

**South Ayrshire Council**

**Report by Chief Internal Auditor  
to Audit and Governance Panel  
of 2 June 2021**

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**Subject: Internal Audit Annual Report 2020/21**

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**1. Purpose**

- 1.1 The purpose of this report is to present to the Panel the annual report on the internal audit activity during 2020/21, and to provide an independent opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control systems for the year ended 31 March 2021.

**2. Recommendation**

- 2.1 **It is recommended that the Panel notes the contents of the report.**

**3. Background**

- 3.1 The Chief Internal Auditor is required, on an annual basis, to present an annual report and statement on internal controls to the Panel.
- 3.2 A number of specific guidance documents have been published in 2020/21 around internal auditors and their response to the COVID-19 pandemic. Most critically these include the IASAB guidance on conformance with the PSIAS during the coronavirus pandemic (May 2020) and the CIPFA guidance on the 2020/21 internal audit annual opinion (November 2020). The responses to these are covered in more detail in this annual report.

**4. Proposals**

- 4.1 The required annual report for financial year 2020/21, together with the statement on internal controls, is included in [Appendix 1](#).
- 4.2 The revised internal audit plan for 2020/21 (approved by the Panel in February 2021) has been substantially completed; there is no audit fieldwork outstanding, with remaining draft reports at final clearance stage. Their individual internal control assessments can therefore be included in the overall annual audit opinion.
- 4.3 One low assurance (red) report has been issued in respect of 2020/21 audit work.

**5. Legal and Procurement Implications**

- 5.1 There are no legal implications arising from this report.
- 5.2 There are no procurement implications arising from this report.

## **6. Financial Implications**

6.1 Not applicable.

## **7. Human Resources Implications**

7.1 Not applicable.

## **8. Risk**

### **8.1 *Risk Implications of Adopting the Recommendations***

8.1.1 There are no risks associated with adopting the recommendations.

### **8.2 *Risk Implications of Rejecting the Recommendations***

8.2.1 Audit reports include, in the action plans, a separate risk assessment detailing the risk of not implementing each of the Internal Audit recommendation.

## **9. Equalities**

9.1 The proposals in this report have been assessed through the Equalities Impact Assessment Scoping process, and there are no significant positive or negative equality impacts of agreeing the recommendations, therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached at [Appendix 2](#).

## **10. Sustainable Development Implications**

10.1 ***Considering Strategic Environmental Assessment (SEA)*** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

## **11. Options Appraisal**

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

## **12. Link to Council Plan**

12.1 The matters referred to in this report contribute to Commitment 1 of the Council Plan: Fair and Effective Leadership/ Leadership that promotes fairness.

## **13. Results of Consultation**

13.1 There has been no public consultation on the contents of this paper.

**Background Papers** [Public Sector Internal Audit Standards \(April 2017\)](#)

[Internal Audit Standards Advisory Board – conformance with the PSIAS during the coronavirus pandemic \(May 2020\)](#)

**[CIPFA 2020-21 internal audit annual opinion guidance](#)**

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**Date: 18 May 2021**

## Internal Audit Annual Report 2020/21

**1. Introduction**

- 1.1. The purpose of this report is to summarise the Internal Audit activity for 2020/21.

**2. Internal Control Framework**

- 2.1. The presence of an effective internal audit function contributes towards, but is not a substitute for, effective control. It is the responsibility of management to have adequate controls in place and to ensure these controls are operating effectively. A sound control system will help safeguard assets, ensure records are reliable, promote operational efficiency and ensure adherence to Council policy and procedure. Such systems of internal control can provide only reasonable and not absolute assurance against loss.

