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## **INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2018/19**

**Report by Chief Officer Audit & Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**19 March 2018**

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#### **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 2018/19 to enable the Chief Officer Audit & Risk to prepare annual opinions on the adequacy of the overall control environment for Scottish Borders Council, SB Cares, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board.**
- 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 (updated 2017) 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. The plans also require to be sufficiently flexible to reflect the changing risks and priorities pertaining to each 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 organisation's operation. In addition, the Chief Officer Audit & Risk is also required to prepare an Internal Audit annual opinion on the adequacy of the organisation'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 to meet the Internal Audit Charter.
- 1.5 The proposed Internal Audit Annual Plan 2018/19 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 organisation'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 2018/19 and to meet its objectives.

#### **2 RECOMMENDATION**

- 2.1 I recommend that the Audit and Scrutiny Committee approves the Internal Audit Strategy (Appendix 1) and Internal Audit Annual Plan 2018/19 (Appendix 2).**

### **3 BACKGROUND**

- 3.1 The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 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 organisation.

### **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 to the relevant organisation’s senior management and board/audit committee.

### **5 INTERNAL AUDIT ANNUAL PLAN 2018/19**

- 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 2018/19 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. There is a brief commentary for each review area.
- 5.4 The following table summarises how the initial allocation of available Audit Days will be for the Internal Audit Annual Plan 2018/19:

<b>Areas</b>	<b>Audit Days 2018/19</b>
Corporate Governance	165
Financial Governance	175
ICT Governance	65
Internal Controls	105
Asset Management	75
Legislative & Other Compliance	40
Consultancy	70
Other	75
<b>SBC</b>	<b>770</b>
<b>Non SBC</b>	<b>85</b>
<b>Total Audit Days</b>	<b>855</b>

- 5.5 The past twelve months has resulted in significant changes for the Council including the implementation of the Business World ERP system and local elections resulting in a change to the Administration. In recognition that it is envisaged that 2018/19 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. Any amendments relating to the Council will be brought to the Audit and Scrutiny Committee for approval.

## **6 IMPLICATIONS**

### **6.1 Financial**

The Internal Audit staff resources comprise Chief Officer Audit & Risk (shared with Midlothian Council which is recharged), one Principal Internal Auditor, two Senior Internal Auditors, and two Internal Auditors, to deliver the Internal Audit Annual Plan 2018/19 in a collaborative way with the Corporate Risk Officer and the Corporate Fraud and Compliance Officer. The Revenue Financial Plans which were approved by the Council on 20 February 2018 reflect this arrangement and resources.

### **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 have 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. Senior Managers have been engaged in discussions on the key risks and the planned audit coverage.
- 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:**

**Note** – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

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