



INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2020/21

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

23 November 2020

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to inform the Audit and Scrutiny Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2020, towards completing the Internal Audit Annual Plan 2020/21. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.**
- 1.2 The Objectives of Internal Audit are set out in its Charter: “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.” Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.**
- 1.3 The Internal Audit Annual Plan 2020/21 that was approved by the Audit and Scrutiny Committee on 9 March 2020 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer (the Council’s Chief Audit Executive (CAE)), to provide the statutory annual Internal Audit opinion regarding the adequacy and effectiveness of internal control within the Council. Internal Audit assurance services and annual opinions are also provided to the Scottish Borders Pension Fund Board and Committee, and the Scottish Borders Health and Social Care Integration Joint Board to meet their obligations.**
- 1.4 The Appendix 1 to this report provides details of the half-yearly progress by Internal Audit with the delivery of its programme of work. Internal Audit has made good progress in the first half of the year, despite the Covid-19 pandemic response though amendments are required to the Internal Audit Annual Plan 2020/21 for approval by the Committee.**
- 1.5 The report also summarises the statutory obligations for Internal Audit and the requirements of the Public Sector Internal Audit Standards (PSIAS) with which the SBC Internal Audit function conforms.**

2 RECOMMENDATION

- 2.1 I recommend that the Audit and Scrutiny Committee notes the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2020/21, confirms that it is satisfied with the Performance of the Internal Audit service, and approves the revisions to the Internal Audit Annual Plan 2020/21.**

3 BACKGROUND

- 3.1 The Objectives of Internal Audit are set out in its Charter: "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.
 - As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
 - In support of the Council's vision, values and priorities.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published information are accurate and reliable."
- 3.2 Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.
- 3.3 The Internal Audit Annual Plan 2020/21 that was approved by the Audit and Scrutiny Committee on 9 March 2020 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer (the Council's Chief Audit Executive (CAE)), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 3.4 Internal Audit assurance services are also provided during the year to the Scottish Borders Pension Fund, and the Scottish Borders Health and Social Care Integration Joint Board, and annual opinions are provided to their respective Management and Board/Committee to meet their obligations.
- 3.5 At the 23 June 2020 meeting the Chief Officer Audit & Risk advised members that, due to the effects of the Covid-19 emergency response, the Internal Audit Annual Plan 2020/21 had been re-assessed in terms of potential changes i.e. add audits to cover new risks, re-schedule medium risk audits to later in the current year, and defer low risk cyclical audits to a future year. This re-assessment had been carried out in consultation with the Corporate Management Team and resulted in significant changes that require approval by the Audit and Scrutiny Committee. The revised Internal Audit Annual Plan 2020/21 (Appendix 1) is presented for approval.

4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT PLAN 2020/21

- 4.1 The Internal Audit programme of work led by the Principal Internal Auditor takes account of the availability of auditor resources and consultation with Management to consider operational service delivery demands and timing of the Council's transformation programmes.
- 4.2 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the delivery of its programme of work to deliver the approved Internal Audit Annual Plan 2020/21. Additional audits were added to the Plan to carry out assurance work on new risks associated with the Covid-19 emergency response. As a result some planned audits have been delayed or will be deferred to 2021/22. Those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, those scheduled for the second half of the year are not shaded, and those audits that have not been delivered as planned are marked * or deferred to 2021/22 are marked **.

4.3 The continuous audit approach enables Internal Auditors to provide added value advice on internal controls and governance and 'critical friend' consultancy services as the Council continues to transform its service delivery. For example: the Fit for 2024 Transformation Programme; Information Governance Group; Corporate Landlord Model; and Contract and Supplier Management Portal Implementation Group. The related Assurance Reports are scheduled for completion by the end of the year 2020/21. The continuous audit approach is applied to non-SBC Internal Audit work for the Scottish Borders Council Pension Fund and the Scottish Borders Health and Social Care Integration Joint Board.