**3. Reporting requirements of the Public Sector Internal Audit Standards (PSIAS)**

- 3.1. Internal Audit operates in accordance with the PSIAS requirements and is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.2. Internal Audit operates within the Internal Audit Charter, most recently approved by the Audit and Governance Panel on 20 March 2019.
- 3.3. The PSIAS places a number of reporting obligations on the Chief Internal Auditor in respect of the annual report. These obligations are summarised below:

<b>PSIAS Ref</b>	<b>Requirement</b>	<b>Evidence</b>
1110	The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.	The Chief Internal Auditor reports directly to the Audit and Governance Panel, and unfettered access is available to the Chief Executive as required.
1320	The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.	The results of the self-assessment, carried out in summer 2020, were reported to the Audit and Governance Panel November 2020. Progress against these actions is noted in the progress report issued to this Panel.
2450	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.	This report to Audit and Governance Panel provides the annual statement of assurance on internal controls.

<b>PSIAS Ref</b>	<b>Requirement</b>	<b>Evidence</b>
2450	The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.	This report to Audit and Governance Panel provides the annual statement of assurance on internal controls.
2450	The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.	This report to Audit and Governance Panel provides a statement on the conformance with the PSIAS.

#### **4. Compliance with PSIAS**

- 4.1. The Chief Internal Auditor is required to confirm internal audit's compliance with the Public Sector Internal Audit Standards. The most recent self-assessment was carried out in summer 2020 and the results of that reported to the Panel in November 2020, with a 6-month exception report included in the progress update to this Panel. The service was externally assessed as 'generally conforms' with PSIAS in 2018. Self assessments since that date, and since the implementation of the external action plan, the service is self-assessed as 'fully conforms'. The next annual self-assessment will be carried out in summer 2021 with the five-year external assessment scheduled for 2022.

#### **5. IASAB guidance regarding compliance with the PSIAS during COVID-19**

- 5.1. In May 2020, the Internal Audit Standards Advisory Board (IASAB) issued guidance for internal auditors to ensure that where possible they remained compliant with PSIAS during the period of the pandemic. The guidance highlighted a number of steps which could be taken to safeguard the position of internal audit and the response to these is included in the following table:

<b>Steps to be taken</b>	<b>Response</b>
Advise the audit committee and other key stakeholders in the governance process of the changes to the audit plan and operations of the internal audit team. A lengthy report is not required but the committee should be made aware. Brief but regular updates should be provided as the situation develops.	At the outset of the pandemic, during the period that meetings of the Panel were cancelled, the Chief Internal Auditor remained in communication with the Chair of the Audit and Governance Panel to advise on work being carried out and any effect at that time on the audit plan. Since the summer 2020 recess, the Chief Internal Auditor has regularly reported the progress against the audit plan, with amendments made to the audit plan more frequently than in a normal year. Changes were made at the mid-year review as well as in February 2021.

Steps to be taken	Response
<p>Maintain regular and constructive communications with external audit. This will help external audit understand how delivery of assurance is being progressed and provide information on changes in the organisation's system of governance and control.</p>	<p>External audit was consulted in one specific area regarding the IJB internal audit plan and the potential effect of a change of work on the opinion. No such situation arose which would cause issues for the Council.</p> <p>All internal audit reports are shared with external audit during the year to ensure they maintain visibility of the work of internal audit.</p>
<p>Where internal audit staff are reassigned to undertake advisory or consultancy work rather than assurance engagements then they should be made aware of the standards relating to consulting activities, if they are not already familiar with them.</p>	<p>Additional advisory work was carried out in respect of issues arising as a direct result of COVID-19, whether that be advice regarding internal controls around the various COVID-19 grants or changes to processes and procedures as a result of changed working arrangements.</p> <p>Work was assigned within the team to ensure that assurance work scheduled for 2021/22 could be carried out independently by a member of the team not involved in the advisory work in 2020/21.</p>
<p>Where internal audit staff are diverted into operational roles it should be made clear that for the duration that the staff are not operating as internal auditors. When staff return to their internal audit role, a review can be undertaken to see if any steps are necessary to address impairment to independence and objectivity (standard 1130).</p>	<p>One member of the internal audit team was redeployed to Economic Development in April/May 2020 to assist with the processing of applications for the newly self-employed hardship grants. This was full time for a period of three weeks, during which time they did not carry out any internal audit duties.</p> <p>Internal audit processes are in place which ensured this piece of work was recorded in the objectivity register held by internal audit, whereby auditors do not subsequently carry out assurance work where there is a conflict of interest. The auditor will not be involved in independently auditing an area of the council where they had operational responsibility.</p>
<p>Keep clear records of the changes to roles and plans. These will help key stakeholders understand the revised arrangements and will help resolve any conflicts of interest later.</p>	<p>All changes to the internal audit plan have been documented and reported. A full audit trail is maintained of movements in the plan, and when these took place. Any operational duties undertaken by internal auditors (as noted above) are included in the time recording system for full transparency.</p>

