

AUDIT & RISK COMMITTEE

28 JUNE 2022

INTERNAL AUDIT ANNUAL REPORT & INTERNAL AUDIT OPINION 2021/22

Report by Chief Internal Auditor (Report No 22/156)

1. PURPOSE

- 1.1 This report presents the year-end report and audit opinion of the Chief Internal Auditor for 2021/22, as set out in Section 12.

2. RECOMMENDATION	
2.1	It is recommended that the Committee notes the content of this report and specifically the Audit Opinion, at Section 12, which states that reasonable reliance can be placed on the systems of governance, risk and internal control for 2021/22.

3. STRUCTURE OF REPORT

- 3.1 This report is structured over the following sections:

- Section 4: Background
- Section 5: Internal Control Framework
- Section 6: Internal Audit Planning
- Section 7: Internal Audit Outcomes 2021/22
- Section 8: Follow Up Arrangements
- Section 9: The Audit Committee
- Section 10: Compliance with Internal Audit Standards
- Section 11: Counter-Fraud & Corruption Activity
- Section 12: Audit Opinion 2021/22
- Appendix

4. BACKGROUND

- 4.1 The Public Sector Internal Audit standards (PSIAS) require the Chief Internal Auditor to provide an annual opinion which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The report must incorporate the opinion, a summary of the work that supports this opinion, a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. This report fulfils this requirement.
- 4.2 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. In accordance with the PSIAS, it helps the council accomplish its objectives by

bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

5. INTERNAL CONTROL FRAMEWORK

- 5.1 Perth & Kinross Council's internal controls include the full range of policies, procedures and practices intended to ensure the proper conduct of its operations and the achievement of its objectives. They include processes and procedures, organisational structures, job descriptions, authorisation limits, management supervision, risk management processes, reports and decisions.
- 5.2 It is the responsibility of management to devise, implement and maintain appropriate controls over the activities for which they are responsible. The role of Internal Audit is to provide an opinion to the Council as to the effectiveness of the controls that have been put in place by management in order to ensure that the organisation achieves its objectives. Internal Audit is thus a key part of the process by which the Council ensures the management of the risks that threaten the achievement of its objectives.
- 5.3 Internal Audit's work is planned in such a way as to take account of these risks. Prioritising work towards the areas of highest assessed risk enables the Council to identify and remedy the most material weaknesses in its framework of internal controls.

6. INTERNAL AUDIT PLANNING

- 6.1 In line with the PSIAS, Internal Audit undertakes a process of planning resulting in an annual plan. This plan was presented partly in themes, with many themes cutting across Services and taking cognisance of the arrangements in place for the delivery of critical services during the COVID-19 pandemic. This approach targeted the key risks identified as part of the Council's Risk Management processes. In this respect, the Internal Audit Plan for 2021/22 was able to closely align with the Council's risk management arrangements.
- 6.2 For 2021/22, the report containing Internal Audit's Strategy & Plan was considered and approved in June 2021 ([report 21/111](#)). All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 21/22 aimed to cover the most significant areas of risk within the anticipated resources available whilst ensuring that there was a balance of coverage for all Service areas. Due to the uncertainties regarding the ongoing pandemic, the requirement for greater flexibility in the Plan was acknowledged.

7. INTERNAL AUDIT OUTCOMES 2021/22

- 7.1 Of the 10 planned Internal Audit assignments for 2020/21, 8 are complete or substantially complete and the outcomes have been taken into consideration in arriving at the Opinion. The remaining audits are being considered as part of the arrangements for the 2022/23 Internal Audit Planning process.

- 7.2 Of those reports provided to Audit Committee within the year, Internal Audit was able to provide reasonable assurance for 4 areas with 3 receiving substantial assurance over the risk management, governance and internal controls in their areas. One of these reports arose from work undertaken on behalf of Perth & Kinross' Integration Joint Board.
- 7.3 Of the 24 actions agreed with management as part of the internal audit reports, 3 of these were high priority and these have been completed. There were 17 actions of medium importance. Of these, 13 were due to be completed and 5 have been verified as fully completed. The remaining 4 were of low importance and all actions have been completed.

8. FOLLOW UP ARRANGEMENTS

- 8.1 The responsibility for considering (and accepting or rejecting) Internal Audit's findings rests with management. Final audit reports record the agreed plan of action, including the individual(s) responsible; the planned timescales for completion; and the evidence required by Internal Audit to verify completion of the action. The audit process is of little value unless action is taken to remedy deficiencies in internal control where these are identified. Hence, a significant part of Internal Audit's role is the following-up of progress with these action plans in line with the requirements of the Public Sector Internal Audit Standards.
- 8.2 A database for recording agreed actions is maintained for this purpose. Services are routinely requested to provide the agreed evidence of completion for actions which are due to have been completed. Where actions have not been completed, an update on progress is requested along with the reason for non-completion and a revised date for completion. The Audit Committee is informed of all actions which have not been completed, along with an Internal Audit opinion on the acceptability or otherwise of the response received from management.
- 8.3 The support of the Chief Executive, Executive Directors and Chief Operating Officer, and Senior Management Teams in ensuring that agreed actions are completed has continued during the year.
- 8.4 The response to the COVID-19 pandemic impacted the completion of actions in some areas in 2021/22 and before. Reporting by exception to Audit Committee continued in the year, with detailed outcomes relating to two reports being provided in March 2022.
- 8.5 In the Chief Internal Auditor's opinion, the procedures in place provide a sound basis for ensuring that progress against the agreed plans is exposed to the proper level of scrutiny.

