



Comhairle nan Eilean Siar
Internal Audit Report and Assurance Statement
For the Year Ended
31 March 2024

13 May 2024

INTRODUCTION

- 1.1 This report aims to provide the Audit & Scrutiny Committee with an evaluation of elements of Comhairle nan Eilean Siar's internal control, risk management and corporate governance systems based on our work during 2022/23 and to summarise the Internal Audit coverage in the year.
- 1.2 The Council's Chief Executive has overall responsibility for Internal Audit in Comhairle nan Eilean Siar and sits within the Legal & Governance section of the organisational structure. The Chief Internal Auditor has the right of access to the Chief Executive and the Chair of the Audit and Scrutiny Committee on any audit matter. These rights of access help ensure the organisational independence of Internal Audit.
- 1.3 During 2023/24, the section operated in conformance with the 'Public Sector Internal Audit Standards (PSIAS)'. The standards define the way in which the Internal Audit section should be established and undertake its functions. The section complied with the PSIAS requirement for an external assessment every five-years; this was last undertaken by Orkney Islands Council in 2020 through the peer-to-peer review network of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG).
- 1.4 The Internal Audit section also operated under an 'Internal Audit Charter' which was most recently approved by the Audit and Scrutiny Committee in April 2024.
- 1.5 One of the requirements of the PSIAS is the publication of an annual report. The aim of this annual report is to give an overview of the work carried out during 2023/24.
- 1.6 The work of Internal Audit is based on an annual operational audit plan which is prepared after a risk assessment of all potential audit issues identified by Internal Audit and Service Directors and takes account of the work of the Council's external auditor, Audit Scotland.
- 1.7 The PSIAS include key principles that public sector Internal Audit functions must follow and cover a range of areas including governance, performance standards and reporting requirements. As part of the standards, Internal Audit is required to undertake annual self-assessments. The PSIAS also introduced a requirement for an external assessment of an organisation's Internal Audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. The 2023/24 self-assessment and the latest external assessment, undertaken by Orkney Islands Council in 2020/21, have confirmed that Internal Audit conforms with the requirements of the PSIAS.
- 1.8 Finally, the report provides an opinion on the overall adequacy and effectiveness of the Council's governance, risk management and internal control frameworks.

ROLE OF HEAD OF THE INTERNAL AUDIT

- 2.1 The CIPFA guidance in relation to “The Role of the Head of Internal Audit in Public Service Organisations” is intended to provide best practice for Heads of Internal Audit (HIAs) to achieve, and for audit committees to measure Internal Audit against. The statement sets out an overarching principles-based framework which applies across the UK public sector. It states that the HIA plays a critical role in delivering an organisation’s strategic objectives by:
- championing best practice in governance and management, objectively assessing the adequacy of the management of existing risks, and commenting on responses to emerging risks and proposed developments; and
 - giving an objective and evidence-based opinion on all aspects of governance, risk management and internal control.
- 2.2 To perform this role, the HIA must:
- be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee;
 - lead and direct an internal audit service that is resourced to be fit for purpose; and
 - be professionally qualified and suitably experienced.
- 2.3 For each principle, the statement sets out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The statement also sets out the core responsibilities of the HIA.
- 2.4 The role of the Chief Internal Auditor continues to meet the principles set out in CIPFA’s statement.

AUDIT PLAN MANAGEMENT

- 3.1 Internal Audit prepared an annual plan for 2023/24. Due to staff vacancies, the plan was amended in September 2023 with three audits temporarily removed. All but five reviews were able to be undertaken with the remainder of the plan being completed as planned. The operational plan was based on year one of the 2023-26 Strategic Plan. In November 2023 the Comhairle was the subject of a cyber-attack and lost access to the majority of systems and data. This attack impacted many services, including Internal Audit, where work was paused or halted until the effects of the attack were fully known and some form of normality could be resumed. As a result, the plan was focussed on Medium/High- and High-risk areas once restarted, as well as advisory services to departments for the duration of the cyber-attack after effects. Audits were primarily focussed on those which would provide the most assurance for the Annual Assurance Statement.
- 3.2 The Audit Committee receives the full reports for all audits completed during the year.
- 3.3 All recommendations were accepted during the year, and although a number of these remain outstanding, these will be completed in agreed timescales and followed up as part of either normal Internal Audit follow-up procedures or as part of the CIAP.

