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## **GOVERNANCE AND RISK COMMITTEE**

### **INTERNAL AUDIT ANNUAL REPORT**

#### **REPORT BY AUDIT, RISK AND COUNTER FRAUD MANAGER**

##### **A. PURPOSE OF REPORT**

To inform the Governance and Risk Committee of my conclusion on the council's framework of governance, risk management and control.

##### **B. RECOMMENDATION**

It is recommended that the Governance and Risk Committee notes my conclusion that the council's framework of governance, risk management and control is sound.

##### **C. SUMMARY OF IMPLICATIONS**

- |   |   |
|---|---|
| <b>I Council Values</b>   | Being honest, open and accountable, making best use of our resources.   |
| <b>II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)</b> | <p>The Local Authority Accounts (Scotland) Regulations 2014 require the council to conduct, at least once in each financial year, a review of the effectiveness of its system of internal control. The findings of the review must be considered either by the council or a committee of the council whose remit includes audit or governance functions. Following consideration of the findings of that review, the council or that committee must approve an annual governance statement.</p> <p>The Public Sector Internal Audit Standards (PSIAS) require that the chief audit executive delivers an annual internal audit opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.</p> |
| <b>III Implications for Scheme of Delegations to Officers</b>   | None.   |
| <b>IV Impact on performance and performance Indicators</b>  | Weaknesses in the council's framework of governance, risk management and control are likely to have an adverse impact on performance.   |
| <b>V Relevance to Single Outcome Agreement</b>  | Our public services are high quality, continually improving, efficient and responsive to local people's needs.  |
| <b>VI Resources - (Financial, Staffing and Property)</b>  | None.   |
| <b>VII Consideration at PDSP</b>  | None.   |

**VIII Other consultations**

Head of Finance and Property Services, internal audit staff.

**D. TERMS OF REPORT**

The Local Authority Accounts (Scotland) Regulations 2014 require the council or relevant committee to conduct, at least once in each financial year, a review of the effectiveness of its system of internal control. Following the review of the system of internal control, the regulations require the council or relevant committee to approve an annual governance statement. For the purposes of this council's compliance with the regulations, the relevant committee is the Governance and Risk Committee.

The requirement for a review of the system of internal control is discharged by the Governance and Risk Committee's review of the internal audit annual report. This also facilitates the Committee's consideration and approval of the annual governance statement.

The internal audit annual report for 2020/21 is attached as an appendix, includes details of the risk based internal audit work undertaken during the year, the results of that work, and my overall audit opinion.

During 2020/21 we identified one area where we considered control was unsound. This was in relation to the operation of the Protection of Vulnerable Groups (PVG) Referral Assessment Panel. This matter was reported to the Audit Committee on 22 March 2021.

As the Audit Committee's remit includes undertaking a corporate overview of the council's control environment, and monitoring the performance of internal audit, the internal audit annual report will be submitted to the Audit Committee on 21 June for further consideration.

**E. CONCLUSION**

I have concluded that the council's framework of governance, risk management and control is sound.

**F. BACKGROUND REFERENCES**

Report to the Audit Committee 22 June 2020: Internal Audit Plan 2020/21

Appendices/Attachments: Internal Audit Annual Report 2020/21

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**Kenneth Ribbons**  
**Audit, Risk and Counter Fraud Manager**

Date of meeting: 14 June 2021

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# **INTERNAL AUDIT ANNUAL REPORT 2020/21**

**Audit, Risk and Counter Fraud Unit  
14 June 2021**

## CONTENTS

|     | Section                                     | Page |
|-----|---|------|
| 1.0 | Introduction                                | 1    |
| 2.0 | Quality Assurance and Improvement Programme | 1    |
| 3.0 | Internal Audit Independence                 | 2    |
| 4.0 | Performance and Benchmarking                | 2    |
| 5.0 | Internal Audit Work                         | 3    |
| 6.0 | Conclusion                                  | 4    |
|     | Appendix A: Performance Information         | 5    |
|     | Appendix B: Risk Based Audits 2020/21       | 7    |
|     | Appendix C: Audit Report Conclusion         | 8    |

## **1.0 INTRODUCTION**

- 1.1. This report constitutes an overview of the activities and performance of the internal audit function for the financial year ending 31 March 2021.
- 1.2. The Local Authority Accounts (Scotland) Regulations 2014 require that local authorities operate an internal audit function. The Regulations stipulate that internal audit must be professional and objective, and be undertaken in accordance with recognised standards and practices in relation to internal auditing.
- 1.3. Our internal audit work is undertaken in accordance with the Public Sector Internal Audit Standards (PSIAS), which are mandatory standards for public sector internal audit. The PSIAS require me to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control that can be used by the council to inform its governance statement. This opinion is included in section six of this report.

