

Issues arising from Internal Audit activity during 2020-21

- 2.7 Appendix 2 provides an overview of Internal Audit activity against the 2020-21 Annual Plan and includes details of when each assignment was reported to the Audit and Scrutiny Panel (where not yet formally reported, status and expected dates are given). Key issues arising from Internal Audit outputs are highlighted in the Internal Audit Progress Report tabled at each meeting of the Panel.
- 2.8 It should be noted that during the year, a significant proportion of Internal Audit staff were temporarily seconded to other duties for a period in response to the pandemic. We also undertook a range of additional unplanned work in response to changes in systems of control and governance introduced in response to the pandemic, often at short notice. Although this has had some impact on our ability to deliver all planned work, I am content that sufficient work has been undertaken to support the preparation of my annual opinion.
- 2.9 A small number of audit assignments were reported during 2020-21 which offered only 'limited assurance'. In all cases, management committed to a range of relevant improvement actions, some of which have already been completed, and we will continue to monitor progress on these issues during 2021-22 to provide senior management and the Panel with further assurance that relevant key controls are operating effectively.
- 2.10 During 2020-21 the Council had to respond to unprecedented challenges arising from the public health emergency with the need to transition very quickly to significantly different ways of operating with consequential impacts on governance, internal control and risk management arrangements.

- 2.11 Internal Audit was involved in the Council's strategic response to the pandemic, working closely with senior management to provide advice and commentary on proposals relating to new working arrangements and changes to internal controls and governance arrangements. We have also undertaken specific unplanned work in key risk areas such as payroll, creditors payments and Covid business support grants to provide specific assurance on the implementation of new and/or revised financial processes.
- 2.12 Despite the challenges presented by the pandemic and notwithstanding the results of some specific individual audit assignments, overall, I am satisfied that the Council's internal control and governance arrangements remained reasonably robust throughout 2020-21.
- 2.13 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 continued to be positive with no significant weaknesses or areas of concern highlighted.
- 2.14 Our work also suggests that despite significant and increasing challenges, key financial controls and financial management arrangements continued to operate to a generally high standard within the Council.
- 2.15 With the exception of a suspected fraud in relation to payroll, details of which will be reported to the Panel in June 2021 as part of my routine progress report, I am also pleased to be able to report that there were no other weaknesses, material frauds or irregularities identified in 2020-21 that I require to bring to your attention.

2020-21 Annual Internal Audit Opinion

- 2.16 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.
- 2.17 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.
- 2.18 The nature of individual audit assignments is such that most Internal Audit reports identify some weaknesses or areas where scope for improvement exists. During work undertaken in 2020-21 there have been instances where 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 my overall opinion on the adequacy of the Council's control environment at the year end. Further reviews and/or follow-up work in areas where limited assurance has been given are scheduled to be completed during 2021-2022 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.
- 2.19 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 2020-21 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.

2.20 Finally, I would like to thank all Council staff who have assisted Internal Audit during our work throughout 2020-21 and to thank senior management and elected members for the consideration and due regard given to our work.

3 Equality and diversity

Equality Impact Assessment	No impacts arising directly from this report
Fairer Scotland	No impacts arising directly from this report

4. Impact

Financial impact:	None arising directly from this report
HR policy / Legislative impact:	None arising directly from this report
Technology / Digital impact:	None arising directly from this report
Environmental impact:	None arising directly from this report
Communications impact:	None arising directly from this report
Risk impact:	Failure to operate an effective Internal Audit function consistent with the Public Sector Internal Audit Standards could impair the Council's compliance with its Code of Corporate Governance

5. Measures of success

- 5.1 Internal Audit reports annually on its performance to the Panel and is also subject to review annually by the Council's appointed external auditors.

6. Supporting Documents

- Appendix 1** 2020-21 Annual Internal Audit Opinion
Appendix 2 Progress re-approved 2020-2021 Internal Audit Plan



Ken Adamson, Audit and Risk Manager

Appendix 1 2020-21 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 2021.

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 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 to 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 2020-21 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.

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)**2020-21 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 acting. 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.

Basis of Opinion

My evaluation of the control environment is informed by several sources:

- the audit work undertaken by Internal Audit during the year to 31 March 2021;
- the assessment of risk completed during the preparation of the 2020-21 and 2021-22 annual 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 2020-21 completed by relevant Executive Directors and/or Heads of Service; and
- reports issued by the Council's external auditors during 2020-21, together with reports from other external review and inspection bodies.

Opinion on the Council's internal control systems

It is my opinion 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 2021.



