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## **INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2021/22**

**Report by Chief Officer Audit & Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**8 March 2021**

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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 2021/22 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 how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to the Council, Pension Fund and IJB.
- 1.5 The Chief Officer Audit & Risk and the Principal Internal Auditor have developed the proposed Internal Audit Annual Plan 2021/22 at Appendix 2. It sets out the range and breadth of audit activity 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.

#### **2 RECOMMENDATION**

- 2.1 I recommend that the Audit and Scrutiny Committee approves the Internal Audit Strategy (Appendix 1) and Internal Audit Annual Plan 2021/22 (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 how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to the Scottish Borders Council, Pension Fund and IJB.
- 4.3 The Internal Audit Strategy:
- Outlines the assurance framework, providing clarity of the respective responsibilities of Management for designing and monitoring governance and control systems and of the role of Internal Audit in providing independent assurance thereon;
  - States how the key themes which are integral to the assurance gathering process across the organisation’s activities will be covered to inform the annual Internal Audit opinion statement;
  - Describes the approach to the development of the risk based Internal Audit annual plan;
  - Sets out the relative allocation of Internal Audit resources;
  - Outlines how the Internal Audit programme of work will be delivered to add value; and
  - Describes the monitoring and reporting of the Internal Audit findings from its work and progress with its plans to the relevant organisation’s audit committee/board.
- 4.4 The Internal Audit Strategy reflects the following enhancements identified during the External Quality Assessment process: prioritising planned work which would ensure that those areas of greatest risk are covered during the audit year; including explicit references to other sources of assurance relied upon as part of the audit planning process and plans; and more formally documenting the annual risk assessment undertaken to assist the planning process.

## 5 INTERNAL AUDIT ANNUAL PLAN 2021/22

- 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.”
- 5.3 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.”
- 5.4 The Chief Officer Audit & Risk and the Principal Internal Auditor have developed the proposed Internal Audit Annual Plan 2021/22 at Appendix 2. It sets out the range and breadth of audit activity and sufficient work within the audit programme of work to enable the CAE to prepare an Internal Audit annual opinion. 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.
- 5.5 As part of the Internal Audit planning process it was necessary to consider each organisation’s priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation’s goals, as follows:
- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage;
  - The Corporate, Service and Programme/Project Risk Registers were checked to confirm coverage on key strategic risks; and
  - Account was taken of known external audit and inspection activities to avoid duplication of assurance work.
- 5.6 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.
- 5.7 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 (IJB). Separate Internal Audit annual plans will be presented to their respective Board/Audit Committee for approval.

## **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. These staff resources is 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 Risk Officer and the Corporate Fraud & Compliance Officer (current vacancy).

The Revenue Financial Plans which will be presented to the Council on 19 March 2021 for approval 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 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 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.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance.

### **6.4 Acting Sustainably**

It is anticipated that there are no adverse economic, social or environmental effects of this report.

### **6.5 Carbon Management**

It is anticipated that there are no carbon management issues associated with 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 are required to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals in this report.

## 7 CONSULTATION

- 7.1 The Executive Director Finance & Regulatory, the Chief Legal Officer (the Monitoring Officer), the Chief Officer HR and Communications, the Clerk to the Council, and the 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.
- 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 .....**

### Author(s)

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**Background Papers:** Audit Universe; Risk Registers

**Previous Minute Reference:** Audit and Scrutiny Committee 9 March 2020

**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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