
Report to: Audit Committee

Date of Meeting: 17 June 2021

Subject: Internal Audit Annual Assurance Report 2020/21

Report by: Internal Audit Manager

1.0 Purpose

- 1.1. This report provides an overall assurance on the Council's arrangements for risk management, governance, and control, based on Internal Audit work undertaken during 2020/21.

2.0 Recommendations

- 2.1. The Committee is asked to note that:
- sufficient Internal Audit work was undertaken to support a balanced assurance;
 - Internal Audit can provide **SUBSTANTIAL** assurance on the Council's arrangements for risk management, governance, and control for the year to 31 March 2021; and
 - Internal Audit met, or exceeded, each of its Key Performance Indicators.

3.0 Overall Adequacy of the Council's Control Environment and Summary of Internal Audit Work Undertaken During 2020/21

- 3.1. Financial Regulations are clear that it is senior managers' responsibility to establish and maintain effective and proportionate risk management, governance, and control arrangements. Internal Audit is not an extension of, or substitute for, operational management.
- 3.2. The 2017 Public Sector Internal Audit Standards (the Standards) require the Internal Audit Manager to prepare an Annual Assurance Report. This report should include:
- a statement on the overall adequacy of the Council's control environment;
 - a summary of Internal Audit work undertaken during the year; and
 - a statement on the Internal Audit Section's conformance with the Standards.
- 3.3. This report has been prepared to meet those requirements.

- 3.4. The 2020/21 Internal Audit Plan was approved by the Audit Committee at its meeting on 03 December 2020. The approval of the Plan was delayed due to the pandemic and it was recognised that the Plan was flexible due to the priorities, resource, and Directorate capacity fluctuating and changing over the course of 2020/21. On that basis, Internal Audit undertook specific COVID-19 related assurance work on:
- Business Support Fund Grant Administration; and
 - Newly Self Employed Hardship Fund Administration.
- 3.5. The Plan set out three annually recurring and four priority assignments to be completed by the team over the course of the year. Five have been finalised, one has been carried forward into the 2021/22 Internal Audit Plan, and one will be considered for inclusion in future Internal Audit Plans. Sufficient Internal Audit work was undertaken to support a balanced opinion on the overall adequacy of the Council's control environment.
- 3.6. Internal Audit use a set of Assurance Categories. A summary of these is set out at **Appendix 1**.
- 3.7. On the basis of work undertaken, Internal Audit can provide **SUBSTANTIAL** assurance in relation to the Council's arrangements for risk management, governance, and control for the year to 31 March 2021.
- 3.8. A summary of work completed over the course of the year is set out at **Appendix 2** with the scope of, and findings arising from, each finalised assignment set out at **Appendix 3**.
- 3.9. Internal Audit measures performance against the following Key Performance Indicators.

Key Performance Indicator	2020/21	2019/20	2018/19
Complete 85% of main audit programme	89%	94%	100%
Have 90% of recommendations accepted	100%	100%	100%
Issue 75% of draft reports within 3 weeks of completion of fieldwork	78%	100%	100%

- 3.10. Actual performance met or exceeded target for all three indicators. Performance dropped slightly in two of the indicators. I am content, however, that this was appropriate and necessary and (as per paragraph 3.4) was due to priorities, resources, and Directorate capacity fluctuating and changing during 2020/21. In overall terms, the programme of work was completed within the agreed time allocation.

4.0 Compliance With Public Sector Internal Audit Standards

- 4.1. Internal Audit seeks to undertake all work in compliance with the Public Sector Internal Audit Standards 2017 (PSIAS). These standards have four objectives:

- to define the nature of Internal Auditing within the UK public sector;
 - to set basic principles for carrying out Internal Audit in the UK public sector;
 - to establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - to establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.
- 4.2. The Standards require the Internal Audit Manager to establish a Quality Assurance and Improvement Programme (QAIP) to allow evaluation of compliance with the Standards. This comprises an annual self assessment and a five yearly external assessment.
- 4.3. Internal Audit services are provided on the basis of a Joint Working Agreement with Falkirk Council. The Internal Audit Manager undertook a detailed self assessment against the Standards during February 2021. This confirmed continuing compliance with the Standards, and will be subject to independent, external validation as part of a national review process established by the Scottish Local Authorities Chief Internal Auditors' Group.

