

Agenda Item	<b>6</b>
Report No	<b>AS/7/23</b>

## **HIGHLAND COUNCIL**

**Committee:** **Audit & Scrutiny Committee**

**Date:** **15<sup>th</sup> June 2023**

**Report Title:** **Internal Audit Annual Report 2022/23**

**Report By:** **Strategic Lead (Corporate Audit & Performance)**

### **1. Purpose/Executive Summary**

- 1.1 The attached report includes an assessment of the Council's framework of governance, risk management and control, and the associated opinion which provides information for the Council's Annual Governance Statement.

### **2. Recommendations**

- 2.1 The Committee is invited to note the content of the report, the audit opinion provided and to raise any relevant points with the Strategic Lead (Corporate Audit & Performance).

### 3. Annual Report 2022/23

- 3.1 The Public Sector Internal Audit Standards requires that the Chief Audit Executive (the Corporate Audit Manager):

*“Delivers an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.*

*The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.*

*The 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.”*

These requirements have been met by the report provided at **Appendix 1** with section 2 of the report used to inform the Council’s Annual Governance Statement.

### 4. Implications

- 4.1 There are no Resource, Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever, Risk or Gaelic implications. Any issues identified have already been addressed within previous reports to Committee.

Designation: Strategic Lead (Corporate Audit & Performance)

Date: 1<sup>st</sup> June 2023

Author: Donna Sutherland

Background Papers:

**Appendix 1**



**The Highland Council**

**Internal Audit Annual Report 2022/23**

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## **1. INTRODUCTION**

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1<sup>st</sup> April 2022 to 31<sup>st</sup> March 2023, and a report that can be used by the Highland Council to inform its Annual Governance Statement.
- 1.2 This report has been produced in accordance with the requirements of the Public Sector Internal Audit Standards (the Standards) which came into effect from 1<sup>st</sup> April 2013 and apply to all internal audit service providers. These Standards were developed in collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
- 1.3 Section 2450 of the Standards states that *"the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In addition, the annual report must incorporate:*
- *The opinion;*
  - *The summary of work that supports that opinion; and*
  - *A statement on conformance with the Standards and the results of the quality assurance and improvement programme".*

## **2. ANNUAL GOVERNANCE STATEMENT**

### **2.1 Internal Control**

The Council's Financial Regulations require the Executive Chief Officers to ensure the principles of internal control are incorporated in the working practices of their Services.

Internal control is defined as *"the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance"* regarding the achievement of one or more of the following objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, regulations and contracts.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or plans.

Any system of control can only 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 and regulations. Accordingly, the Council should seek continual improvement in the effectiveness of its systems of internal control.

### **2.2 Internal Audit**

The Standards define internal auditing as *"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 work undertaken by Internal Audit is documented in an audit report and issued to management. Any areas of concern together with the management agreed actions and target dates for implementation are summarised in an Action Plan within the report. It is the responsibility of management to ensure that implementation of these actions takes place as agreed. The Internal Audit Section will undertake periodic follow-up reviews to ensure that the management agreed actions have been satisfactorily implemented and the results of this are reported to the Audit & Scrutiny Committee.

The Internal Audit Section operates in accordance with the Standards and as required, a risk based tactical audit plan is produced each year, and submitted for approval to the Audit & Scrutiny Committee. Organisational independence is demonstrated by the Chief Audit Executive (Strategic Lead) reporting in their own name to senior management, and having direct access to the Chief Executive, Section 95 Officer, Audit & Scrutiny Committee, Pensions Committee, and/ or other Members as considered appropriate.

The Standards require that there is periodic self-assessment against the Standard's requirements and that an external assessment is conducted at least once every five years by a qualified, independent assessor from outside the organisation. The Council participates in an arrangement of peer reviews through the Scottish Local Authorities Chief Internal Auditors Group (SLACAIG) which developed a standard methodology and programme of reviews. The next assessment is due to be undertaken by Officers from Moray Council but has been delayed firstly due to resource issues in Moray and then due to the Corporate Audit Manager's post being vacant in Highland. This will be addressed in 2023/24.