9. THE AUDIT COMMITTEE

- 9.1 The Audit Committee operates within an approved 'Role and Remit' and as a formally constituted Committee of the Council. The Committee has conducted its meetings mostly over Teams, with all meetings routinely recorded and

available to view via a link from the Committee's webpage, thus ensuring a high degree of accountability for its activities.

10. COMPLIANCE WITH INTERNAL AUDIT STANDARDS

- 10.1 The Public Sector Internal Audit Standards (PSIAS) have been adopted by Perth & Kinross Council as the relevant professional standards.
- 10.2 There is a requirement for an external review of compliance with the PSIAS to be undertaken every 5 years. This was undertaken during 2018/19 by the then Acting Chief Internal Auditor for South Ayrshire Council. This took the form of a validated self assessment, the outcome of which was reported to Audit Committee in November 2018 ([report 18/358](#) refers). This report verified that Perth & Kinross Council's Internal Audit function fully conforms with the PSIAS.
- 10.3 The Chief Internal Auditor has undertaken a self-assessment of compliance with the PSIAS for 2021/22 and has concluded that the function remains compliant.
- 10.4 Internal Auditors must conform to the Code of Ethics included within the Standards. This Code incorporates the principles and rules of conduct for Internal Auditors' integrity, objectivity, confidentiality and competency.
- 10.5 A quality assurance system was in place in Internal Audit throughout 2021/22 which ensured the quality of Internal Audit work was of a consistent and professional standard.
- 10.6 A further assessment of compliance with Standards and the development of a Quality Assurance Improvement Plan will be considered in detail throughout 2022/23.

11. COUNTER-FRAUD & CORRUPTION ACTIVITY

- 11.1 The responsibility for preventing and detecting fraud and corruption rests with management; it is the responsibility of management to take into account the risks arising from fraud and corruption and to devise and maintain the appropriate internal controls to provide a reasonable level of assurance that the Council's resources are being protected from loss and misappropriation.
- 11.2 Nevertheless, Internal Audit has a number of responsibilities regarding the Council's anti-fraud and anti-corruption arrangements. The year 2021/22 saw a moderate level of audit activity in this area as described below.
- 11.3 The National Fraud Initiative (NFI) is a large-scale 'data-matching' exercise that takes place every two years and takes place over two financial years. Perth & Kinross Council has participated in the 2020/21 exercise. The NFI involves the comparison of personal data held by public authorities in order to identify anomalies that may indicate fraud or error. This output then forms the basis for a process of investigation within each authority, to ensure that errors

are recognised and corrected and that, where cases of possible fraud are identified, they are pursued appropriately.

- 11.4 This investigative process, which is driven by Audit Scotland, is co-ordinated by Internal Audit and includes overseeing Services' arrangements for uploading the data securely and the checking of a sample of identified anomalies within the period of the exercise, on the basis of an assessment of risk. Internal Audit facilitates the reporting of progress to our External Auditors, KPMG.
- 11.5 The 2020/21 exercise has concluded and the Council's outcomes were reported to Audit Committee in March 2022 ([report 22/66](#)).
- 11.6 In order to ensure that the Council meets the standards set out in its counter-fraud and corruption arrangements, some aspects of the Council's 'whistle-blowing' arrangements are managed by Internal Audit. This includes the maintenance of a dedicated e-mail address and telephone line for employees with concerns at work, which is routed to Internal Audit. The Council also supports the national charity 'Public Concern at Work' that upholds the rights of those who raise concerns about wrongdoing at their place of work and which operates a free legal advice 'hotline'. Whistleblowing arrangements have been in place throughout 2021/22 and are supported by a Whistle-blowing Policy, which is included within the Counter- Fraud and Corruption Strategy.
- 11.7 Investigations into these cases have concluded, with one having been received in March 2022 requiring further work to complete. One case investigated highlighted control implications and resulted in a report to Audit Committee in June 2021. Where no control issues are identified, detailed reports are not provided to the Audit Committee. The outcomes from all whistleblowing disclosures feed into the updating of the Audit Universe and in the planning exercise for the future Internal Audit Plans.
- 11.8 The Chief Internal Auditor is the Council's nominated Money Laundering Reporting Officer. There have been no cases where money laundering was suspected during the year

12. AUDIT OPINION 2021/22

- 12.1 In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's risk management and governance arrangements, and systems of internal control for 2021/22, subject to management implementation of the agreed actions detailed in Internal Audit reports.

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