

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.

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Date: 31 May 2024

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Background Papers:

Appendix 1



The Highland Council

Internal Audit Annual Report 2023/24

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1. INTRODUCTION

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2023 to 31st March 2024, 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 1st 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). The Standards have been reviewed and updated periodically with the most recent update issued in 2017.
- 1.3 Section 2450 of the Standards states that:
- 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.
 - 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.
- 1.4 These Standards will be replaced by the new Global Internal Audit Standards which were issued in January 2024. All organisations are expected to fully comply with the Global Standards by January 2025. Therefore, the format of the 2024/25 annual report will be amended to adhere with the requirements of the new Global Standards.

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 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 Committee, Pensions Committee, and/ or other Members as considered appropriate.

The Standards require that there is periodic self-assessment against the Standard's requirements. This is undertaken annually, and details are provided 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 2023/24 audit plan was approved by the Audit Committee on 28/09/23. 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 2023/24, a total of 84 audit recommendations were made. 15 of these were classified as high grade within 6 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.

- There was an issue identified where long-term absence information had not been submitted by Managers which meant that was not received by the Payroll Team. To address this, it was agreed that urgent training and guidance would be provided for Managers. This action has been completed.
- There were 2 high grade recommendations in the commissioned children’s services audit. These related to the concern that number of commissions had not been reprocured for a significant period of years and instead continued to be extended. In addition, some of the contract extensions awarded were not compliant with the requirements of the Council’s Contract Standing Orders. Both these actions were due to be completed on 31/07/23 but revised target dates have been agreed with the latest being 30/04/24. Progress will continue to be monitored through the new monthly action tracking process.
- There were 5 high grade recommendations in the Climate Change Plans and Implementation audit. These were:
 - (i) The need to link the Net Zero Strategy with Service Plans which has a target date of 30/06/24 and so is not yet due.
 - (ii) 4 measures in the Corporate (now Performance) Plan required further development and targets to be set. This action has been completed.

The next 3 recommendations have revised action target dates. The reasons for the revisions have been provided as part of the action tracking report elsewhere in the Committee agenda.

- (iii) The absence of a costed action plan to support the Net Zero Strategy
- (iv) No timescale for the development of a Council adaptation strategy.
- (v) The need for an effective system to capture and record emissions data.

- An audit of a secondary School contained 3 high grade recommendations. 1 has been completed in respect of ensuring that the school maintains an inventory. The other 2 recommendations which required changes in the authorised signatory for the school fund and training of the other office staff in the key financial processes have revised target dates. This acknowledges that there has been changes in the school's senior management arrangements.
- There was also 1 high grade recommendation in the review of Financial Procedures in Schools due to the fact that the report's findings were the same issues previously identified in 3 previous audits and so had not been addressed. There were a number of actions agreed to address this recommendation which are due to be completed by 30/06/24.
- The audit review of the Corporate Landlord had 3 high grade recommendations relating to the:
 - (i) Need to ensure that the Concerto system contains all necessary property asset information.
 - (ii) Risk associated with potential maintenance and repairs required compared to the available maintenance budget.
 - (iii) Lack of evidence to demonstrate there is a system approach to property inspections.

The agreed management actions in response to the audit recommendations are not yet due but will be action tracked once this date has passed.

An updated version of the 2022/23 Internal Audit Annual Report was provided to the Audit Committee on 24/01/24. This related to the concern that former employees had continued to be paid after they had left the Council's employment. During this year, this concern has been addressed by the Internal Audit Team as follows:

A review was undertaken of the payroll control environment. The final report was not ready by the year end but has now been issued and is provided as a separate agenda item. This report contains 10 high grade recommendations and has the opinion of Limited Assurance. Progress in implementing the management agreed actions will be monitored during the year.

Where an overpayment to a leaver has been identified and they fail to engage with the Payroll Team then it has been agreed that these will be referred to the Corporate Fraud Team. Further details of this work are provided within the Fraud and Whistleblowing Annual Report 2023/24.

There are no particular trends identified with regard to the above and these are not considered sufficiently material to impact upon the audit opinion provided at section 2.10.

2.5 Action Tracking

As part of the audit process, all audit recommendations 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 each meeting of the Audit Committee. The action tracking process was

amended during the year whereby individual actions are now tracked once their due date has passed rather than when the final audit action had passed. Also, an update is now provided to every Committee meeting rather than the previous six-monthly updates.

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 were 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 is reviewed each year and an update on progress in delivering the actions together with the revised annual Code is normally reported to the Audit Committee in September each year. The 2023/24 Code was approved by the Audit Committee on 28/09/23 and the delivery of the associated actions will be reported to Committee on 26/09/24.

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 was reviewed, and changes were

made during the year. The main changes included the creation of a risk appetite statement and the change in name to the Corporate Risk Management Strategy. These changes were agreed by the Audit Committee in the January and then Council in March 2024.

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 regularly reviewed. The results of these reviews are reported as a standing item to the Audit Committee.

2.9 Compliance with the CIPFA Code on Managing the Risk of Fraud and Corruption

A self-assessment exercise has been undertaken to assess the extent of the compliance with the CIPFA Code. One area for improvement was identified which resulted in a revision of the Anti-fraud and Anti-corruption Policy, which has also been renamed as the Counter Fraud Policy. Once the updated Policy has been approved by the Audit Committee on 13/06/24 then that the Council's arrangements will fully comply with the CIPFA Code.

2.10 Audit Opinion

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31st March 2024.

3. INTERNAL AUDIT GRADINGS AND OPINIONS

3.1 During the year, a total of 16 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
Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	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.
Reasonable Assurance	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.
Limited Assurance	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.
No Assurance	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
Review of Absence Management Arrangements (follow-up)	28/04/23	Reasonable	7	1	6	0
Commissioned Children's Services	31/05/23	Limited	6	2	4	0
Housing Rent Collection	06/06/23	Substantial	3	0	1	2
Transformation Programme	21/06/23	Substantial	2	0	2	0
Inverness and Highland City Region Deal	09/08/23	Substantial	3	0	3	0
Winter Maintenance Payments	29/08/23	Substantial	3	0	2	1

Report Name	Report Date	Audit Opinion	Recommendations			
			No.	High	Medium	Low
Control and usage of Imprests	08/09/23	Reasonable	6	0	5	1
Procurement Fraud Controls	12/09/23	Substantial	5	0	4	1
Climate Change Plans and Implementation	13/09/23	Limited	6	5	1	0
Secondary School	14/09/23	Reasonable	3	3	0	0
Review of the control and usage of imprests and other cash in Health and Social Care Establishments	16/11/23	Reasonable	8	0	6	2
ICT Arrangements in Schools	18/01/24	Substantial	5	0	4	1
Waste Management Income Systems	19/01/24	Substantial	2	0	0	2
Corporate Landlord Model	14/02/24	Limited	13	3	6	4
Review of Financial Procedures in Schools	27/02/24	Reasonable	8	1	7	0
Verification of Statutory Performance Indicators	28/02/24	Substantial	4	0	4	0
Totals			84	15	55	14