5.0 Sustainability Implications

- 5.1. None Noted.

6.0 Resource Implications

6.1. Financial Details

- 6.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes ☐

- 6.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes ☐

6.4. Staffing

7.0 Exempt Reports

- 7.1. Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☐

7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

- (1) **Our Priorities** (Please double click on the check box ☒)

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all	<input type="checkbox"/>
Our families; children and young people will have the best possible start in life	<input type="checkbox"/>
Women and girls will be confident and aspirational, and achieve their full potential	<input type="checkbox"/>
Our communities will be resilient and empowered so that they can thrive and flourish	<input type="checkbox"/>

(2) **Council Policies** (Please detail)

8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?
 Yes ☐ No ☐

9.0 Legality

9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☐

10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

- **Appendix 1:** Definition of Internal Audit Assurance Categories.
- **Appendix 2:** Summary of 2020/21 Internal Audit Programme.
- **Appendix 3:** Details of 2020/21 Internal Audit Programme.

11.0 Background Papers

11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)
 Yes ☐ (please list the documents below) No ☐

Author(s)

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Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Thomson	Monitoring Officer	

Definition of Internal Audit Assurance Categories

Level of Assurance	Definition
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

Summary of 2020/21 Internal Audit Programme

	Directorate	Assignment	Level of Assurance
COVID-19 Assignments			
1.	Partnerships and Performance	Business Support Fund Grant Administration	Substantial Assurance
2.	Place	Newly Self Employed Hardship Fund Administration	Substantial Assurance
Annually Recurring Assignments			
3.	All Directorates	Continuous Auditing	Potential duplicate creditors payments of c£102k
4.	All Directorates	National Fraud Initiative	Not Applicable – Ongoing Assurance
5.	Place	Climate Change Act Public Body Duties Audit	Substantial Assurance
Priority Assignments			
6.	Partnerships and Performance / All Directorates	Corporate Risk Management Arrangements	Substantial Assurance
7.	All Directorates	Contract Management and Monitoring	Not Applicable
8.	Partnerships and Performance / All Directorates	Staff Wellbeing and Support Arrangements	Not Started – Included in 2021/22 Internal Audit Plan
9.	Partnerships and Performance / All Directorates	Capital Planning and Expenditure Monitoring	Not Started – to be considered for inclusion in future Internal Audit Plans
Additional Assignment			
10.	All Directorates	Pensions Transactional Testing	Substantial Assurance
Other Client Work			
11.	Central Scotland Valuation Joint Board	Valuation Process	Reported to Board.

Details of 2020/21 Internal Audit Programme

Assignment	Directorate	Assurance
Business Support Fund (BSF) Grant Administration	Partnerships and Performance	Substantial
Scope	Final Report Executive Summary	
<p>Clackmannanshire Council approved 665 grant applications, resulting in expenditure of c£7.2m.</p> <p>We reviewed the action taken to assess a sample of 31 grant applications, and the validity of the decisions reached by the Assessing Officers on each occasion.</p>	<p>Comprehensive documentation was held to support the decisions reached by the Assessing Officers for each application in our sample, with robust measures also found to be in place to facilitate the applications assessment and grant payment processes. Appropriate segregation of duties were in place.</p> <p>Our post payment transactional testing involved:</p> <ul style="list-style-type: none"> • getting an overview of the grant application and award process from the staff involved; • ensuring that the Council's log of applications could be reconciled to the information provided on the monitoring return to the Scottish Government; • reviewing the Council's log of application to ensure that no duplicate or fraudulent applications had been processed; and • reviewing the completeness and accuracy of the supporting documentation for a sample of transactions to ensure that: <ul style="list-style-type: none"> • a completed application form had been received; • sufficient documentation was submitted along with the application; • the payee information on the payment file (that is uploaded onto Tech One) was accurate; and • no other COVID-19 related support had been received. <p>From reviewing the log of applications we also confirmed:</p> <ul style="list-style-type: none"> • the log could be reconciled to the information on the monitoring returns; • no duplicate applications had been processed; and • no payments had been made to bank accounts associated with potentially fraudulent BSF Grant applications that had been identified across Scottish Local Authorities. 	