## **2.0 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

- 2.1. The PSIAS require that a quality assurance and improvement programme is maintained. The objective is to determine whether the internal audit function complies with the PSIAS and produces audit work of an appropriate quality.
- 2.2. The main components of the quality assurance and improvement programme are as follows:
  - monthly team meetings and regular 1-1 meetings with staff;
  - review of audit work by a more senior auditor;
  - authorisation of audit reports prior to issue;
  - a comprehensive set of performance measures (appendix A);
  - consultation with customers at the conclusion of each audit;
  - benchmarking arrangements;
  - staff appraisal and development reviews (ADR) completed in accordance with corporate requirements.
- 2.3. The internal audit team, as part of the council's Audit, Risk and Counter Fraud Unit, also participates in the West Lothian Assessment Model (WLAM), which is a set of questions or statements that services use to identify strengths and weaknesses and provide a structure for improvement.
- 2.4. The Unit had its last assessment on 23 September 2019 and achieved a score of 561, which was an above average score. The Unit had a WLAM assessment panel on 17 December 2019, which involves a presentation to the Chief Executive and two other senior officers, followed by questions. The outcome of the Panel was that the Unit continues on cycle one, which is a three yearly cycle, with the next assessment being in 2022.
- 2.5. An annual self-assessment exercise is undertaken against the requirements of the PSIAS. As reported in previous years, the self-assessment identified one non-conformance for which no action is proposed. There is a requirement that work programmes are approved prior to the commencement of an audit, and any adjustments to work programmes are documented and approved promptly. In my opinion internal audit staff are suitably

qualified and experienced, and given the resource constraints within the audit team, I do not consider that this would add value.

- 2.6. In my opinion this non-conformance does not have a material impact on the scope or operations of internal audit, and I therefore confirm compliance with the PSIAS.

### **3.0 INTERNAL AUDIT INDEPENDENCE**

- 3.1. The PSIAS require that internal audit activity must be independent and internal auditors must be objective in performing their work.
- 3.2. The PSIAS use the term “chief audit executive” to describe the person in a senior position responsible for effectively managing the internal audit activity. In the context of West Lothian Council, I am the chief audit executive as the council’s Audit, Risk and Counter Fraud Manager.
- 3.3. The PSIAS require the chief audit executive to communicate and interact directly with the Audit Committee, and state that the chief audit executive must confirm, at least annually, the organisational independence of the internal audit activity.
- 3.4. Indicators of internal audit independence include:
- approval of the internal audit charter by the Audit Committee;
  - approval of the risk based internal audit plan by the Audit Committee;
  - the chief audit executive having direct and unrestricted access to senior management, the Chief Executive, the Chair of the Audit Committee, and the Audit Committee;
  - the Audit Committee receiving reports from the chief audit executive on internal audit’s performance relative to its plan, and other matters.
- 3.5. Paragraph B.2.4 of the council’s Financial Regulations states that the internal audit function is free from interference in determining the scope of internal auditing, performing work, and communicating results.
- 3.6. Paragraph B.2.5 of the council’s Financial Regulations states that the Audit, Risk and Counter Fraud Manager has the right of direct access to the Chair of the Audit Committee and the Chief Executive.
- 3.7. The organisational status and independence of internal audit is also set out in the Internal Audit Charter which was approved by the Audit Committee on 8 October 2018.
- 3.8. Accordingly, I confirm the organisational independence of the internal audit function.

### **4.0 PERFORMANCE AND BENCHMARKING**

- 4.1. Appendix A sets out the internal audit team’s performance for 2020/21 based on performance measures held in Pentana, the council’s performance management system.
- 4.2. During the financial year ended 31 March 2021 the internal audit team was working from home. Staff adapted to these arrangements and both the challenges and opportunities they present. This has included the use of appropriate communication tools including e-mail, telephone and extensive use of videoconferencing.

- 4.3. The internal audit plan for 2020/21 was approved by the Audit Committee on 22 June 2020. Approval of the plan was delayed by the coronavirus pandemic. Although audit work did not at any time stop, some audit work could not be undertaken, and some audits were delayed as it was considered inappropriate to conduct internal audits in those service areas which were at the forefront of the council's response to the pandemic. For these reasons the plan was not fully completed. A progress report was submitted to the Audit Committee on 25 January 2021 which included some amendments to the audit plan and as at 31 March 2021 85% of the audit plan had been completed. Where appropriate audit work not undertaken has been included in the 2021/22 internal audit plan.
- 4.4. Internal audit participates in benchmarking arrangements via the CIPFA Directors of Finance performance indicators. There are two indicators and the table below sets out internal audit's ranking for 2019/20, the latest year for which benchmarking information is available.

| Performance Indicator   | 2019/20 | Ranking (of 32 Scottish Councils) |
|---|---------|-----------------------------------|
| Cost of internal audit per £1 million of West Lothian Council's net expenditure | £457    | 2                                 |
| Percentage of planned productive audit days actually achieved for the year      | 99%     | 11                                |

