

South Ayrshire Council

Report by Chief Internal Auditor
to Audit and Governance Panel
of 16 March 2022

**Subject: Proposed Internal Audit Plan Quarter 1 2022/23
(including Annual Review of Internal Audit Charter)**

1. Purpose

1.1 The purpose of this report is to submit, for Panel approval, the proposed internal audit plan for the first quarter of 2022/23.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 approves the 2022/23 Internal Audit plan for quarter 1- [Appendix 1](#); and

2.1.2 approves changes to the Internal Audit Charter - [Appendix 2](#)

3. Background

3.1 Local authorities are required to have an internal audit service under paragraph 7 of The Local Authority Accounts (Scotland) Regulations 2014. The local authority '*must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing*'. Internal Audit works to the [Public Sector Internal Audit Standards \(PSIAS\)](#).

3.2 PSIAS describes 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*'.

4. Proposals

4.1 *Basis for the Internal Audit Plan*

4.1.1 The annual Internal Audit Plan is usually presented to the Audit and Governance Panel in March each year. However Internal Audit continues to be impacted by resourcing issues which have resulted in vacancies within key roles and, although options available to address these issues are currently being explored, they are unlikely to be fully resolved before the start of 2022/23. . Therefore, to allow time to fully assess audit resources available in 2022/23 and for approval to be given for audit work

undertaken prior to the elections, the proposed plan included in [Appendix 1](#) only covers audit work for completion within the first quarter of 2022/23. The full annual Plan will be developed and presented for approval to the first meeting of the new Audit and Governance Panel in June 2022.

- 4.1.2 The basis for the plan is the PSIAS requirement (PSIAS section 2000) to establish a risk-based plan to determine the priorities for internal audit, which should be consistent with the Council's objectives. The risk-based plan must consider the requirement to produce an annual internal audit opinion (PSIAS section 2010). PSIAS requirements have been complied with in preparation of the 2022/23 Internal Audit Plan for quarter one and will be fully demonstrated when the full 2022/23 Internal Audit Plan is prepared in June 2022.

4.2 **Resources**

- 4.2.1 The budgeted establishment for Internal Audit is 3.6 full time equivalents (FTE). All posts within the section are professionally qualified. There is currently one full time vacancy (Senior Auditor) within the section and one full time member of staff (Auditor) on maternity leave until September 2022. The hours of the part time auditor have been increased to full time to cover the period of maternity leave. The process to recruit into the Senior Auditor vacancy is currently ongoing.
- 4.2.2 This plan has been produced taking into consideration the number of available working days and it is estimated that 109 days will be available to undertake direct audit work in the quarter one. It should be noted that this can be subject to amendment during the year (e.g. for any periods of absence). Consideration will also be given to outsourcing audit services to cover the staff vacancy, this will be subject to the success of recruitment processes.

4.3 **Internal Audit Charter**

- 4.3.1 The Internal Audit Charter is a formal document which defines the internal audit activity's purpose, authority and responsibility. The Chief Internal Auditor reviews the charter on an annual basis, and presents any changes to the Panel for approval.
- 4.3.2 The current Internal Audit Charter has been reviewed. Only minor changes have been made to update the Council's Monitoring Officer's job title from Head of Regulatory Services to Head of Legal, HR and Regulatory Services (section 3) and the change to Internal Audit's reporting line from the Depute Chief Executive and Director – People to the Assistant Director – People. No further changes to the content of the Charter are proposed at this time. The revised Internal Audit Charter is attached at [Appendix 2](#).

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 Any costs resulting from the requirement to outsource services will be met from underspends in employee costs arising through staff vacancies.

7. Human Resources Implications

7.1 There has been a temporary increase in the part-time auditor's hours until 2 September 2022 to help address staff vacancies within the service.

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 Failure to comply with the Public Sector Internal Audit Standards (PSIAS) and meet our obligation to provide an annual internal audit opinion.

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 3](#).