Assignment	Directorate	Assurance
Newly Self Employed Hardship Fund (NSEHF) administration	Partnerships and Performance	Substantial
Scope	Final Report Executive Summary	
As at 21 July 2020 Clackmannanshire Council had awarded 45 NSEHF grants, totalling £90k.	<p>We reviewed a sample of 12 applications and confirmed that:</p> <ul style="list-style-type: none"> • these had been processed accurately and that all required supporting documentation had been submitted; and • appropriate segregation of duties were in place. <p>From reviewing the log of applications we also confirmed:</p> <ul style="list-style-type: none"> • the log could be reconciled to the information on the monitoring returns; • no duplicate applications had been processed; and • no payments had been made to bank accounts associated with potentially fraudulent Business Support Fund Grant applications that had been identified across Scottish Local Authorities. <p>Overall, we were content that comprehensive documentation was held to support the decisions reached by the Assessing Officer for each application in our sample, with robust measures also found to be in place to facilitate the application assessment and grant payment processes.</p>	

Assignment	Service	Assurance
Continuous Auditing	All Services	N/A – Ongoing Assurance
Scope	Final Report Executive Summary	
<p>This involves analysing Creditors payment data (payments to suppliers) to identify potential duplicate payments.</p> <p>We use audit interrogation software to identify matches on invoice date, amount, and number. We then check our initial results on TechOne to identify any cancelled payments; payments made to different suppliers; and duplicate payments already identified (and either cancelled or monies recovered).</p>	<p>For the period April 2020 to March 2021 we identified potential duplicate payments with a value of c£102k. Details of these have been passed to the Chief Finance Officer for appropriate recovery action.</p>	

Assignment	Service	Assurance
National Fraud Initiative	All Services	N/A – Ongoing Assurance
Scope	Final Report Executive Summary	
<p>The purpose of the NFI exercise is to review and investigate the outcomes of data matching undertaken by Audit Scotland on behalf of the Cabinet Office. Matches cover areas such as Payroll, Pensions, Housing / Council Tax Benefit, Council Tax Single Person Discount, and Creditors.</p> <p>The Internal Audit Manager acts as Key Contact for NFI, with responsibility for co-ordinating the process of ensuring that relevant matches are followed-up.</p>	<p>The 2020/21 NFI exercise is now underway. The required data has been gathered from Services and uploaded via the secure on-line NFI application.</p> <p>In addition to the core NFI exercise, Clackmannanshire Council participates in a related exercise designed to detect wrongly claimed Council Tax Single Person Discount (which matches Council Tax and Electoral Roll data).</p> <p>The resultant data matches were made available in January 2021 and work is underway to prioritise and investigate.</p>	

Assignment	Service	Assurance
Climate Change Act Public Body Duties Audit	Place	Substantial Assurance
Scope	Final Report Executive Summary	
<p>The Climate Change (Scotland) Act 2009 (the Act), introduced the requirement for public bodies to report on their climate change duties.</p> <p>In line with the timescales from the Act, the Council's annual report has to be submitted to the Sustainable Scotland Network (SSN) by end November 2019.</p> <p>Our work focused on reviewing the reporting arrangements and the accuracy of the information in the report.</p>	<p>To ensure the consistency of returns across public bodies, the Annual Report format is a standard template split into five areas:</p> <ul style="list-style-type: none"> • Profile of Reporting Body; • Governance, Management, and Strategy; • Emissions, Targets, and Projects; • Adaptation; and • Procurement. <p>We were able to provide Substantial Assurance on the Council's reporting arrangements and the accuracy of the information set out in each section of the Annual Report.</p>	

