Internal Audit Mid-Term Performance Report 2015/16

Report by Chief Officer Audit & Risk

Audit and Risk Committee

23 November 2015

---

1 **PURPOSE AND SUMMARY**

1.1 The purpose of this report is to inform the Audit and Risk Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2015, towards completing the Internal Audit Annual Plan 2015/16. It also summarises the outcomes of assessments of the Internal Audit service against 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 Risk Committee on the effectiveness of internal controls and governance within the Council.

1.3 The Internal Audit Annual Plan 2015/16 that was approved by the Audit and Risk Committee on 23 March 2015 sets out the audit coverage for the year utilising available internal audit staff resources to enable the Chief Officer, as the Council's Chief Audit Executive (CAE), to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

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 progress towards completing the Internal Audit Annual Plan 2015/16 despite the need to reschedule some of the planned audits to the second half of the year. In contrast some internal audit work that was originally scheduled for completion in the 3rd quarter has been accelerated. Internal Audit is currently on target to complete its Annual Plan 2015/16, assuming planned staffing levels for the remainder of the year.

1.5 The report also summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS). The External Quality Assessment (EQA) Peer Review carried out by Renfrewshire Council in October 2015 has concluded that the SBC Internal Audit Service generally conforms to the PSIAS.

2 **RECOMMENDATION**

2.1 I recommend that the Audit and Risk Committee approves the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2015/16, and 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 Risk Committee on the effectiveness of internal controls and governance within the Council.

3.3   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. During the development of the Internal Audit Annual Plan 2015/16 key stakeholders have been consulted and risk registers have been considered to capture potential areas of risk and uncertainty more fully.

3.4   The Internal Audit Annual Plan 2015/16 that was approved by the Audit and Risk Committee on 23 March 2015 sets out the audit coverage for the year utilising available internal audit staff resources to enable the Chief Officer, as the Council's Chief Audit Executive (CAE), to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

4   HALF YEAR RESULTS AGAINST INTERNAL AUDIT PLAN 2015/16

4.1   The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the delivery of its programme of work (the status of those audits which are complete are highlighted) to deliver the Internal Audit Annual Plan 2015/16. The following table summarises the Internal Audit activity for the 6 months to 30 September 2015:

	Plan days Apr-Sep 2015/16	Actual days Apr-Sep 2015/16	Plan Nos. Apr-Sep 2015/16	Actual Nos. Apr-Sep 2015/16
Corporate Governance	100	62	2	2
Financial Governance	60	40	2	1
IT Governance	35	8	3	3
Internal Controls	40	22	2	0
Asset Management	0	0	0	0
Legislative and other Compliance	50	82	4	4
Consultancy and Advice	40	33		
Other	74	86		
Total	**399**	**333**	**13**	**10**

4.2 The work Internal Audit has carried out in the first half of the year equates to Productive Days Achieved as a percentage of Productive Days as per the Audit Plan of 83% (CIPFA Directors of Finance PI for Internal Audit services) and 77% completion of planned audits, though in a number of cases some work has been commenced during the first half of the year.

4.3 Not all planned audits have been completed in the 6 months to 30 September 2015 for the following reasons:

- Some elements of the audit scopes have been completed though other aspects have been re-phased in consultation with Management to match availability (e.g. Creditors Payments; Salaries including Expenses).

- The timing of some of the planned audits had to be amended and re-phased to align the audits to the review and development work within service areas in consultation with Management (e.g. Homelessness; Waste and Recycling).

4.4 In contrast some internal audit work that was originally scheduled for completion in the 3rd quarter has been accelerated to ensure productivity levels are retained as part of effective use of internal audit resources (e.g. Financial Policies and Procedures; Grants; ICT Operational Processes).

4.5 The allocation of audit plan hours is not an exact science and some of the audit scopes have been carried out using less than planned hours and some using more than planned hours. The latter was relevant to Legislative and Compliance work particularly relating to Kelso Town Heritage Initiative, and also to European Fisheries Fund Programme SLA Compliance and LEADER Programme SLA Compliance attributed to more in-depth end of programme assurance.

4.6 The continuous audit approach enables Internal Auditors to provide added value advice on internal controls and governance as the Council continues to transform its service delivery, for example, Health and Social Care Integration, the Welfare Reform Programme, the Information Governance Group, the Serious Organised Crime Officer Working Group, and the Corporate Fraud Working Group).

4.7 Internal Auditors have also carried out contingency work requested by Management as part of other planned audit work.