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 \(PSIAS\)](#)

[Internal Audit Charter – 20 March 2019](#)

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Date: 21 February 2022

PROPOSED INTERNAL AUDIT PLAN 2022/23 – QUARTER 1

Appendix 1

Audit Area	Objectives	Link to Council Plan	Days	Total
Key Corporate Systems				
Benefits	Follow Up of 2020/21 SWF Findings		3	3
ICT Auditing				
System Access Controls	Review of procedures and policies in place to manage and control access to council systems.	1.3	30	30
Directorates and Other Systems				
Planning, Economic Dec, regulatory	Review of COVID-19 business grants	4.4	20	20
Other Entities				
AVJB	Support to AVJB - Including preparation of Annual Report	-	1	
IJB	Support to IJB - Including preparation of Annual Report	-	1	2
Other				
Investigations and client requests	Allowance for investigations of irregularities. client requests, advice and consultancy	-	5	
Contingency	Contingency budget for unplanned commitments arising during the year	-	5	
Closure of prior year assignments	Allowance of time for the closure of prior year audit work into 2021/22	-	25	
Management and Audit development	Internal Audit planning, annual reporting, and quarterly reporting	-	7	
EQA2	South Ayrshire Council independent review of Renfrewshire Council's compliance with PSIAS	-	10	
QAIP	Annual self-assessment of compliance with PSIAS	-	2	54
TOTAL				109

South Ayrshire Council Internal Audit Charter

1. Introduction

Under the Local Authority Accounts (Scotland) Regulations 2014 paragraph 7(1), *A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.*

South Ayrshire Council has adopted the Public Sector Internal Audit Standards (PSIAS), which defines internal auditing as:

Internal auditing 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.

PSIAS, effective from 1 April 2013 (updated April 2017), requires that the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter which is consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

The Standards and Code of Ethics are available via this link: [PSIAS](#).

2. Core Principles

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focussed
- Promotes organisational improvement.

The *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing* are mandatory.

3. Roles and Definitions

The PSIAS requires the Council to define its interpretation of the following generic terms for the purposes of internal audit activity:

- 'The Board' – the Audit and Governance Panel
- 'The Chief Audit Executive' – the Chief Internal Auditor
- 'Senior Management' – the Executive Leadership Team

Other roles laid out in the PSIAS are defined in South Ayrshire Council as:

- 'The Head of Paid Service' – Chief Executive
- 'The Monitoring Officer' – ~~Head of Regulatory Services~~ **Head of Legal, HR and Regulatory Services**
- 'The Chief Financial Officer' – Head of Finance and ICT

4. Role of the Audit Committee

The Audit and Governance Panel acts as the Council's audit committee. In that capacity it has the following responsibilities:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on Internal Audit performance relative to its plan and other matters; and
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations placed on the service.

5. Role of Senior Management

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance.

Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so.

6. Mission of Internal Audit

To enhance and protect organisational value, by providing risk-based and objective assurance, advice and insight.

7. Authority of Internal Audit

The authority of Internal Audit is contained in the Financial Regulations of the Council (updated December 2018) and Internal Audit reports administratively to the Depute Chief Executive and Director – People, and in line with PSIAS reports functionally to the Audit and Governance Panel.

Officers of Internal Audit have authority per the Financial Regulations, on production of identification, to:

- enter at all reasonable times any Council premises or land;
- have unrestricted access to all records, personnel, assets, documents and correspondence relating to any financial or other transaction of the Council;
- have access to all IT hardware/software running systems on behalf of South Ayrshire Council, including hardware/software owned by third party service providers;
- require and receive such explanations as are necessary concerning any matter under examination; and
- require any employee of the Council to produce cash, stores or any other Council property under his/her control.

8. Position of Internal Audit

Internal Audit is an independent review activity. It is not an extension of, or a substitute for, the functions of line management. Internal Audit must be independent and therefore remain free from undue influence or other pressures affecting its actions and reporting and to that end:

- Internal Audit has a direct reporting line to the ~~Depute Chief Executive and Director – People Assistant Director – People~~ and functionally to the Council's Audit and Governance Panel in its role as the Council's audit committee.
- the Chief Internal Auditor has unfettered access to the Chief Executive and Executive Leadership Team;
- the Chief Internal Auditor meets regularly with the Chair of the audit committee;
- the Chief Internal Auditor attends all audit committee meetings; and
- all audit reports are issued directly by, and in the name of, the Chief Internal Auditor.

9. Responsibilities and Objectives of Internal Audit

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The main objectives of Internal Audit are:

- Examine, evaluate and report on the adequacy of internal controls as a contribution to the efficient, effective and economic use of resources;
- Follow up, on a sample basis, the implementation of audit action points;
- Maintain independence and integrity to permit the proper performance of the audit function;
- Prepare an annual evidence based opinion on the adequacy of the Council's internal control systems;
- Assist officers and members of the authority in the effective discharge of their responsibilities including the Section 95 Officer responsible for ensuring the proper administration of the authority's financial affairs; and
- To support the Chief Executive in discharging his/her overall responsibilities as Head of Paid Service.