Steps to be taken	Response
Remember the Mission of Internal Audit and act in accordance with it. When the immediate crisis is over the head of internal audit should be able to demonstrate how the operation of internal audit has helped fulfilment of the Mission.	<p>The Mission of Internal Audit is 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. This continued to be demonstrated during 2020/21, such as:</p> <ul style="list-style-type: none"> <li>• time allocated to reviewing new processes and procedures, with work continuing into 2021/22;</li> <li>• advice on implementation of controls promptly around new COVID-19 grants, as required;</li> <li>• maintaining a reasonably stable risk-based internal audit plan;</li> <li>• maintaining oversight of revised risk registers and particularly addressing these in the 2021/22 internal audit plan; and</li> <li>• regular reporting to the Audit and Governance Panel.</li> </ul>
At all times Internal Auditors should comply with Government advice, and that of their organisation, regarding health and safety during the coronavirus pandemic.	Internal Audit and Corporate Fraud have remained compliant with all government and local guidance. Relevant risk assessments have been implemented and reviewed periodically, and recovery plans put in place.

## 6. Position and Resourcing of Internal Audit

- 6.1. Internal Audit and Corporate Fraud is situated within the People Directorate, with line management responsibility to the Depute Chief Executive and Director – People. The Chief Internal Auditor remains functionally responsible to the Audit and Governance Panel and attends all Panel meetings. The Chief Internal Auditor has unfettered access to the Chief Executive where required.
- 6.2. Following the recent retirement of one member of the Internal Audit team, a revised structure has been approved by ELT which replaces the Audit Assistant post with a part-time qualified Auditor post. There remain four posts within Internal Audit, amounting to 3.6 FTE. All members of the team will now hold professional accountancy qualifications. The recruitment process for the new Auditor post will commence soon. Corporate Fraud includes a further two posts (2 FTE), with the Senior Investigations Officer holding the Accredited Counter Fraud Specialist qualification.

## 7. Achievement of Annual Internal Audit Plan 2020/21

- 7.1. Internal audit activity during the year was undertaken in accordance with the annual internal audit plan. Progress reports have been provided to the Audit and Governance Panel quarterly throughout the year. All assignments included within the revised internal audit plan, approved by the Audit and Governance Panel in February 2021, have been substantially completed. Sufficient work has been

carried out to enable an annual audit opinion on the adequacy of internal controls to be produced.

7.2. The revised 2020/21 internal audit plan estimated 542 direct audit days (2019/20: 555 days). The actual number of days achieved for 2020/21 was 513 days (2019/20: 507 days). An analysis of audit days by type of audit is summarised in the following table:

Type of Audit	Planned Days 2020/21	Actual Days 2020/21	Variance in days
Key corporate systems	134	153	19
ICT auditing	55	47	(8)
Governance and best value	48	61	13
Directorates and other systems	100	74	(26)
Other entities	25	18	(7)
Regularity	67	76	9
Other	113	84	(29)
<b>TOTAL</b>	<b>542</b>	<b>513</b>	<b>(29)</b>

7.3. The overall number of days is generally in line with the revised plan. Key differences in each of the categories are explained below:

- Key corporate systems – the increase in days used was primarily due to the new approach to auditing core systems. The key audit carried out related to the payroll system and the scope for this was widened further to include expenses and overtime which are managed by services. This was not anticipated at the time of the annual planning process.
- Governance and best value – the review of risk management exceeded budget by around 10 days and this was due to the scope being expanded to consider the Council’s risk management response to the COVID-19 pandemic.
- Directorates and other entities – the lower actual days is mainly due to the specific COVID-19 recovery assignment that was added into the plan at mid-year. This budget has not been utilised to its full extent and therefore more time has been included in the 2021/22 internal audit plan. Free school transport review also had an outturn of around 9 days under budget.
- Other – the contingency budget of 30 days was not used in full, as opportunities arose during the year to amend the plan in line with the number of changes required and work arising. Time charged to contingency was primarily to support the pan-Ayrshire COVID-19 grants data matching exercise conducted by East Ayrshire Council.

7.4. A total of 18 internal audit reports have been issued for 2020/21 (see summary at [Annex A](#)). Management have agreed to implement all action points arising with the exception of two actions points within the Payroll system review. In these cases, management effectively chooses to tolerate the risk associated with these.

7.5. Overall, the audit findings suggested that while some weaknesses were identified and certain elements of control were only partially in place, when taken with other findings they did not significantly impair the overall systems of internal control in the areas reviewed. One low assurance report was issued on ‘kinship care payments’ in 2020/21. The service has immediately acted to enhance controls in this area and reported progress to the Audit and Governance Panel.



- 7.6. There are four audit assignments which have been completed and the reports drafted, however they are not yet cleared and finalised with the service. As the fieldwork is completed their conclusions can still be included in the overall opinion for 2020/21.
- 7.7. Twenty-five accounts have been prepared and audited for Community Councils and Town Twinning Associations. Following a change to the Community Council Handbook and guidance, Internal Audit will no longer be responsible for this audit function going forward.

## 8. Performance Indicators

- 8.1. Internal Audit reports against four key performance indicators:
- Productivity/utilisation (see 8.2)
  - Percentage of reviews completed in audit plan (see 8.4)
  - Number of ad-hoc requests and investigations (see 8.6)
  - Time spent on audits/time taken to complete audits (see 8.7)

### *Productivity/Utilisation*

- 8.2. Internal Audit measures productivity on a regular basis throughout the year. This is classed as 'direct' audit time. The productivity level is shown in the following table:

	<b>2020/21</b>	<b>2019/20</b>	<b>2018/19</b>
Direct	76.9%	86.1%	78.8%
Indirect*	18.0%	9.3%	11.9%
Management	5.1%	4.6%	9.3%

*\*e.g. administration, training and meetings*

- 8.3. Direct audit time has understandably been lower than in 2019/20, but it should be noted that after such an unusual year it is difficult to benchmark performance between this year and previous years. Performance is still considered to be strong at 77% productivity, particularly in light of COVID-19.

### *Percentage of Reviews Completed in Audit Plan*

- 8.4. The revised internal audit plan for 2020/21, approved by the Panel on 24 February 2021, included 25 deliverable assignments. Certain items in the plan do not have individual outputs (such as management and audit development time) and are therefore excluded from this indicator. A summary of the plan completion is included in the following table:

<b>Status</b>	<b>Number</b>	<b>Percentage</b>
Complete	21	84%
Work in progress	4	16%
	<b>25</b>	<b>100%</b>

### *Number of ad-hoc requests and investigations*

- 8.5. An analysis is maintained by the Chief Internal Auditor of all additional work arising through investigations and ad-hoc requests for advice. Sixteen areas of advice have been provided during 2020/21, six of which relate to COVID-19 grants. Other

areas of advice include payments to private nurseries, employee bank mandates, digital colleagues for MS365, internal audit arrangements for Ayrshire Growth Deal, Education procurement relating to school funds, and community councils.

#### *Time spent on audits/time taken to achieve audits*

- 8.6. The time spent on audits and the time taken to achieve audits is monitored on a continual basis by the Chief Internal Auditor. A single indicator does not exist for this measure, as the various audit assignments are significantly different in the type of audit work undertaken and the budget required to achieve the audit objectives. The performance information maintained for this indicator includes the measurement of time against budget as well as the elapsed time taken from the agreement of the Terms of Reference through to the issuing of the final report. This information is used to track completion of the audit plan and to assign work within the team.

