
INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2021/22

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

22 November 2021

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 2021, towards completing the approved Internal Audit Annual Plan 2021/22. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.**
- 1.2 The Internal Audit Annual Plan 2021/22 that was approved by the Audit and Scrutiny Committee on 8 March 2021 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.
- 1.3 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 towards completing the approved Internal Audit Annual Plan 2021/22, despite lower than planned Internal Audit staff capacity. The programme of work for the six months from October 2021 to March 2022, based on maintaining current staffing levels within this period, presently indicates that the Internal Audit Annual Plan 2021/22 can be delivered in full.
- 1.4 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 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - a) Notes the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2021/22; and**
 - b) Confirms that it is satisfied with the Performance of the Internal Audit service**

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 2021/22 that was approved by the Audit and Scrutiny Committee on 8 March 2021 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.

4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT ANNUAL PLAN 2021/22

- 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 achievement of its programme of work. Those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, and those scheduled for the second half of the year are not shaded. Internal Audit has made good progress in the first half of the year towards completing the approved Internal Audit Annual Plan 2021/22, despite lower than planned Internal Audit staff capacity.
- 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; and Corporate Landlord Model. The related Assurance Reports are scheduled for completion by the end of the year 2021/22. 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 INTERNAL AUDIT ANNUAL PLAN 2021/22

- 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 (interim), and three Internal Auditors (one part-qualified).
- 5.2 The Internal Audit programme of work for the six months from October 2021 to March 2022, based on maintaining current staffing levels within this period, presently indicates that the approved Internal Audit Annual Plan 2021/22 can be delivered in full.
- 5.3 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.
- 5.4 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 2021/22. 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 findings of the second SBC EQA, completed by North Lanarkshire Council in early January 2021, assessed the function as 'fully conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards (consistent with the internal self-assessment). The findings and the main areas for improvement highlighted in the Final EQA Report were reported to the Audit and Scrutiny Committee on 15 February 2021.
- 7.5 Six of the seven improvements that were added to the QAIP arising from the EQA and the 2020/21 internal self-assessment have been implemented, as indicated in the Internal Audit Annual Assurance Report 2020/21 that was presented to the Audit and Scrutiny Committee in May 2021. The remaining improvement action in the QAIP arising from the EQA and 2020/21 internal self-assessment is as follows:

(1) Review the performance management arrangements with a view to ensuring a balanced suite of performance indicators are established, monitored and reported as appropriate. This should include consideration of seeking more formal feedback from clients / stakeholders as part of performance management arrangements (no.4 EQA).

Performance management arrangements across Internal Audit services in other Scottish Councils are being shared and considered to support the implementation of this improvement action. Progress on its completion will be presented within the Internal Audit Annual Assurance Report 2021/22 scheduled for presentation to the Audit and Scrutiny Committee in June 2022.

8 IMPLICATIONS

8.1 Financial

There are staff resources available to achieve the Internal Audit Annual Plan 2021/22 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. Budget monitoring of the Audit and Risk service is discussed by the Chief Officer Audit & Risk and Principal Internal Auditor 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 2021/22, at the start of each audit engagement, and during the programming of work to deliver the Plan, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- d) If Internal Audit staffing levels fall below that assumed for the remaining six-month period, there is the risk that the revised Annual Plan 2021/22 will not be delivered in full. This will be mitigated by way of people planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary. This is to ensure that a sufficient range and breadth of assurance audit work will be carried out during 2021/22 to underpin the statutory audit opinion to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.

8.3 Integrated Impact Assessment

- (a) There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. 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).
- (b) 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.

8.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist.

8.5 Climate Change

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

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 Data Protection Impact Statement

There are no personal data implications arising from the content of this report.

8.8 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 content in this report.

9 CONSULTATION

9.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

9.2 The Director - Finance & Corporate Governance, Chief Legal Officer (and Monitoring Officer), Director - People Performance and Change, 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 and Risk Signature

Author(s)

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Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 8 March 2021

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