Details of the assessment is shown in Table 1 overleaf. This shows no change from that reported last year whereby full compliance against the standards has been achieved.

### Summary of conformance with the Standards

*Table 1*

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	Definition of Internal Auditing				
Section B	Code of Ethics				
Section C	Attribute Standards				
1000	Purpose, Authority and Responsibility				
1100	Independence and Objectivity				
1200	Proficiency and Due Professional Care				
1300	Quality Assurance and Improvement Programme				
Section D	Performance Standards				
2000	Managing the internal Audit Activity				
2100	Nature of Work				

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
2200	Engagement Planning				
2300	Performing the Engagement				
2400	Communicating Results				
2500	Monitoring Progress				
2600	Communicating the Acceptance of Risks				

### **2.3 Internal Audit work**

The 2022/23 audit plan was approved by the Audit & Scrutiny Committee on 28/09/22. All audit reports issued are provided as a standing agenda item to each Committee meeting together with progress against the Plan. Where the Plan requires adjustments during the course of the year these will be set out in the progress report for approval by Members.

A summary of the audit reports issued together with the audit opinion and grades is provided at Section 3.2.

### **2.4 Areas of concern**

Any areas of concern identified from an audit review will result in an audit recommendation being made which is contained within an action plan. These recommendations are graded as high, medium or low; high defined as "*major issues that managers need to address as a matter of urgency*".

During 2022/23, a total of 63 audit recommendations were made. 6 of these were classified as high grade within 5 audit reports and these are listed below. A full breakdown of the audit grades and the overall audit opinions can be found at Table 2 on pages 9 – 10.

- The absence of any formal contract arrangements for the purchase of fuel which due to the value, is contrary to Contract Standing Orders. As detailed in the action tracking update in a separate agenda item, a revised target date of 30/06/23 has been agreed for implementation of the agreed management action.
- Another audit also identified the failure to fully comply with procurement requirements in respect of a sample of capital projects examined. Examples identified included 1 project where quotes rather than tenders were obtained, and a contract award notice not being published.
- Review of the out of hours call handling service during recent storms showed that the performance was lower than expected and there was a need to ensure sufficient capacity when severe weather warnings had been received.
- It was identified that the Visitor Management Plans (VMP) did not contain key outcomes and there was no evaluation framework. In this case, whilst there are no further VMPs it was agreed with management that these principles would apply to any other similar funding programmes.
- 2 high grade recommendations were included in the whistleblowing investigation report considered in private by Committee and so no further details have been provided here. However, these will be followed up in the normal manner and reported accordingly to Committee.

There are no particular trends identified with regard to the audit recommendations and these are not considered to impact upon the audit opinion provided.

### **2.5 Action Tracking**

As part of the audit process, all audit recommendations these are action tracked to ensure that the agreed actions were implemented as agreed. The results of the action tracking, including delays in achieving the target dates are reported to the Audit & Scrutiny Committee on a six-monthly basis to the June and November meetings.

The action tracking process also allows for revision of the agreed action target dates. All actions were either satisfactorily implemented or revised target dates were agreed.

## **2.6 Assurances from Directorates**

As part of the Annual Accounts process, the Chief Executive and the Executive Chief Officers are asked to provide assurance that the following statements are valid:

- That Financial Monitoring Statements are regularly reviewed at Directorate Management Meetings.
- That Staff have been made aware of Financial Regulations and Contract Standing Orders.
- That Staff have been made aware of the Code of Conduct, Information Systems Security, Fraud and Corruption and Whistle blowing policies.
- That the Directorate has a robust scheme of delegation and that Staff have been informed of their supervisory and accountability responsibilities and that their responsibilities are documented in a Job Description.
- That segregation of duties is an important control mechanism operation within the Directorate and where it has not been possible to operate such a control a suitable alternative is in place.
- That appropriate targets have been established within the Directorate to measure financial and other performance.
- That a formal system of project management, including project governance operates within the Directorate.
- That appropriate arrangements are in place to govern companies.

The necessary assurances have been provided and no issues have been highlighted which affects the Annual Governance Statement which forms part of the Council's Annual Accounts.

