
INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2017/18

Report by Chief Officer Audit & Risk

AUDIT AND RISK COMMITTEE

28 March 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to gain approval to the proposed Internal Audit Strategy and Internal Audit Annual Plan 2017/18 for Scottish Borders Council to enable the Chief Officer Audit & Risk to prepare an Internal Audit annual opinion on the adequacy of the Council's overall control environment.**
- 1.2 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 which requires the chief audit executive to establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals. This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of the organisation.
- 1.3 A fundamental role of the Council's Internal Audit function is to provide senior management and members with independent and objective assurance which is designed to add value and improve the Council's operation. In addition, the Chief Officer Audit & Risk is also required to prepare an Internal Audit annual opinion on the adequacy of the Council's overall control environment.
- 1.4 The report presents the background to the Internal Audit Strategy at Appendix 1 that outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance.
- 1.5 The proposed Internal Audit Annual Plan 2017/18 in Appendix 2 sets out the range and breadth of audit areas and sufficient work within the audit programme of work to enable the Chief Officer Audit & Risk to prepare an Internal Audit annual opinion. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and assurance framework.
- 1.6 There are staff and other resources currently in place to achieve the Internal Audit Annual Plan 2017/18 and to meet its objectives.

2 RECOMMENDATION

- 2.1 I recommend that the Audit and Risk Committee approves the Internal Audit Strategy (Appendix 1) and Internal Audit Annual Plan 2017/18 (Appendix 2).**

3 BACKGROUND

- 3.1 The Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014 and came into force on 10 October 2014. The regulations require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require internal audit to have suitable operational independence from the authority.

4 INTERNAL AUDIT STRATEGY

- 4.1 The key standards within the PSIAS which relate to Managing the Internal Audit Activity are summarised below:

“The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

The internal audit activity is effectively managed when:

- The results of the internal audit activity’s work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and
- The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.”

- 4.2 The Internal Audit Strategy at Appendix 1 outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance.

5 INTERNAL AUDIT ANNUAL PLAN 2017/18

- 5.1 The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:

- Standard 2010 – Planning which states that “the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”
- Standard 2020 – Communication and Approval which states that “the chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.”

- 5.2 The CIPFA Publication ‘Audit Committees: Practical Guidance for Local Authorities and Police – 2013 Edition’ states that “The audit committee should seek to make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to provide an annual internal audit opinion that can be used to inform the Annual Governance Statement. Specific activities will include:

- Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance.”

The CIPFA Publication also states that "The committee will wish to seek assurance from the HIA that appropriate risk assessment has been carried out as part of the preparation of the internal audit plans when they are presented."

- 5.3 The Internal Audit Annual Plan 2017/18 developed by the Chief Officer Audit & Risk is presented at Appendix 2. The proposed reviews have been grouped into key themes as set out in the Internal Audit Strategy at Appendix 1. For each review area included within the plan there is a brief commentary.
- 5.4 The following table summarises how the initial allocation of available Audit Days will be for the Internal Audit Annual Plan 2017/18:

Areas	Audit Days 2017/18
Corporate Governance	140
Financial Governance	165
ICT Governance	50
Internal Controls	60
Asset Management	65
Legislative & Other Compliance	45
Consultancy	70
Other	52
SBC	647
Non SBC	65
Total Audit Days	712

- 5.5 The past twelve months has resulted in significant changes for the Council including the outsourcing of ICT Service Delivery to CGI and the design and implementation of the Business World ERP system. In recognition that it is envisaged that 2017/18 will continue to be year of change for the Council, the plan should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities of the Council. Any amendments will be brought to the Audit and Risk Committee for approval.

6 IMPLICATIONS

6.1 Financial

The Revenue Financial Plans approved by the Council on 9 February 2017 include budget 2017/18 for the Internal Audit function within the Audit & Risk service. The Internal Audit staff resources comprise Chief Officer Audit & Risk (50% allocation to Audit), three Senior Internal Auditors, and one Internal Auditor, to deliver the Internal Audit Annual Plan 2017/18 in a collaborative way with the Corporate Risk Officer and the Corporate Fraud and Compliance Officer.

6.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter, including "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so: As a contribution to the Council's corporate management of risk."

- (b) Key components of the audit planning process include a clear understanding of the Council’s functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. As in previous years, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted.

6.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

6.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

7 CONSULTATION

- 7.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR and the Clerk to the Council have been consulted on this report and any comments received have been taken into account.
- 7.2 The Corporate Management Team has been consulted on the risk-based audit approach and the resultant planned audit coverage to ensure it will provide assurance to Management on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities within the Council.
- 7.3 Other key stakeholders including Audit Scotland, the Council’s appointed external auditor, have been consulted on the approach and the resultant planned Internal Audit coverage to ensure that audit work is co-ordinated and programmed to avoid duplication and maximise assurance.

Approved by

Jill Stacey, Chief Officer Audit & Risk Signature

Author(s)

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Background Papers:

Previous Minute Reference:

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