## 5.0 INTERNAL AUDIT WORK

### Risk Based Audit

- 5.1. Internal audit work involves reviewing controls within council systems, both financial and non-financial, based on assessed risk. The results of our internal audit work are reported to management who are, where appropriate, asked to complete and return action plans.
- 5.2. The PSiAS require that a risk based audit plan be prepared and the methodology for doing this is set out in the plan. In summary, audits are included within the plan on the basis of a review of the corporate risk register, consultation with the Audit Committee and senior managers, consideration of previous internal audit and counter fraud work, and knowledge of the council and its operations. Audits in the plan are, where possible, referenced to the corporate risk register. The risks in the corporate risk register link to corporate priorities and enablers.
- 5.3. Appendix B sets out the risk based audits undertaken during the year, together with the conclusion reached. Appendix C explains the conclusion.
- 5.4. During 2020/21 we identified one area where we considered control was unsound. This was in relation to the operation of the Protection of Vulnerable Groups (PVG) Referral Assessment Panel. This matter was reported to the Audit Committee on 22 March 2021.
- 5.5. In accordance with a protocol agreed with the Governance and Risk Board, all internal audit recommendations ranked as being of "high" importance are entered into the council's corporate risk management system Pentana as risk actions. These are followed up by internal audit when marked as complete by the service in Pentana. Risk actions arising

from internal audit and other audit and inspection reports which remained outstanding were reported to the Audit Committee in October 2020 and January 2021.

#### Other Work

- 5.6. We undertake an annual audit of the council's Climate Change Declaration. This involved a review of the data in part 3 of the council's draft Climate Change Declaration for the year 2019/20. This section reports carbon emissions, targets, and estimated savings from projects.
- 5.7. We provide advice to services on internal control and services are encouraged to consult with us in relation to changes to procedures, and when implementing new systems. During 2020/21 the internal audit team provided advice to services in relation to changes to systems and procedures as a result of the pandemic. Both the internal audit and counter fraud teams provided advice on controls in relation to the various Covid related grant payments which were being disbursed. We also participated in the council's office remobilisation working group, and assisted our colleagues in Financial Management with the processes for recording the various pandemic related grants.
- 5.8. Internal audit work is also undertaken for external organisations. During 2020/21 we conducted internal audit work for the Improvement Service and the West Lothian Integration Joint Board. These bodies are separate legal entities and the resultant audit reports were submitted to their audit committees.

#### **6.0. CONCLUSION**

- 6.1. The PSIAS require that I deliver an annual internal audit opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, that can be used by the council to inform its governance statement.
- 6.2. My opinion is based on the internal audit work and counter fraud work undertaken during 2020/21, including follow up work. In forming my opinion I also have regard to the work of the council's Governance and Risk Board.
- 6.3. There were no limitations placed on the scope of the internal audit work.
- 6.4. I am of the opinion that overall the council's framework of governance, risk management and control is sound. As previously stated, the results of our internal audit work are reported to management who are, where appropriate, asked to complete and return action plans. Audit findings will be followed up during 2021/22 to determine whether agreed actions have been implemented. This will include the actions arising from our audit of the operation of the PVG Referral Assessment Panel.

**Kenneth Ribbons**  
**Audit, Risk and Counter Fraud Manager**

## APPENDIX A

### Internal Audit - Performance Information

The information below sets out all public performance reporting and high level performance indicators, and selected other performance indicators.

| Status  | Performance Indicator   | Current Target | 2020/21 Value | 2019/20 Value | 2018/19 Value | 2017/18 Value | 2016/17 Value |
|---|---|----------------|---------------|---------------|---------------|---------------|---------------|
|    | IA001_6a.1 Percentage of customers who rated internal audit's timeliness as good or excellent.                                      | 100%           | 100%          | 100%          | 100%          | 96%           | 100%          |
|    | IA002_6a.2 Percentage of respondents who rated the service delivered by internal audit as good or excellent.                        | 100%           | 100%          | 100%          | 100%          | 88%           | 100%          |
|    | IA003_6a.3 Percentage of respondents who rated internal audit's communication as good or excellent.                                 | 100%           | 100%          | 100%          | 100%          | 96%           | 100%          |
|    | IA004_6a.4 Percentage of respondents who rated internal audit staffs' attitude as good or excellent.                                | 100%           | 100%          | 100%          | 100%          | 100%          | 100%          |
|  | IA005_6a.5 Percentage of respondents who rated the professionalism of internal audit as good or excellent.                          | 100%           | 100%          | 97%           | 100%          | 100%          | 100%          |
|  | IA006_6a.6 Percentage of customers who consider they were treated fairly by internal audit.   | 100%           | 100%          | 100%          | 100%          | 96%           | 100%          |
|  | P: IA007_6a.7 Percentage of customers who rated the overall quality of the service provided by internal audit as good or excellent. | 100%           | 100%          | 100           | 100%          | 96%           | 96%           |