The Chief Internal Auditor's annual report is presented to the Audit and Governance Panel and is used to support the Council's Annual Governance Statement.

10. Independence and Objectivity

Internal Audit is completely independent of all financial systems operating within the Council. Internal Audit will determine its priorities with those charged with governance.

Senior management is responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services. Line management is responsible for maintaining internal control, including the maintenance of proper accounting records and other management information suitable for running the affairs of the Council.

Internal Audit will not be responsible for the development or implementation of any activity which it would normally review. Staff of Internal Audit will not assume responsibility for the design, installation, operation or control of any procedures within directorates. Internal Audit can however advise on the internal control implications of any proposed systems changes, including new systems being introduced. Internal Audit should be informed by management of all proposals for new systems and major alterations to current systems. Internal Audit will work with relevant managers to ensure that appropriate mechanisms are incorporated to minimise control risks.

The internal audit team will ensure that independence and objectivity are maintained in line with the PSIAS including where non-audit work is undertaken. Internal auditors will have no operational responsibilities. Internal Auditors are required to complete an annual Declaration of Interest and an objectivity register is in place to ensure an accurate and up to date register of all potential conflicts is maintained.

Internal auditors will treat as confidential the information they receive in carrying out their duties. There must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of an audit will not be used to effect personal gain.

11. Planning

Internal Audit's primary task will be to review the systems of internal control operating throughout the Council. The responsibility for the production and execution of the risk based audit plan and subsequent audit activities rests with the Chief Internal Auditor.

The Chief Internal Auditor will:

- prepare an annual audit plan which will be regarded as flexible and will be continually amended and updated in the light of experience gained from audit work carried out, emerging risks to the Council and the changing environment in which audit work is carried out.
- agree the annual plan with the Chief Executive;
- seek elected members approval of the plan via the Audit and Governance Panel in its role as the Council's Audit Committee; and
- present a report each year to members outlining the actual audit work undertaken in the previous financial year and also giving an overall opinion on the adequacy of the systems and controls operated by the Council. This will include a statement confirming internal audit's compliance with PSIAS.

12. Arrangements for Appropriate Resourcing

As stated in the CIPFA Application Note, *"No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidenced-based opinion. Local factors within each organisation will determine this minimum level of coverage"*.

The annual audit plan is based on the number of audit resources available for the year with the objective of giving an evidence based opinion. High risks identified during the audit planning process are accommodated. Different areas of key financial systems are audited on an annual basis scheduled over a multi-annual cycle to ensure coverage of the whole systems.

If during the risk assessment at the planning stage a shortfall in resources available is identified, the Chief Internal Auditor will advise the Chief Executive followed by the Executive Leadership Team and Audit and Governance Panel as required to assess the associated risks or to recommend additional resources are identified.

Internal audit work is prioritised according to risk, through the judgement of the Chief Internal Auditor, informed by the Council's risk registers and in consultation with the Corporate Leadership Team.

Should circumstances arise, during the year, that resources fall or appear to be falling below the minimum level required to provide an annual evidence based opinion the Chief Internal Auditor will advise the Chief Executive, the Executive Leadership Team and the Audit and Governance Panel.

13. Assurance Services

Internal Audit work covers all Council activities, systems and processes and includes (but is not limited to):

- examining and evaluating the adequacy of the Council's system of internal control, including those pertaining to the deterrence, detection and investigation of fraudulent or illegal acts;
- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- appraising the economy and efficiency with which resources are employed;
- reviewing the identification and assessment of risk by management;
- reviewing aspects of the control environment affected by significant changes to the organisation's risk environment;
- reviewing the Council's procedures and activities in relation to best value;
- co-ordinating Internal Audit activities with the work of the external auditors and assisting the external auditors as required;
- recommending, in consultation with management, appropriate solutions to identified systems weaknesses;
- ensuring management has confirmed action has been taken to implement audit recommendations; and
- in line with the principles of Following the Public Pound Internal Audit shall review, appraise and report on all services and other activities for which the Council is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

14. Consultancy Services

The PSIAS defines consulting services as follows:

“Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training”.

Consultancy and advice services, including work on fraud related matters may be undertaken from time to time at the request of senior management. A provision is included in the annual audit plan for this type of work.