### **9. Counter Fraud Work**

- 9.1. The Corporate Fraud team has responsibility for investigating any alleged fraud or irregularity which has been highlighted to them. They also undertake pro-active work in identifying circumstances of fraud perpetuated against the Council (either from outwith the Council or from within). Assistance will be provided by Internal Audit in cases where a lack of internal controls has contributed to a fraud taking place. No such investigations took place in 2020/21 which required a review of internal control arrangements.
- 9.2. The Corporate Fraud team have been heavily involved in investigating anomalies identified during the pan-Ayrshire data matching exercise on COVID-19 grants led by East Ayrshire Council.
- 9.3. Separate Corporate Fraud update reports are provided to the Audit and Governance Panel for scrutiny on a six monthly basis.

### **10. Other Responsibilities**

- 10.1. The Chief Internal Auditor of the Council is also the Chief Internal Auditor for the South Ayrshire Integration Joint Board (IJB) and the Ayrshire Valuation Joint Board (AVJB). In the interests of information sharing, the results of the IJB and AVJB audit work is shared with Members of the Council.

### **11. Internal Audit and Corporate Fraud Development**

- 11.1. The training needs of the service continue to be reviewed on an ongoing basis, and where gaps are identified action is taken to address these. Networking opportunities are continually explored, with the Chief Internal Auditor attending the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) and the Senior Auditor due to become Chair of the Computer Audit Sub-Group of SLACIAG (CASG) in May 2021. The Auditor is now also attending CASG as well as the IDEA software user group for data analytics. These meetings are a valuable source of training and sharing of information with counterparts across Scotland.
- 11.2. In 2020/21, an ICT audit training provider previously used by the service introduced a suite of micro-modules which has allowed for short, value for money, focussed study units to be carried out by members of the audit team at a time that is of most value to the audit. In 2020/21, two courses have been undertaken on cyber

security and application controls. These have been attended just in advance of doing the fieldwork on these audits. This training is fundamental to improve the team's resilience to the increase in ICT developments and rise in audit work in this area, and reduce the need to consider outsourcing this work to another provider. Further development and training opportunities will be explored as they arise.

11.3. Pan-Ayrshire meetings are held with the other Chief Auditors for North and East Ayrshire Council.

11.4. Other opportunities for training and development are explored as and when they arise.

## 12. Audit Opinion

12.1. There is a formal requirement for the Chief Internal Auditor to prepare an assurance statement on the adequacy of internal control systems within the Council.

12.2. Guidance was issued by CIPFA in November 2020 regarding the internal audit opinion for 2020/21 in light of the COVID-19 pandemic. The Chief Internal Auditor also attended a seminar in December 2020, organised by CIPFA following the publication. While all public bodies have faced significant challenge during 2020/21, the requirements to conform with the PSIAS have not changed. The guidance was issued by CIPFA in the event that internal audit may have a limitation of scope on the audit opinion if they have been unable to undertake sufficient internal audit work to gain assurance in 2020/21.

12.3. The guidance is clear that the Chief Internal Auditor is responsible for ensuring that effective use is made of internal audit resources, as follows:

Actions	Response/Example
Streamlining audit processes to increase capacity.	Audit processes are already considered streamlined, where all our working papers clearly link the objectives of each assignment to the audit tests and findings. Other opportunities have been identified such as internal control self-assessment toolkits which capture many locations, as well as the continuous auditing of accounts payable which is carried out annually.
Narrowing the focus of audit scopes to examine only key risks.	This has not been done. However, it is also noted that the CIPFA guidance was only issued in November 2020 so there was limited scope to do this when most audit work was already in progress.
Filling vacant audit posts, whether permanently, on a temporary basis or buying in audit expertise from an external provider.	There were no issues regarding resourcing in 2020/21. With the exception of the three-week redeployment of one employee, the internal audit team was fully resourced for most of the year.