## **2.7 Governance arrangements**

The Council has a Local Code of Corporate Governance which follows the format set out in the CIPFA/ SOLACE Guidance Note for Scottish Authorities – Delivering Good Governance in Local Government (2016). This guidance sets out the seven core principles and their associated sub-principles designed to demonstrate good governance.

The Code of Corporate Governance 2022/23 was approved by the Audit & Scrutiny Committee on 28/09/22. The Code contains a total of 78 actions and review identified that these are shown as complete or on target except for 2 actions which have some slippage. Both of these actions relate to the ongoing review of the Council's capital programme, and regular updates have been provided to Members. These these are not considered to have any significant impact upon the effectiveness of the Council's governance arrangements.

## **2.8 Risk Management**

Risk management is a key element of Corporate Governance. The Council has a risk management strategy which demonstrates its commitment to maintaining a structured approach to risk management and ensuring that it effectively manages its risks. The strategy is regularly reviewed with the most recent being approved by the Audit & Scrutiny Committee in March 2021.

Overall responsibility for Corporate Risk sits with the Chief Executive. As part of its risk management process, the Council has a Corporate Risk Register which is reviewed at least every three months by the Executive Leadership Team. The results of these reviews are reported as a standing item to the Audit & Scrutiny Committee.

## **2.9 Audit Opinion**

The results of the work carried out by Internal Audit, taken together with other sources of assurance, are not sufficient to support an annual opinion on the overall adequacy and effectiveness of the Council's framework of control. The results of internal audit work concluded during the year and a summary of where it is possible to place reliance on the work of other assurance providers in respect

of governance and risk management is presented in the annual report but this does not result in an opinion on the aspect of control. The Chief Audit Executive has concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control.

### 3. INTERNAL AUDIT GRADINGS AND OPINIONS

3.1 During the year, a total of 13 final reports were issued. Where the report contains an audit recommendation, this is given a grading of high, medium or low. In addition, the report contains an overall audit opinion which is used to inform the Chief Audit Executive's annual audit opinion. With regard to the individual audit report opinions, there are five levels of assurance which have the following definitions:

Level	Definition
<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
<b>Substantial Assurance</b>	While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Reasonable Assurance</b>	Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited Assurance</b>	Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
<b>No Assurance</b>	Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

3.2 Table 2 below, provides a summary of the audit reports issued together with the audit opinion, number of recommendations and a breakdown of the associated grades.

**Table 2**

Report Name	Report Date	Audit Opinion	Recommendations			
			No.	High	Medium	Low
HTE04001 - Review of Recovery	08/04/22	Substantial	3	0	3	0
HIE13/001 - Highland Coastal Communities Fund	20/07/22	Reasonable	6	0	4	2
HCP14/001 - Review of Award of Ward Fund Schemes	26/07/22	Substantial	6	0	4	2
HIE08/002 - Harbours Fuel Sales	29/07/22	Reasonable	5	1	3	1
HPG13/001 - Effectiveness of Out of Hours Arrangements	17/08/22	Reasonable	8	1	5	2
HPG01/001.bf - Review of local democracy and governance arrangements	19/08/22	Reasonable	7	0	4	3
HPH10/002.bf- Review of Capital Projects	30/08/22	Reasonable	10	1	6	3
HIE18/002.bf Review of Covid-19 Grants	31/08/22	Substantial	2	0	1	1
HCP20/001 COVID Welfare Support	03/10/22	Full	0	0	0	0
HRF11/002 - Payment of Members' Expenses	21/11/22	Substantial	4	0	2	2

Report Name	Report Date	Audit Opinion	Recommendations			
			No.	High	Medium	Low
HIE18/003 - Visitor Management Plan Resources	24/01/23	Reasonable	2	1	1	0
HIA14/003.bf – Residential Units Investigation (whistleblowing)	10/03/23	N/A *	6	2	4	0
HCP09/001 Customer Services	13/03/23	Reasonable	4	0	4	0
<b>Totals</b>			<b>63</b>	<b>6</b>	<b>41</b>	<b>16</b>

\* The whistleblowing concerns investigated were not upheld. No control issues were identified so there was no audit opinion but some areas for improvement were identified.