
INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2020/21

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

9 March 2020

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 2020/21 to enable the Chief Officer Audit & Risk to prepare annual opinions on the adequacy of the overall control environment for Scottish Borders Council, 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 (CAE), the Council's Chief Officer Audit & Risk, 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 operations. In addition, the CAE 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 2020/21 at Appendix 2 sets out the range and breadth of audit areas and sufficient work within the audit programme of work to enable the CAE 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 2020/21 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 2020/21 (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.
- 4.3 The Internal Audit Strategy reflects the Council decision 26 September 2019 to reintegrate all of the services directly delivered by the SB Cares ALEO into the Council from 1 December 2019. This has had the effect of reducing the percentage allocation of resources to Non-SBC organisations and increasing the percentage allocation of resources to the Council.

5 INTERNAL AUDIT ANNUAL PLAN 2020/21

- 5.1 The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:
- No. 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"
 - No. 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 Audit Committees guidance 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."

Also, "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 2020/21 at Appendix 2 outlines the proposed reviews, grouped into key themes as set out in the Internal Audit Strategy at Appendix 1. There is a brief commentary for each review.
- 5.4 The following table summarises the initial allocation of available Audit Days by key theme for the Internal Audit Annual Plan 2020/21:

Key Theme	Audit Days 2020/21
Corporate Governance	145
Financial Governance	110
ICT Governance	30
Internal Controls	220
Asset Management	55
Legislative & Other Compliance	40
Consultancy	85
Other	75
SBC	760
Non SBC	50
Total Audit Days	810

- 5.5 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 Corporate Management Team and the Audit and Scrutiny Committee for approval.
- 5.6 The Non SBC days reflect the Council's commitment to provide Internal Audit assurance resources to the Pension Fund and to the Health and Social Care Integration Joint Board. Separate Internal Audit annual plans will be presented to their respective Board/Audit Committee for approval. The reintegration of all of the services directly delivered by the SB Cares ALEO into the Council from 1 December 2019 has been reflected in the plan; this has the effect of shifting 35 Audit days from Non-SBC to SBC.

6 IMPLICATIONS

6.1 Financial

The Internal Audit staff resources comprise Chief Officer Audit & Risk (50% recharged to Midlothian Council for the shared services provision which brings the opportunity for sharing best practice), one Principal Internal Auditor, one Senior Internal Auditor, and three Internal Auditors, for the provision of Internal Audit Services to Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board in a collaborative way with the Corporate Fraud and Compliance Officer and the Corporate Risk Officer. The Revenue Financial Plans which were approved by the Council on 26 February 2020 reflect this arrangement and resources, though it should be noted that this includes budget reduction for staff turnover adjustment of 4% in accordance with corporate financial policy.

6.2 Risk and Mitigations

The Internal Audit objectives in its Charter include "As a contribution to the Council's management of risks, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives".

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. To capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risks and mitigations on corporate and operational risk registers have been considered.

6.3 Equalities

There are no direct equalities issues.

6.4 Acting Sustainably

There are no direct economic, social or environmental issues.

6.5 Carbon Management

There are no direct carbon emissions impacts.

6.6 Rural Proofing

Not applicable.

6.7 Changes to Scheme of Administration or Scheme of Delegation

None.

7 CONSULTATION

7.1 The Service Director Finance & Regulatory, the Chief Legal Officer (the Monitoring Officer), the Chief Officer HR, the Clerk to the Council and Communications team 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 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 Audit Scotland, the Council's appointed external auditor, has 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

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Background Papers: Audit Universe; Risk Registers

Previous Minute Reference: Audit and Scrutiny Committee 11 March 2019

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