Actions	Response/Example
Exploring opportunities for internal secondments or other support for the audit team from non-internal audit staff who can nevertheless undertake some internal audit work.	As other services were experiencing excess demand in their areas and many employees were redeployed to the pandemic response, this was not considered necessary nor appropriate.
Evaluating any requests for advisory work and prioritising assurance work and advisory work that supports the annual opinion.	The majority of advisory work that was carried out was the direct result of the pandemic, whether this be guidance on revised processes and procedures or advice in respect of controls around grant payments, these were fundamental to both the organisation and the knowledge of the business in ensuring adequate controls.
Avoiding diversion of internal audit staff on to counter fraud work, or other non-core audit work, beyond that which is already accommodated within the plan.	Internal auditors did not divert onto counter fraud work. All counter fraud work continued to be addressed by the Corporate Fraud team as usual, including the pan-Ayrshire COVID-19 grants data matching exercises. There have been minimal other diversions from plan, particularly following the mid-year review when more COVID based audit work was factored into the plan.
Increasing communication with client services to help ensure good co-operation from client services and avoid unnecessary delays in undertaking engagements.	The Chief Internal Auditor carried out additional planning work at the start of the year to aim to schedule internal audit work at a time that was most convenient for the services. Working with services in that way was a contributing factor in the volume of audit work that could be achieved in 2020/21.

12.4. The internal audit annual statement on the adequacy of internal controls is included in [Annex B](#).

### 13. Conclusion

13.1. The 2020/21 internal audit plan was satisfactorily completed. There are no limitations of scope to the issued audit opinion.

## Internal Audit Reports Issued/Drafted 2020/21

Report Ref	Description	Assurance	Actions Arising			
			High	Medium	Low	Total
2021-06	Scottish Housing Regulator	Reasonable	0	2	2	4
2021-09	Follow up – Creditors system review*	Substantial	-	-	-	-
2021-10	Performance management system	Reasonable	0	3	1	4
2021-12	Follow up – Revenues contracts and creditor care payments*	Reasonable	-	-	-	-
2021-13	Follow up – Discretionary housing payments*	Substantial	-	-	-	-
2021-17	Capital contract – Barr Primary School	Substantial	0	0	0	0
2021-18	LEADER 2019/20	Substantial	0	1	0	1
2021-19	Mainstream free school transport	Substantial	0	0	0	0
2021-20	Controls around meeting waste management regulations	Reasonable	1	2	1	4
2021-24	Follow up – Treasury management*	Reasonable	-	-	-	-
2021-29	Social care self-assessment toolkit	Substantial	0	2	0	2
2021-34	Customer invoicing system	Substantial	0	0	0	0
2021-36	Cyber security <sup>#</sup>	Reasonable	2	3	1	6
2021-37	Payroll system review	Reasonable	2	9	3	14
2021-39	Kinship care payments	Low	2	5	3	10
2021-40	Main accounting system review	Reasonable	1	8	8	17
2021-43	Risk management <sup>#</sup>	Reasonable	0	4	0	4
2021-44	IJB agile governance arrangements	Reasonable	0	2	2	4

Report Ref	Description	Assurance	Actions Arising			
			High	Medium	Low	Total
2021-45	Connectivity – fixed telephony	Reasonable	0	5	0	5
2021-46	Continuous auditing	Substantial	0	0	0	0
2021-47	Application controls <sup>#</sup>	Reasonable	2	9	3	14
2021-48	Scottish Welfare Fund <sup>#</sup>	Reasonable	2	8	6	16
	<b>TOTAL</b>		<b>12</b>	<b>63</b>	<b>30</b>	<b>105</b>

*\* Follow up audits are based on previous actions only, therefore no new actions generated.*

*# Assignments are complete and reports drafted but may be subject to change.*

## **Internal Audit Annual Statement on the Adequacy of Internal Controls**

### **To the Members and Chief Executive of South Ayrshire Council**

As Chief Internal Auditor for South Ayrshire Council, I am pleased to present my annual statement on the overall adequacy and effectiveness of the framework of governance, risk management and control of the Council for the year ended 31 March 2021.