4.8 Internal Audit resources were deployed in the delivery of the follow-up work to check that recommendations have been implemented by Management to ensure added value has been derived from the Internal Audit work through improvement in internal financial control and / or internal control and governance. Internal Auditors continue to work with Management to address any actions that become overdue, and bring any matters to the attention of the Audit and Risk Committee. The follow-up activity takes into consideration their priority status, what target timescales are in place for full implementation, the explanation of the reason for any delay in implementation, and a review of their status to ensure the recommendations are still relevant or whether alternative solutions are required to address the identified weakness.

4.9 Internal Audit adopting its 'critical friend' role is collaborating with the Corporate Performance team to perform independent and objective validation of Services' performance measures and self-assessments within a cycle of improvement planning that demonstrates best value, an improvement action within the Audit and Risk Business Plan 2015/16.

5 COMPLETING THE PLAN FOR 2015/16

5.1 The Internal Audit programme of work for the six months from October 2015 to March 2016 incorporating the remaining planned audit work has been discussed with Management. Based on planned staffing levels within this period, the Internal Audit Annual Plan 2015/16 can be delivered in full. There is no change proposed to the audit plan that would require approval by the Audit and Risk Committee.

5.2 The following table summarises the Internal Audit planned work in the second half of the year to 31 March 2016:

	Plan days Oct-Mar 2015/16	Plan Nos. Oct-Mar 2015/16
Corporate Governance	85	4
Financial Governance	135	4
IT Governance	25	1
Internal Controls	45	2
Asset Management	25	1
Legislative and other Compliance	0	0
Consultancy and Advice	40	0
Other	55	3
Total	**410**	**15**

5.3 The Chief Officer Audit & Risk has managerial responsibility for the functions which develop, support and advise on the frameworks in place at the Council on Risk Management and Counter Fraud. Audits are scheduled in the 4th Quarter relating to these areas. In order to ensure that internal audit independence and objectivity is maintained in this scenario, the internal audit work on these areas will be carried out with the Chief Officer Audit & Risk as the client, with the Internal Audit Manager fulfilling the CAE role in accordance with the Internal Audit Charter, and Internal Auditors, who are governed by their professional codes and standards of integrity and objectivity, performing the detailed testing of controls. It should also be noted that Management are responsible for putting in place effective systems of internal control, risk management and counter fraud arrangements to ensure robust and efficient governance of the Council.

5.4 To support the Council's work opportunities scheme and ambitions to offer employment opportunities to young people, a Modern Apprentice has been recruited within the Audit & Risk service on a 24-month fixed term contract. Under the national Framework the apprentice will follow the Audit Pathway to achieve a Scottish Higher Level Apprenticeship: a Technical Apprenticeship in Professional Services at Level 4.

5.5 With effect from 6 October 2015 and in light of interim changes to the Corporate Management structure the Chief Officer Audit & Risk reports administratively to the Service Director Regulatory Services (who is also the Monitoring Officer) thus audit and risk functions and support services transferring to the Place department. The Chief Officer Audit & Risk continues to report functionally to the Audit & Risk Committee, continues to meet regularly with the Chief Financial Officer, and has direct access to the Chief Executive, Depute Chief Executives, and Service Directors who make up the Corporate Management Team. The Chief Officer Audit & Risk continues to report in her own name and retains final edit rights over all internal audit reports.

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 1 April 2013 which requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS and develop a quality assurance and improvement plan (QAIP) based on the outcome. The PSIAS include:
   - 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 includes the requirement to report the results of the QAIP to senior management and elected members. The following table provides Corporate Management and the Audit and Risk Committee with a summary overview of the outcome of the internal self-assessment against the PSIAS 2014/15, carried out by one of the Senior Internal Auditors, and the QAIP:

Standard	Improvement Action	Target Date	Action Owner
B1 Integrity B2 Objectivity B3 Confidentiality B4 Competence	Adherence to *Code of Ethics* included in "Performance Standards" on PRD forms	July 2015- ***Complete***	Senior Internal Auditor
As above	Development of pre-Audit checklist	October 2015- ***Complete***	Senior Internal Auditor
1100.14 Due consideration to potential conflicts of interest	Development of pre-Audit checklist	October 2015- ***Complete***	Senior Internal Auditor
1300.1 Performance monitoring	Develop Balanced Scorecard measures in line with SLACIAG guidance and input into Covalent	November 2015	Senior Internal Auditor
2000.6 Risk management	Continued improvement in identification and management of risk within the Council	March 2016	Chief Officer Audit & Risk
2000.12 Policies and Procedures	Review and revision of Audit Manual	March 2016	Senior Internal Auditor

7.3   The PSIAS requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have agreed proposals for a "peer review" framework as a cost effective means of complying with this requirement. At the SLACIAG meeting on 12 September 2014 it was reported that 24 Scottish Local Authorities had agreed to participate in the "peer review" framework.

