

WEST DUNBARTONSHIRE COUNCIL

Report by Chief Officer – Resources

Audit Committee: 16 June 2021

Subject: Internal Audit Annual Report to 31 March 2021

1. Purpose

- 1.1** The purpose of this report is to advise Members of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2020/21 and to advise Members of the contents of the Assurance Statement given to Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Chief Officer - Resources) in support of the Annual Governance Statement. This report outlines how audit assurances are obtained.

2. Recommendations

- 2.1** It is recommended that Members note the contents of this report.

3. Background

- 3.1** The Public Sector Internal Audit Standards (PSIAS) became effective on 1st April 2013 (revised in 2017) and require that:

“The chief audit executive [WDC: Shared Service Manager Audit & Fraud] 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 incorporate:

- *The opinion;*
- *A summary of the work that supports the opinion; and*
- *A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme”.*

- 3.2** Progress reports were provided to the Audit Committee at each meeting during 2020-21 on Internal Audit activity and progress against the annual audit plan.

4. Main Issues

- 4.1 During 2020/21 Internal Audit implemented a new risk-based audit methodology which means that for each audit, one of the following opinions is expressed:

Strong	In our opinion there is a sound system of internal controls designed to ensure that the organisation is able to achieve its objectives.
Satisfactory	In our opinion isolated areas of control weakness were identified which, whilst not systemic, put some organisation objectives at risk.
Requires Improvement	In our opinion systemic and/or material control weaknesses were identified such that some organisation objectives are put at significant risk.
Unsatisfactory	In our opinion the control environment was considered inadequate to ensure that the organisation is able to achieve its objectives.

- 4.2 Detailed findings and recommendations reported to management are graded using the following criteria:

Red	In our opinion the control environment is insufficient to address the risk and this could impact the Council as a whole. Corrective action must be taken and should start immediately. Overseen to completion by Corporate Management Team.
Amber	In our opinion there are areas of control weakness which we consider to be individually significant but which are unlikely to affect the Council as a whole. Corrective action must be taken (some exceptions may be agreed with Internal Audit) within reasonable timeframe. Overseen to completion by Chief Officer/Head of Service.
Green	In our opinion the risk area is well controlled or our audit highlighted areas for minor control improvement and/or areas of minor control weakness. Process improvements/efficiencies may be actioned at management discretion in consultation with Internal Audit. Managed by service manager. Not reported in Audit Committee papers.

- 4.3 The status of the Audit Plan for 2020/21 is set out at Appendix A. Completion of the audit plan was hampered by staff illness and an unforeseen vacancy arising during 2020/21. There are a number of audits at fieldwork stage and it is anticipated that these will be completed by end of June 2021. There are no significant issues arising through audit work to date which would impact on the overall audit opinion within the Annual Report and Assurance Statement for 2020/21.

4.4 The Internal Audit Annual Report and Assurance Statement for 2020/21 is set out at Appendix B. There are 4 Overall Audit Opinion types as follows:

<p>Satisfactory</p>	<p>Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A limited number of Amber rated issues may have been identified, but generally only green issues have been found in individual audit assignments. • None of the individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.
<p>Generally Satisfactory with some improvement needed</p>	<p>A few specific control weaknesses were noted: generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A number of Amber rated issues identified in individual audit assignments that collectively do not significantly impact the system of internal control. • Red rated issues that are isolated to specific systems or processes. • None of the individual assignment reports have an overall opinion of <i>Unsatisfactory</i>.
<p>Major improvement needed</p>	<p>Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A high number of Amber rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A number of Red rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A small number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.
<p>Unsatisfactory</p>	<p>Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • Amber and Red rated issues identified in individual assignments that collectively are widespread to the system of internal control. • A high number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.

4.5 On the basis of Internal Audit work performed in 2020/21, it can be concluded that the Council's control procedures in key areas are operating as expected during the period under review, although it is recognised that work is ongoing with management to continue to make good progress in implementing agreed action plans arising from Internal Audit reviews. The overall audit opinion is **Satisfactory**.

4.6 Performance indicators for the Audit and Fraud service were reviewed for 20/21 and actual performance against target is set out at Appendix C.

5. People Implications

5.1 There are no people implications.

6. Financial and Procurement Implications

6.1 As a result of Corporate Fraud Team activity, actual recoveries, charges and re-billings of £412,210 have been identified during 2020/21, against an annual target of £225,000.

6.2 There are no procurement implications arising from this report.

7. Risk Analysis

7.1 There is a risk that failure to deliver the Internal Audit Plan would result in an inability to provide a minimum level of assurance over the Council's system of internal financial control to those charged with governance.

8. Equalities Impact Assessment (EIA)

8.1 There is no requirement for an EIA.

9. Consultation

9.1 This report has been subject to consultation with appropriate Chief Officers.

10. Strategic Assessment

10.1 This report relates to Assuring Our Success through strong financial governance and sustainable budget management.

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Chief Officer - Resources
Date: 19 May 2021

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Appendices: A – Status of Audit Plan 2020/21
B - Internal Audit Annual Report and Assurance Statement for the year ended 31 March 2021
C – Performance Indicators 2020/21

Background Papers: Audit Committee – 17 June 2020: Internal Audit Plan 2020/21

Wards Affected: All wards