Assignment	Service	Assurance
Corporate Risk Management Arrangements	Partnerships and Performance / All Directorates	Substantial Assurance
Scope	Final Report Executive Summary	
<p>For a sample of Waste Services contracts Internal Audit reviewed:</p> <ul style="list-style-type: none"> Contract Strategy roles and responsibilities, including the steps followed to: identify requirement; engage with stakeholders; agree tender process and selection and award criteria; and tender evaluation; financial controls, including budget setting and monitoring arrangements, and billing and invoice validation / approval procedures; and contract management and monitoring arrangements. 	<p>We were able to provide Substantial Assurance in relation to corporate risk management arrangements. We concluded that good progress has been made in embedding risk management across the Council. A Corporate Risk Log has been established and was recently updated in February 2021, with responsibility for the management of, and reporting on, individual risks therein assigned to Risk Owners. Clear risk assessment methodology is in place to ensure that risks are categorised and scored on a consistent basis, and the majority of senior managers provided with accredited risk management training.</p> <p>We made recommendations relating to:</p> <ul style="list-style-type: none"> reviewing and updating the Risk Management Strategy; ensuring that risks are formally reviewed on a regular basis (we acknowledge that the coronavirus pandemic has created challenges in terms of lockdown arrangements and demands on Officers time);and reviewing the existing risk management training arrangements to ensure that awareness of good practice is raised amongst all staff, not just senior managers. 	

Assignment	Service	Assurance
Contract Management and Monitoring	All Directorates	N/A
Scope	Final Report Executive Summary	
<p>The focus of this work was on the Education Primary Schools and Early Years project.</p> <p>We agreed with the Chief Executive that the aim of the Internal Audit was to establish:</p> <ul style="list-style-type: none"> the chronology of key events relating to the initial identification and subsequent reporting to senior management, of the asset management issues. In particular: <ul style="list-style-type: none"> when issues were originally identified; by whom; and how these were commissioned, costed, recorded, and reported. the contract management and monitoring arrangements. To include roles and responsibilities, project specification, contract agreement, and implementation; whether there were any failures or weakness in governance or operational arrangements; and what lessons can the Council learn. 	<p>Our findings were based on our interviews with internal staff, review of key project documentation, and from preparing the Project Timelines.</p> <p>Seven recommendations were made and have been agreed with management in the action plan. These recommendations have been split into four categories:</p> <ul style="list-style-type: none"> Project Governance; Roles and Responsibilities; Project Management / Scope; and Finance. <p>As part of the Internal Audit Plan for 2021/22 agreed by the Audit Committee on 27 April 2021, we will review progress with implementing each of the recommendations.</p>	

Assignment	Service	Assurance
Pensions Transactional Testing	All Directorates	Substantial
Scope	Final Report Executive Summary	
<p>The purpose of our work was to ensure that:</p> <ul style="list-style-type: none"> new member contributions were properly calculated and accurately processed; and leaver requests were correctly actioned, and annual pensions (including lump sum payments) were properly calculated and accurately processed. 	<p>We found that the processes associated with new member contributions, for leaver requests, and annual pension and lump sum payments were operating effectively. The supporting documentation had been appropriately completed and authorised, the calculations were correct, and the Pensions Administration System had been accurately and timeously updated.</p> <p>Falkirk Council's Internal Audit Section provides the Internal Audit Service to Falkirk Pension Fund. The annual Internal Audit coverage is agreed with the Pensions Committee and Pension Board. For 2020/2021 Internal Audit coverage focused on:</p> <ul style="list-style-type: none"> Operational Cash Management Arrangements. <p>We provided Substantial Assurance in this area. The output from this work will be reported to the Pensions Committee and Pension Board (which includes representation from Clackmannanshire Council) at their next meeting in June.</p>	