Ken Adamson CPFA
Audit and Risk Manager
North Lanarkshire Council

20 May 2021

Appendix 2 Progress re-approved 2020-2021 Internal Audit Plan

Topic	Status	Audit grading	Reported to A&SP
Corporate governance			
Risk management	Complete	Reasonable assurance (Green-Amber)	December 2020
Corporate governance	Complete	Reasonable assurance (Green-Amber)	March 2021
Performance management	See Note 1		
Key strategic / corporate risks / programmes of work			
Management of strategic change	Complete	Reasonable assurance (Green-Amber)	June 2021
Digital NL and change programme	Complete	Reasonable assurance (Green-Amber)	December 2020
Enterprise contract – strategic procurement	Complete	Reasonable assurance (Green-Amber)	March 2021
Asset rationalisation	Underway	To be confirmed	Expected September 2021
Information governance and information security	Complete	Reasonable assurance (Green-Amber)	March 2021
Public Protection	Underway	N/A	Expected September 2021
Health and Safety (2 reports)	Complete	Substantial assurance (Green)	December 2020
	Complete	Limited assurance (Amber-Red)	June 2021
City Deal	Complete	Substantial assurance (Green)	June 2021
Economic Regeneration Development Plan	Complete	Reasonable assurance (Green-Amber)	June 2021
HR – management of sickness absence	Underway	Carried forward to 2021-22 to consider impact of revised corporate policy	
Hub development and delivery programme	See Note 2		
Early Learning and Childcare: 1140 hours	See Note 3		
Scottish Attainment Challenge (SAC) and Pupil Equity Funding (PEF)	Underway	N/A	Expected September 2021
Governance – local community engagement	See Note 4		

Appendix 2 Progress re-approved 2020-2021 Internal Audit Plan (continued)

Topic	Status	Audit grading	Reported to A&SP
Financial management and key financial systems			
Financial management and financial sustainability	Complete (2 reports)	Reasonable assurance (Green-Amber) Reasonable assurance (Green-Amber)	December 2020 March 2021
Community Investment Fund	Complete	Reasonable assurance (Green-Amber)	March 2021
Financial systems key controls: Council tax	Complete	Substantial assurance (Green)	December 2020
Financial systems controls: Treasury management	Complete	Substantial assurance (Green)	March 2021
Regularity work: financial systems – General ledger	Complete	Reasonable assurance (Green-Amber)	December 2020
Regularity work: financial systems - Payroll	Complete	Reasonable assurance (Green-Amber)	June 2021
Regularity work: financial systems - Creditors	Complete	Reasonable assurance (Green-Amber)	March 2021
Fraud and irregularity			
Review of the Council's Anti-Fraud arrangements	Complete	Reasonable assurance (Green-Amber)	September 2020
Allowance for fraud and irregularity investigations	Ongoing	N/A	N/A
Provision of IA services to third parties			
Integrated Health and Social care - North Lanarkshire JIB	Ongoing	N/A	N/A
Audit Committee and External Audit			
Liaison with external audit	Ongoing	N/A	N/A
Facilitating the work of the Audit and Scrutiny Panel	Ongoing	N/A	N/A
Follow-up of IA and EA recommendations	Ongoing	N/A	Each 'Audit' meeting of the Panel
Follow-up: Audit Scotland/Accounts Commission national reports	Note 5		

Appendix 2 Progress re-approved 2020-2021 Internal Audit Plan (continued)

Topic	Status	Audit grading	Reported to A&SP
Other			
PSIAS self-assessment and Quality Assurance Programme	Ongoing	N/A	December 2020 and March 2021
Provision of ad hoc advice on systems development and control issues	Ongoing	N/A	N/A
Participation in a range of Corporate Working Groups	Ongoing	N/A	N/A
Community Councils	Ongoing	N/A	N/A
Contingency	N/A	N/A	N/A
Unplanned			
Covid-19 Strategic Framework Business Fund	Complete	Reasonable assurance (Green-Amber)	June 2021
Covid-19 response	Complete	Reasonable assurance (Green-Amber)	March 2021
Audit of compliance: essential expenditure	Complete	Substantial assurance (Green)	December 2020
Range of outputs and advice on new processes (both internal financial and HR processes and Covid support mechanisms for individuals, families and businesses)	Complete	N/A	N/A
Fraud investigation: Employee Service Centre	Complete	Reported in line with relevant reporting protocol: June 2021	
Payroll irregularity: Social Work	Complete	Concluded and reported to management December 2020	
Alleged irregularities: Scottish Welfare Fund	Complete	Concluded and reported to management November 2020	

Explanatory notes

Note 1	Although substantive audit work on performance management has not been progressed in 2020-21, this mirrors delays in the roll-out of the Strategic Performance Framework (SPF) caused by the need for management to focus on other priorities as a result of the public health emergency. Sufficient assurance (and with appropriate commentary and recommendations) in respect of this issue has been obtained from our work on Corporate Governance in 2020-21. Further substantive work on this topic will, assuming full roll-out of the SPF, be carried forward to 2021-22.
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Note 2	Although elements of the management of this programme of work will be touched on by planned work on the management arrangements associated with the Economic Regeneration Development Plan, substantive work on the governance of the Hub development and delivery programme will now be carried forward to 2021-22.
Note 3	Now largely implemented or substantively progressing, the need for further work on the Early Learning and Childcare: 1140 hours programme was considered as part of the audit planning processes used to prepare the 2021-22 Annual Plan but no further work has been prioritised.
Note 4	Although substantive audit work on 'Governance – local community engagement' has not been progressed in 2020-21, sufficient recent assurance can be gained from our report on Community Empowerment and Community Engagement (reported to the Panel in August 2020) and a recommendation relating to the recently established Community Boards included in our recent report on Corporate Governance. Substantive work on this topic will now be carried forward to 2021-22.
Note 5	Audit Scotland has necessarily had to re-prioritise its resources in response to the public health emergency and there have been relatively few national VFM or performance audits issued in the period. Where these have been published (e.g. recent work on Digital Transformation in Local Government) we have encouraged management to take these reports directly to the relevant Service committee. Previous practice in relation to national audit reports will be resumed starting from June 2021.