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3.4 The assurance levels from each of the audits were as follows:

June 2023 Committee

Audit Title	Assurance Level	Recs
Construction Design Management	Full	1
Corporate Training	Substantial	11

September 2023 Committee

Audit Title	Assurance Level	Recs
Management of Sickness Absence	Substantial	9
Accredited Training	Substantial	4
Residential Care Services	Substantial	8

December 2023 Committee

Audit Title	Assurance Level	Recs
Garage & Fleet TO	Substantial	11
Homelessness	Substantial	6
SHE Assure	Full	0
Sports Centres – Slainte Mhath	Reasonable	19

February 2024 Committee

Audit Title	Assurance Level	Recs
HR Core Activities	Substantial	4
Islands Deal – Governance Arrangements	Full	0

April 2024 Committee

Audit Title	Assurance Level	Recs
Catering TO	Substantial	3
Community Learning & Development	Substantial	7
Islands Deal – Claims processes	Full	0

To be reported at the June 2024 Committee

Audit Title	Assurance Level	Recs
Care at Home	Reasonable	4

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3.5 The definitions of the assurance levels used by Internal Audit are as follows:

Level of Assurance	Definition
Full Assurance	Internal control, governance and risk management are of a high standard. A sound system of control to achieve the system objectives exists and the controls are being consistently applied.
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

3.6 Internal Audit issued 87 recommendations during the year, and as mentioned above, all were accepted by services. Whilst these were predominantly housekeeping issues, there were also a number of those that were highlighted as red or amber findings. These included the following categories:

- Ensuring new employees undertake the Corporate Induction.
- Issuance of Contracts of Employment in line with regulations of the Employment Rights Act 1996.
- Requirement in Residential Care Services to ensure handling and appropriateness of client bank accounts and balances, particularly after any client death.
- Consideration of Sports Centres repairs programme and associated condition reports in line with available funds.

3.7 The Council has undergone a period of change on both current service delivery and existing governance arrangements and will continue to do so over coming year following a review of the organisational structure. The Council has proven itself able to respond to unprecedented circumstances and the pressures arising therefrom. This has impacted on all Council services and the Audit Plan will remain adaptable to reflect best use of resources depending on pressures across the Council.

- 3.8 Significant pressures remain as public services continue to see a decline in funding and Internal Audit will need to build on the lessons learned and retain the benefits that have accrued through new working practices developed in response to ongoing financial challenges.

STAFF RESOURCES AND AUDIT PERFORMANCE

- 4.1 The Internal Audit section is directly managed by the Chief Internal Auditor (CIA), and is supported by the positions of Trainee Internal Auditor and an Internal Auditor.
- 4.2 The CIA holds a dual qualification of CA and CPFA, both of which are part of the CCAB (Consultative Committee of Accountancy Bodies). The role of Trainee Internal Auditor is expected to hold a qualification recognised by either CCAB or the IIA (Institute of Internal Auditors). The current Trainee is working towards an IIA qualification.
- 4.3 Internal Audit have two main performance indicators which are reported annually. The below table shows the current year and two prior years for comparison:

	2021/22	2022/23	2023/24
Percentage of Audit Plan Completed	57.5%	92.3%	75.0%
Cost of Internal Audit per £1m of net expenditure	£1,812	£1,043	£1,184

- 4.4 The second performance indicator above has shown a large drop over the preceding years, this is mainly due to the reduced resources in the section. Once the team is back to a full complement the costs will increase to be in line with previously reported levels.
- 4.5 CIPFA and the Institute of Internal Auditors (IIA) have reviewed the guidance and made amendments in order to have a common set of standards across the whole public sector. These changes are primarily based on the International Professional Practices Framework (IPPF). The new standards termed Public Sector Internal Audit Standards (PSIAS) became effective in April 2013 and amended in 2017.
- 4.6 A key requirement of the PSIAS is that Internal Audit sections are required to state whether or not they conform with these standards as part of their annual reporting. In addition, they should outline the results of the quality assurance and improvement programme together with progress against any improvements identified during this assessment.

- 4.8 In 2023/24 financial year, Internal Audit undertook a self-evaluation against the PSIAS, Local Government Application note and Quality Assurance Improvement Programme. The IIA has given examples of classifications of conformity against these standards and those are outlined in the appendix.
- 4.9 Summary of Conformance with the Public Sector Internal Audit Standards is shown in Appendix 1.