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

It is the responsibility of the Council's senior management to determine, establish and maintain sound systems of governance, risk management and control to ensure that the organisation's resources are properly applied in a manner and on the activities intended and that these arrangements are sufficient to address the risks facing their services. This includes responsibility for the prevention and detection of fraud. Management is also charged with monitoring the continuing effectiveness of these arrangements and taking action as appropriate. It is the responsibility of the Chief Internal Auditor to provide an annual assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

### **Sound internal controls**

The main objectives of the Council's internal control systems are to:

- ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- safeguard assets;
- ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.

### **The work of internal audit**

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Internal Audit section operates in accordance with United Kingdom Public Sector Internal Audit Standards which came into force with effect from 1 April 2013 (and updated in March 2017). The requirements under PSIAS represent best practice and are mandatory.

The Chief Internal Auditor prepares an annual internal audit plan which outlines the programme of work to be undertaken. The plan is developed utilising a risk-based methodology and takes into account the requirement placed upon the Chief Internal Auditor to deliver an annual internal audit opinion. The plan needs to be flexible to reflect the changing risks and priorities of the organisation. The plan, and any material changes to the plan during the year, are approved by the Audit and Governance Panel.

All internal audit reports are brought to the attention of management, including system weaknesses and/or non-compliance with expected controls, together with agreed action plans. It is management's responsibility to ensure that due consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. This includes management taking remedial action where appropriate, or accepting that there may be a level of risk exposure if the weaknesses identified are not addressed for operational reasons. Internal Audit is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Matters arising from internal audit work are reported to all Members, Chief Executive, Depute Chief Executive and Director (People), Head of Finance and ICT (as Section 95 Officer), Head of Regulatory Services (as Monitoring Officer) and external audit.

## **Summary of Internal Audit Activity 2020/21**

A total of 18 internal audit reports have been issued for 2020/21. Eight audit opinions give substantial assurance, nine reasonable assurance and one low assurance. A further four audit reports are in draft with their fieldwork completed, and all four of these have an assessment of reasonable assurance. A diverse range of areas have been covered during the year including payroll, capital contract review, waste management regulations, kinship care, school transport, cyber security, application controls, connectivity, performance management, LEADER programme and four follow up reviews. Added to this, progress was made to implement an internal control self-assessment toolkit for social care locations. As well as these planned assignments, Internal Audit also offers advice and guidance on the Council's control environment as and when required.

A range of recommendations have been raised in the areas covered by the 2020/21 internal audit plan. Many expected key controls have been in place and operating effectively, however Internal Audit has also identified scope for improvement in some systems. Of the 105 actions points raised, 103 have been accepted by management. Where management does not accept an audit action point, they are choosing instead to tolerate the risk in these areas. For those actions accepted, this should result in continued improvement of the Council's governance, risk management and control environment.

## **Basis of Opinion**

The 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 2021;
- the audit work undertaken by Internal Audit in previous years and knowledge of any significant audit findings after the year end;
- the assessment of risk completed during the preparation of the strategic audit plan;
- assessment of the general control environment within individual departments as completed by each Head of Service and Director;
- reports issued by the Council's external auditors and other review and inspection agencies (including reports issued by East Ayrshire Council auditors for Ayrshire Roads Alliance);
- knowledge of the Council's governance, risk management and performance monitoring arrangements; and
- any other items brought to the attention of internal audit by whatever means which may warrant further investigation.



## **Opinion**

On the above basis, Internal Audit can provide reasonable assurance over the framework of governance, risk management and control and that adequate controls were in place, and were operating throughout the Council in 2020/21.