| Status  | Performance Indicator  | Current Target | 2020/21 Value | 2019/20 Value | 2018/19 Value | 2017/18 Value | 2016/17 Value |
|---|--|----------------|---------------|---------------|---------------|---------------|---------------|
|    | IA009_6a.8 Percentage of respondents who rated the information provided by internal audit as good or excellent.                      | 100%           | 100%          | 100%          | 100%          | 91%           | 100%          |
|    | P:IA012_9a.1a Cost of internal audit per £1 million of West Lothian Council's net expenditure (CIPFA Director of Finance Indicator). | £460           | See note 2    | £457          | £458          | £505          | £454          |
|    | IA013_9b.1a Percentage of planned productive audit days actually achieved for the year (CIPFA Director of Finance Indicator).        | 100%           | See note 2    | 99%           | 94%           | 102%          | 99%           |
|    | P: IA014_9b.1a Percentage of audits in the annual audit plan completed for the year.   | 100%           | 85%           | 100%          | 100%          | 100%          | 100%          |
|    | P: IA015_9b.1a Average length of time (in weeks) to issue draft audit reports.   | 10             | 11.3          | 8.3           | 9.2           | 8.8           | 10.4          |
|    | P: IA016_9b.1a Average length of time (in weeks) to issue final audit reports.   | 17             | 15.7          | 15.9          | 17.4          | 17.6          | 13.1          |
|   | IA051_7b.1 Cumulative percentage of sickness absence within the Audit, Risk and Counter Fraud Unit.                                  | 2.0%           | 0.13%         | 1.96%         | 1.65%         | 3.76%         | 1.24%         |
|  | IA066_6b.3 Total number of complaints received by Audit, Risk and Counter Fraud  | 0              | 0             | 0             | 0             | 0             | 1             |

Notes:

1. There were 21 customer questionnaire responses during the year.
2. At the time of writing, the CIPFA Director of Finance indicators for 2020/21 had not been calculated.
3. Sickness absence and complaints performance indicators relate to **all** audit, risk and counter fraud staff.

**APPENDIX B**

**RISK BASED AUDITS 2020/21**

| <b>Audit</b>  | <b>Service</b>                                  | <b>Status</b> | <b>Audit Conclusion</b>        | <b>Report to Audit Committee</b> |
|---|---|---------------|--------------------------------|----------------------------------|
| Climate Change Strategy   | Council Wide                                    | Issued        | Satisfactory                   |                                  |
| Concerto: Property System Ordering and Invoicing                | Finance and Property                            | In Progress   | Satisfactory                   |                                  |
| Corporate Health and Safety                                     | Corporate                                       | Issued        | Requires Improvement           | 22/3/21                          |
| Early Learning: Payments to Partner Providers and Child Minders | Education                                       | Issued        | Satisfactory                   |                                  |
| Gas Safety Housing  | Housing, Customer and Building                  | Issued        | Effective                      | 25/1/21                          |
| Gas Safety Operational Buildings                                | Finance and Property                            | Issued        | Satisfactory                   |                                  |
| Homelessness and Housing Need                                   | Housing Customer and Building                   | Issued        | Satisfactory                   | 21/6/21                          |
| Leader Funding  | Planning, Economic Development and Regeneration | Issued        | Effective                      |                                  |
| Looked After Children: Payments to Foster and Kinship Carers    | Social Policy                                   | Issued        | Satisfactory                   |                                  |
| Payroll System  | Corporate                                       | Issued        | Requires Improvement           | 22/3/21                          |
| Procurement   | Corporate                                       | In Draft      | Requires Improvement           |                                  |
| Protection of Vulnerable Groups                                 | Council Wide                                    | Issued        | Requires Improvement / Unsound | 22/3/21                          |
| Public Protection Committees                                    | Social Policy                                   | Issued        | Requires Improvement           |                                  |

## APPENDIX C

### AUDIT REPORT CONCLUSIONS

| <b>Overall Opinion</b>      | <b>Definition</b>  |
|-----------------------------|--|
| <b>Effective</b>            | No recommendations ranked as 'High' importance. There may be a few 'Low' and 'Medium' recommendations.   |
| <b>Satisfactory</b>         | No recommendations ranked as 'High' importance. There are a moderate number of 'Low' and 'Medium' recommendations.   |
| <b>Requires Improvement</b> | A few recommendations ranked as 'High' importance. There may also be a number of recommendations ranked as 'Low' and 'Medium' importance.  |
| <b>Unsound</b>              | A considerable number of recommendations ranked as 'High' importance resulting in an unsound system of control. There may also be a number of recommendations ranked as 'Low' and 'Medium' importance. |