CYBER ATTACK

- 5.1 In November of 2023 the Comhairle was the subject of a large-scale cyber-attack, rendering data and systems inoperable. Data was encrypted as a result and became inaccessible to staff. Systems were taken offline and network connectivity in and out of the Comhairle was halted in order to prevent further damage.
- 5.2 Corporate Management Team (CMT) were made aware of the incident immediately and convened daily to ensure information and knowledge was shared. As the details of the attack became known, the CMT instructed an Incident Management Team (IMT) to convene, consisting of Heads of Service, IT staff and other relevant experienced staff in order to prioritise and manage the cyber-attack recovery.
- 5.3 A full review of the management response is due to be undertaken in 2024/25 with a view to gaining knowledge of processes in order to form an opinion on the response arrangements and to offer recommendations, where applicable, for improved resilience should a similar incident occur in the future.
- 5.4 As some systems were inoperable, including the financial ledger, systems and controls were required in order to resume the management of cash inflows and outflows, and Internal Audit were engaged to ensure processes and controls were in place and adequate. This engagement was seen as a positive step to ensure services were able to continue during the period following the attack. The lack of financial ledger has remained a challenge for finance staff in particular, however budget processes were completed on time and as expected, and work continues on revenue and capital monitoring.
- 5.5 Engagement with the systems suppliers began immediately following the aftermath of the attack, and so the rebuilding work on the systems to either cloud-based versions or rebuilt on premise versions began immediately with support from the IMT to ensure prioritisation. The financial ledger system is to be moved to a cloud-based version, with a view to attaining full functionality in early 2024/25. The data inaccessibility of 2023/24 will remain a concern and is likely to impact the Annual Accounts processes accordingly. Engagement with Audit Scotland is ongoing.

OPINION

- 6.1 This statement on the adequacy and effectiveness of the framework of governance, risk management and internal control is based on the audit work performed during 2023/24 as reported above. It also draws on the experience of audit work carried out in earlier years as well as assurances received from management and external audit findings.
- 6.2 Internal Audit staff have carried out work, both on a corporate basis and within each of the Service groups and, subject to the comments in section 3 above, the conclusion drawn from that work was that most of the anticipated governance, risk management and internal control frameworks were in place and operating effectively.
- 6.3 Where Internal Audit identified opportunities for improvement, the responses received from managers continued to be positive and there was commitment to implementing Internal Audit's recommendations.
- 6.4 No individual audit assignments were specifically limited in scope at the outset but scopes have been amended to reflect the output from the initial risk and control analysis undertaken at the start of each assignment and the resources available.
- 6.5 On this basis, it is my opinion that reasonable assurance can be placed on the adequacy and effectiveness of the Comhairle's systems of governance, risk management and internal control for the year ended 31 March 2024.

ACKNOWLEDGEMENTS

- 7.1 In conclusion, I would like to thank internal audit staff for their hard work and commitment throughout the past year, and I would also like to highlight our appreciation to the many Officers who assisted us as well as the Comhairle's Audit & Scrutiny Committee for their support, together with the general co-operation of the Comhairle's Management Team and with the appointed External Auditors, Audit Scotland.

Sandy Gomez
Chief Internal Auditor
13 May 2024

Reference	Assessment Area	Level of Conformance 2022/23	Level of Conformance 2023/24
Section A	Definition of Internal Auditing	FC	FC
Section B	Code of Ethics	FC	FC
Section C	Attribute Standards		
1000	Purpose, Authority and Responsibility	FC	FC
1100	Independence and Objectivity	FC	FC
1200	Proficiency and Due Professional Care	FC	FC
1300	Quality Assurance and Improvement Programme	FC	FC
Section D	Performance Standards		
2000	Managing the Internal Audit Activity	FC	FC
2100	Nature of Work	FC	FC
2200	Engagement Planning	FC	FC
2300	Performing the Engagement	FC	FC
2400	Communicating Results	FC	FC
2500	Monitoring progress	FC	FC
2600	Communicating the acceptance of risks	FC	FC

Conformance with the Public Sector Internal Audit Standards Definitions

- **FC** Fully Conforms means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in every respect.
- **GC** Generally Conforms means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects.
- **PC** Partially Conforms means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives.
- **DNC** Does Not Conform means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category.