**Laura Miller**  
**Chief Internal Auditor**  
**South Ayrshire Council**  
**29 April 2021**

## South Ayrshire Council Equality Impact Assessment Scoping Template

Equality Impact Assessment is a legal requirement under the Public Sector Duty to promote equality of the Equality Act 2010. Separate guidance has been developed on Equality Impact Assessment's which will guide you through the process and is available to view here: <https://www.south-ayrshire.gov.uk/equalities/impact-assessment.aspx>

Further guidance is available here: <https://www.equalityhumanrights.com/en/publication-download/assessing-impact-and-public-sector-equality-duty-guide-public-authorities/>

The Fairer Scotland Duty ('the Duty'), Part 1 of the Equality Act 2010, came into force in Scotland from 1 April 2018. It places a legal responsibility on Councils to actively consider ('pay due regard to') how we can reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. See information here: [Interim Guidance for Public Bodies](#) in respect of the Duty, was published by the Scottish Government in March 2018.

### 1. Policy details

Policy Title	Internal Audit Annual Report 2020/21
Lead Officer (Name/Position/Email)	Laura Miller, Chief Internal Auditor, <a href="mailto:laura.miller@south-ayrshire.gov.uk">laura.miller@south-ayrshire.gov.uk</a>

**2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts**

Community or Groups of People	Negative Impacts	Positive impacts
Age – men and women, girls & boys	No	No
Disability	No	No
Gender Reassignment (Trans/Transgender Identity)	No	No
Marriage or Civil Partnership	No	No
Pregnancy and Maternity	No	No
Race – people from different racial groups, (BME) ethnic minorities and Gypsy/Travellers	No	No
Religion or Belief (including lack of belief)	No	No
Sex – gender identity (issues specific to women & men or girls & boys)	No	No
Sexual Orientation – person's sexual orientation i.e. LGBT+, lesbian, gay, bi-sexual, heterosexual/straight	No	No
Thematic Groups: Health, Human Rights & Children's Rights	No	No

**3. What likely impact will this policy have on people experiencing different kinds of social disadvantage? (Fairer Scotland Duty). Consideration must be given particularly to children and families.**

Socio-Economic Disadvantage	Negative Impacts	Positive impacts
Low Income/Income Poverty – cannot afford to maintain regular payments such as bills, food, clothing	No	No
Low and/or no wealth – enough money to meet Basic living costs and pay bills but have no savings to deal with any unexpected spends and no provision for the future	No	No
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure/hobbies	No	No
Area Deprivation – where you live (rural areas), where you work (accessibility of transport)	No	No
Socio-economic Background – social class i.e. parent's education, employment and income	No	No

**4. Do you have evidence or reason to believe that the policy will support the Council to:**

General Duty and other Equality Themes Consider the 'Three Key Needs' of the Equality Duty	Level of Negative and/or Positive Impact (High, Medium or Low)
Eliminate unlawful discrimination, harassment and victimisation	Low Impact
Advance equality of opportunity between people who share a protected characteristic and those who do not	Low Impact
Foster good relations between people who share a protected characteristic and those who do not. (Does it tackle prejudice and promote a better understanding of equality issues?)	Low Impact
Increase participation of particular communities or groups in public life	Low Impact
Improve the health and wellbeing of particular communities or groups	Low Impact
Promote the human rights of particular communities or groups	Low Impact
Tackle deprivation faced by particular communities or groups	Low Impact

**5. Summary Assessment**

<p><b>Is a full Equality Impact Assessment required?</b> (A full Equality Impact Assessment must be carried out if impacts identified as <b>Medium and/or High</b>)</p>	<p><b>YES</b> <input type="checkbox"/></p> <p><b>NO</b> <input checked="" type="checkbox"/></p>
<p><b>Rationale for decision:</b> This report provides Members with the Internal Audit Annual Report and opinion for 2020/21. Their consideration of this report has no specific equality implications.</p>	
<p><b>Signed :</b> Laura Miller</p>	<p><b>Service Lead – Internal Audit and Corporate Fraud</b></p>
<p><b>Date:</b> 30 April 2021</p>	