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# **INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2022/23**

**Report by Chief Officer Audit and Risk**

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## **AUDIT AND SCRUTINY COMMITTEE**

**14 March 2022**

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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 2022/23 to enable the Chief Audit Executive 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 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 Chief Audit Executive (CAE) is also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment.
- 1.3 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 Scottish Borders Council (SBC), Scottish Borders Council Pension Fund (SBCPF), and Scottish Borders Health and Social Care Integration Joint Board (SBIJB).
- 1.4 The Internal Audit Annual Plan 2022/23 at Appendix 2 has been developed by the Chief Officer Audit & Risk (CAE) and the Principal Internal Auditor. 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 opinions for SBC, SBCPF, and SBIJB. Separate Internal Audit Annual Plans 2022/23 for the SBCPF and SBIJB will be presented to their respective board/audit committee for approval. Key components of the audit planning process include a clear understanding of each organisation's functions, associated risks, and assurance framework.

### **2 RECOMMENDATIONS**

- 2.1 I recommend that the Audit and Scrutiny Committee:**
  - a) Endorses the Internal Audit staff resources needed to deliver the Internal Audit Strategy and Annual Plans;**
  - b) Approves the Internal Audit Strategy (Appendix 1); and**
  - c) Approves the Internal Audit Annual Plan 2022/23 (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.
- 3.2 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 require the Chief Audit Executive (CAE) 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.
- 3.3 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.
- 3.4 Internal Audit assurance resources and services are also provided by Scottish Borders Council's Internal Audit team to the Scottish Borders Council Pension Fund (SBCPF) and to the Scottish Borders Health and Social Care Integration Joint Board (SBIJB), including the appointed Chief Internal Auditor. The Internal Audit Charter and Strategy are applicable to these organisations.

### **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 Chief Officer Audit & Risk (CAE) and the Principal Internal Auditor have developed the Internal Audit Strategy at Appendix 1. It 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 (SBC), Scottish Borders Council Pension Fund (SBCPF) and to the Scottish Borders Health and Social Care Integration Joint Board (SBIJB).
- 4.3 The Internal Audit Strategy, since its previous approval by the Audit and Scrutiny Committee on 8 March 2021, reflects the following:
- The restructure of the SBC Strategic Leadership Team in September 2021 and the change in roles and responsibilities of each Director;
  - The mutual opt out of the shared Internal Audit services with Midlothian Council, approved by Council on 16 December 2021;
  - The associated change in approach for provision of resources to implement the Counter Fraud Strategy 2021-2024, approved by Council on 16 December 2021, incorporating the support role of Internal Audit;
  - The prioritisation of audit activity deferred from the previous year and with greatest risk within the approach to delivery of the Internal Audit Programme of Work; and
  - Emphasis of the use of data analytics within the approach to delivery of the Internal Audit Programme of Work to reflect the Council's increasing use of digital systems and automated processes.
- 4.4 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.

## **5 INTERNAL AUDIT ANNUAL PLAN 2022/23**

- 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 (CAE) and the Principal Internal Auditor have developed the proposed Internal Audit Annual Plan 2022/23 for Scottish Borders Council 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, which has been significantly revised and realigned by the Principal Internal Auditor to reflect the current strategic and operational management arrangements and approach to service delivery, to ensure appropriate coverage;
  - Corporate and Service Risk Registers were checked and discussions were held with the Corporate Risk Officer to confirm coverage on key corporate risks and other service strategic risks, as reliance is placed on the risk assessments carried out by the Risk Owners taking account of the risk ratings and mitigations;
  - Consultation discussions with senior management at each of the Directorate Management Team meetings; and
  - Account was taken of known external audit and inspection activities to avoid duplication of assurance work.
- 5.6 It is envisaged that 2022/23 will continue to be a year of change for the Council and other partner organisations. Therefore 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 Strategic Leadership Team and the Audit and Scrutiny Committee for approval.
- 5.7 The Non SBC days reflect the Council's partnership working commitment to provide Internal Audit assurance resources and services to the Scottish Borders Council Pension Fund (SBCPF) and to the Scottish Borders Health and Social Care Integration Joint Board (SBIJB). Separate Internal Audit Annual Plans 2022/23 will be presented to their respective Board/Audit Committees for approval to fulfil that service provision.

## **6 IMPLICATIONS**

### **6.1 Financial**

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.

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work alongside other available sources of assurance to enable the CAE 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.

The Internal Audit function within Audit & Risk reports directly to the Director Finance & Corporate Governance (operationally) and the Audit and Scrutiny Committee (functionally). The Internal Audit staff resources totalling 5.5 FTE comprises Chief Officer Audit & Risk (50% for Internal Audit activity), one Principal Internal Auditor, two Senior Internal Auditors, and two Internal Auditors. All except the two Internal Auditors have a professional internal audit or accountancy qualification, and all have suitable experience, knowledge, skills and competencies (such as Code of Ethics set out in the PSIAS and the Seven Principles of Public Life) needed to deliver the Plan. These staff resources engage in a collaborative way with the Corporate Risk Officer and will engage with the nominated Counter Fraud Champions in Services. After deduction for estimated annual leave, public holidays, absence including staff turnover, learning and development, and management and supervision, this equates to a total of 785 days available for Internal Audit activity (2021/22 800 days).

The Revenue Financial Plans which were approved by the Council on 22 February 2022 reflect the above resources.

The recruitment to the vacant Senior Internal Auditor post is underway though interim resources will be required in 2022/23 through an ongoing contract for services until the appointment of the new post holder.

### **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 / service risk registers have been considered.

### **6.3 Integrated Impact Assessment**

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report, based on the completion of the Integrated Impact Assessment (IIA); a full IIA is not required. The revised Internal Audit Charter, Strategy and Annual Plan 2022/23 are designed to ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice (Charter), to set out the Council's assurance framework within which

Internal Audit operates, and the Chief Audit Executive's (CAE) strategy for discharging its role and providing the necessary annual assurance opinions (Strategy), and to set 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 (Annual Plan 2022/23).

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).

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 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, alongside the Internal Audit Charter. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting sustainable development.

#### **6.5 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.

#### **6.6 Rural Proofing**

The revised Internal Audit Strategy and Annual Plan 2022/23 are unlikely to have a different impact in rural areas, based on completion of the checklist.

#### **6.7 Data Protection Impact Statement**

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

#### **6.8 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.

## **7 CONSULTATION**

7.1 The Internal Audit planning process has involved consultation with key stakeholders including discussions with Directors and Managers at each of their SMT meetings and with the Chief Executive to capture potential areas of risk and uncertainty more fully. Account was taken of known external audit and inspection activities to avoid duplication of assurance work.

7.2 The report has been presented to the Strategic Leadership Team on 2 March 2022 (Chief Executive and Directors) to outline 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.

7.3 In addition, the Chief Legal Officer (and Monitoring Officer), Clerk to the Council, and Communications team have been consulted on this report and appendix and any comments received have been taken into account.

**Approved by**  
**Jill Stacey, Chief Officer Audit & Risk      Signature .....**

**Author(s)**

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**Background Papers:** Local Code of Corporate Governance; Financial Regulations

**Previous Minute Reference:** Audit and Scrutiny Committee 8 March 2021

**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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