7.4   SBC has participated in a pilot of this framework along with 5 other Councils though the EQA Peer Review site visit by Renfrewshire Council was delayed from March until October 2015. The methodology included: review of the latest self-assessment; canvass of the opinions of key stakeholders such as Chair of the Audit and Risk Committee and members of the Corporate Management Team; and testing using a standard checklist, a review of guidance and process documents, and a sample of files.

7.5   The draft report received from Renfrewshire Council on 9 November 2015 has concluded that the SBC Internal Audit Service generally conforms to the PSIAS, has identified areas of Good Practice, and has highlighted a few areas where improvements can be made. The Summary of Conformance with the PSIAS in the draft report states either 'Fully Conforms' or Generally Conforms' against the 13 Assessment Areas. Areas of good practice include: substantial compliance with PSIAS and the International Professional Practices Framework (IPPF); clear, concise and easy to follow Internal Audit Charter; appropriate functional and administrative reporting lines for the CAE; appropriately qualified and experienced Internal Audit team. The implementation of the Action Plan covering the areas of improvement is designed to enable SBC Internal Audit Service to move from an assessment of 'Generally Conforms' to 'Fully Conforms' in each of the Assessment Areas. Once the content and action plan in the draft report have been agreed with Renfrewshire Council, the EQA Peer Review improvement actions will be added to the QAIP and their implementation will be led by the Chief Officer Audit & Risk.

7.6   The SBC Internal Audit service will be subject to an annual self-assessment against the PSIAS at the end of 2015/16. The progress with implementation of the improvement actions in the QAIP, including those arising from the EQA Peer Review, will be evaluated at that time. The results will continue to be reported to the Audit and Risk Committee each May within the Internal Audit Annual 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.

8   IMPLICATIONS

8.1   **Financial**

    (a)   There are staff and other resources in place to achieve the Internal Audit Annual Plan 2015/16 and to meet the key objective of delivering an effective Internal Audit function to provide independent and objective assurance on systems of internal financial control, internal control and governance, and to highlight good practice and recommend improvements.

(b)   Budget monitoring of the Audit & Risk service (Internal Audit, Risk Management and Counter Fraud) is carried out by the Chief Officer Audit & Risk and the Internal Audit Manager on a monthly basis (and discussed on a quarterly basis with Finance staff in accordance with current practice) to address any budgetary pressures and to manage service delivery within available financial resources.

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." Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. Specifically, as "a contribution to the Council's corporate management of risk", this includes responsibility in "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."

(b)   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. During the development of the Internal Audit Annual Plan 2015/16, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.

(c)   If planned Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is an unexpected and unplanned level of contingency audit work, there is the risk that the annual plan will not be achieved. That in turn increases the risk of reduced assurance available to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. This has been mitigated by way of:

- Ensuring that sufficient Internal Audit resources are available to deliver the Internal Audit Annual Plan 2015/16 in full.
- Scheduling of audits through discussion with Management to ensure available capacity, and making suitable arrangements to minimise the impact of the audit process on service delivery.
- Regularly monitoring progress on higher priority audits by the Chief Officer Audit & Risk and Internal Audit Manager and taking action as necessary.
- Controlling and managing Contingency work by way of: Greater emphasis on what is not the responsibility of Internal Audit but what is the responsibility of Management; where possible, incorporating Contingency work within planned audit work; and the requirement for approval by the Chief Officer Audit & Risk before commencement.

8.3   **Equalities**

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

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

9.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit & Risk   Signature …………………………………

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel. 01835 825036
James Collin	Internal Audit Manager Tel. 01835 825232
David Clark	Senior Internal Auditor Tel. 01835 825464

Background Papers: Appropriate Internal Audit files
Previous Minute Reference: Audit and Risk Committee 23 March 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. James Collin, Place Department can also give information on other language translations as well as providing additional copies.

Contact us at James Collin, Place Department, Scottish Borders Council, Council Headquarters – Lancaster House, Newtown St Boswells, Melrose, TD6 0SA
Tel: 01835 825232   Fax: 01835 825011
jcollin@scotborders.gcsx.gov.uk