When undertaking such work auditors will not take on management responsibility for the project. Ultimate responsibility for the decisions taken within the area under review remains with senior management. Acceptance of any assignment will be dependent on available resources, the nature of the assignment and any potential impact on future assurances. The objectivity of individual audit staff will be managed in assigning any subsequent assurance work. Auditors involved in consultancy work will not audit that area for a minimum of one year after the completion of the consultancy work.

Significant consultancy assignments will be reported separately to the audit committee. Any significant consulting exercise, not included in the annual audit plan, should have the approval of the audit committee. Significant is defined as any single assignment equivalent to 5% of annual planned days.

15. Non Audit Work – Counter Fraud

Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption.

The Corporate Fraud Team who sits within the remit of the Chief Internal Auditor will assist management in the effective discharge of this responsibility and will also undertake proactive work to identify potentially fraudulent activity.

Any evidence or reasonable suspicion of irregularities should be dealt with in accordance with the Council's Special Investigations Procedure and Anti-Fraud and Anti-Bribery Strategy. It is the responsibility of each member of the Corporate Leadership Team to promote awareness of and adherence to these procedures.

In accordance with the Council's Special Investigations Procedure and Anti-Fraud and Anti-Bribery Strategy the Chief Internal Auditor will be notified of all suspected or detected fraud, corruption or impropriety, to inform the annual audit opinion and the risk-based plan.

The Corporate Fraud Team activity will be reported to the Audit and Governance Panel twice yearly separately from the Internal Audit progress against plan.

16. Other Parties Outwith the Council

The Chief Internal Auditor is responsible for presenting an annual statement on the adequacy and effectiveness of the internal control system of the Ayrshire Valuation Joint Board (AVJB). The Chief Internal Auditor has also been appointed as the Chief Internal Auditor of the South Ayrshire Integration Joint Board (IJB).

The spirit of this Internal Audit Charter will also apply to the IJB and AVJB.

17. Quality Assurance and Improvement Programme (QAIP)

The Chief Internal Auditor will develop and maintain a Quality Assurance and Improvement Programme that covers all aspects of the internal audit activity. This includes both internal and external assessments.

All audit work is subject to in-house quality control procedures whereby each audit review is subject to peer review. The audit service will undertake an annual self-assessment using the PSIAS checklist.

An external assessment will be carried out at least once every five years by a suitably qualified, independent assessor and may be a full assessment or validation of a self-assessment in line with the PSIAS. The results of these assessments will be communicated to the Audit and Governance Panel with exception reporting of outstanding action points thereafter.

The feedback of the Chief Executive and the Chair of the Audit and Governance Panel will be sought during the performance appraisal of the Chief Internal Auditor.

18. Approval

This Charter was submitted to, and approved by, the Audit and Governance Panel, in its role as the Council's audit committee, on 16 March 2022. It will be subject to annual review and update as required. All amendments will be subject to approval by the Audit and Governance Panel.



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: [Equality Impact Assessment including Fairer Scotland Duty](#)

Further guidance is available here: [Assessing impact and the Public Sector Equality Duty: a guide for public authorities \(Scotland\)](#)

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 Progress report – Quarter 3 (i) Progress of Annual Internal Plan 2021/22 (ii) Implementation of Internal Audit Action Plans
Lead Officer (Name/Position/Email)	Cecilia McGhee, Chief Internal Auditor - Cecilia.McGhee2@south-ayrshire.gov.uk

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

Community or Groups of People	Negative Impacts	Positive impacts
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
Advance equality of opportunity between people who share a protected characteristic and those who do not	Low
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
Increase participation of particular communities or groups in public life	Low
Improve the health and wellbeing of particular communities or groups	Low
Promote the human rights of particular communities or groups	Low
Tackle deprivation faced by particular communities or groups	Low

5. Summary Assessment

Is a full Equality Impact Assessment required? (A full Equality Impact Assessment must be carried out if impacts identified as Medium and/or High)	YES NO <div style="border: 1px solid black; display: inline-block; padding: 2px; margin-left: 20px;">X</div>
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Rationale for decision:
 This report updates Members on progress against the 2021/22 internal audit plan and management progress with implementing audit action points. Their consideration of this report has no specific equality implications.

Signed : Cecilia McGhee **Chief Internal Auditor**

Rationale for decision:

This report updates Members on progress against the 2021/22 internal audit plan and management progress with implementing audit action points. Their consideration of this report has no specific equality implications.

Date: 22 February 2022