5 COMPLETING THE REVISED INTERNAL AUDIT PLAN FOR 2020/21

- 5.1 The Internal Audit staff resources taking account of the shared Internal Audit services arrangement with Midlothian Council comprises the Chief Officer Audit & Risk (50%), one Principal Internal Auditor, one Senior Internal Auditor, and three Internal Auditors.
- 5.2 The proposed audits to be deferred to 2021/22 are as follows:
- ICT Strategy (ICT Governance)
 - Mental Health Services - Adults & Children (Internal Controls)
 - Homelessness - Temporary Accommodation (Internal Controls)
 - Waste & Recycling Services (Internal Controls)
 - Parks & Environment (Internal Controls)
 - Roads Asset Management (Asset Management)
- 5.3 The Internal Audit programme of work for the six months from October 2020 to March 2021 to complete the delayed work and incorporate the remaining revised planned audit work, based on maintaining current staffing levels within this period, presently indicates that the proposed revised Internal Audit Annual Plan 2020/21 can be delivered in full.
- 5.4 The Internal Audit work will continue to be reported to the Corporate Management Team and to the Audit and Scrutiny Committee. The Internal Audit Work reports will include: an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management; a summary of Internal Audit Assurance Work in Progress; and an outline of Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.
- 5.5 Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Corporate Management Team and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report which will also provide the statutory audit opinion based on audit findings over the year.

6 THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014

- 6.1 The Local Authority Accounts (Scotland) Regulations 2014 which 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 authority.
- 6.2 The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices i.e. PSIAS.

7 PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) AND QUALITY ASSURANCE & IMPROVEMENT PLAN (QAIP)

- 7.1 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
 - Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (responsibility, independence, proficiency, quality);
 - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).
- 7.2 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 7.3 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2020/21. The results and any associated improvement actions will continue to be reported to Corporate Management and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.
- 7.4 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. The first EQA of SBC Internal Audit was carried out by Renfrewshire Council in October 2015 and the results reported to the Audit and Risk Committee in November 2015. The schedule for the second cycle of EQAs has been affected by the Covid-19 response when activities for the EQA for SBC by North Lanarkshire Council and the EQA of Angus Council by SBC were paused in March 2020. The EQAs have recommenced in September 2020 following the receipt of additional guidance from SLACIAG on conducting the EQAs in a virtual way. The findings of the SBC EQA by North Lanarkshire Council will be presented to the Audit and Scrutiny Committee at the next meeting of Audit business in early 2021. Any highlighted improvements from the EQA will be included in the QAIP and progress on their completion will be presented within the Internal Audit Annual Assurance Report 2020/21 scheduled for presentation to the Audit and Scrutiny Committee in May 2021.

8 IMPLICATIONS

- 8.1 **Financial**
 - (a) There are staff resources available to achieve the Internal Audit Annual Plan 2020/21 and to meet the key objective of delivering an effective Internal Audit function and providing the statutory internal audit opinion on internal controls and governance.
 - (b) Budget monitoring of the Audit and Risk service (Internal Audit, Risk Management and Counter Fraud) is discussed by the Chief Officer Audit & Risk on a quarterly basis with Finance staff to address any budgetary pressures and to manage service delivery within budget.

8.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter. "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." Specifically as "a contribution to the Council's corporate management of risk".
- (b) The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process.
- (c) 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. During the development of the Internal Audit Annual Plan 2020/21, at the start of each audit engagement, and during the re-assessment of the Plan, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered. This is illustrated by way of the amendments that have been proposed to the Plan.
- (d) If Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is a further unplanned level of contingency or consultancy audit work, there is the risk that the revised Annual Plan 2020/21 will not be delivered in full. That in turn increases the risk of reduced assurance and not providing the statutory audit opinion to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council. This will be mitigated by way of people planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary.

8.3 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017). It does not relate to new/amended policy/strategy and as a result an integrated impact assessment is not an applicable consideration.

8.4 Acting Sustainably

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

8.5 Carbon Management

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

8.6 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.

8.7 Changes to Scheme of Administration or Scheme of Delegation

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

9 CONSULTATION

- 9.1 The re-assessment of the Internal Audit Annual 2020/21 had been carried out in consultation with the Corporate Management Team and resulted in significant changes that require approval by the Audit and Scrutiny Committee. The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 9.2 The Executive Director Finance & Regulatory, Chief Legal Officer (and Monitoring Officer), Service Director HR & Communications, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit & Risk Signature

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Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 11 March 2019

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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