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## **INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2022/23**

**Report by Chief Officer Audit and Risk**

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### **AUDIT COMMITTEE**

**12 December 2022**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to inform the Audit Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2022, towards completing the approved Internal Audit Annual Plan 2022/23. 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 2022/23 that was approved by the Audit and Scrutiny Committee on 14 March 2022 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer Audit & Risk (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, which indicates good progress. Some revisions to the Internal Audit Annual Plan 2022/23 require approval by the Committee. The programme of work for the six months from October 2022 to March 2023 with current resources indicates that the revised Internal Audit Annual Plan 2022/23 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 Committee:**
  - a) Notes the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2022/23;**
  - b) Confirms that it is satisfied with the Performance of the Internal Audit service; and**
  - c) Approves the revisions to the Internal Audit Annual Plan 2022/23.**

### **3 BACKGROUND**

- 3.1 The authority for Internal Audit to operate in Scottish Borders Council is contained in the Council's Local Code of Corporate Governance, and Financial Regulations. The Internal Audit Charter expands upon that framework, alongside the Internal Audit Strategy and Annual Plans.
- 3.2 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 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."
- 3.3 Internal Audit provides assurance to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.
- 3.4 The Internal Audit Annual Plan 2022/23, approved on 14 March 2022, sets out the audit coverage for the year utilising available staff resources to enable the Chief Officer Audit & Risk (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.
- 3.5 Internal Audit assurance services are also provided during the year to the Scottish Borders Council Pension Fund, and the Scottish Borders Health and Social Care Integration Joint Board, and annual assurance reports including audit opinions are provided to their respective Management and Board / Committee to meet their obligations.

### **4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT ANNUAL PLAN 2022/23**

- 4.1 The Internal Audit programme of work led by the Principal Internal Auditor takes account of the availability of Internal Audit 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 delivering the approved Internal Audit Annual Plan 2022/23 to meet its objectives.
- 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. 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 2022/23**

- 5.1 The Internal Audit staff resources comprises the Chief Officer Audit & Risk (50%), one Principal Internal Auditor, two Senior Internal Auditors (one is an interim contractor), and two Internal Auditors.
- 5.2 The proposed audits to be deferred to 2023/24 are as follows:
- Residential Care Homes (Internal Controls)
  - Homecare (Internal Controls)
- 5.3 The Internal Audit programme of work for the six months from October 2022 to March 2023, based on maintaining current staffing levels within this period, presently indicates that the revised Internal Audit Annual Plan 2022/23 can be delivered in full.
- 5.4 The Internal Audit work will continue to be reported to the Strategic Leadership Team and to the Audit 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 Strategic Leadership Team and the Audit Committee within the Internal Audit Annual Assurance Report 2022/23, scheduled for May 2023, 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 internal self-assessment 2021/22 of Internal Audit practices against the Standards was carried out in April/May 2022, as required by the PSIAS. Its outcomes and conclusions were presented to the Audit and Scrutiny Committee on 27 June 2022 within the Internal Audit Annual Assurance Report 2021/22. This confirmed the implementation of the improvements identified in the EQA January 2021, and further identified some minor enhancements relating to operational tools to ensure their efficiency and effectiveness. There are no improvement actions for inclusion in the QAIP arising from the 2021/22 internal self-assessment.
  - 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 findings of the second EQA of SBC Internal Audit, completed by North Lanarkshire Council in early January 2021, were reported to the Audit and Scrutiny Committee on 15 February 2021. Both EQAs assessed the SBC Internal Audit 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-assessments).
  - 7.5 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2022/23. The results and any associated improvement actions will continue to be reported to the Strategic Leadership Team and the Audit Committee within the Internal Audit Annual Assurance Report 2022/23. 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**

The authority for Internal Audit to operate in Scottish Borders Council is contained in the Council's Local Code of Corporate Governance, and Financial Regulations. This Internal Audit Charter expands upon that framework, alongside the Internal Audit Strategy and Annual Plans.

There are staff resources available to achieve the Internal Audit Annual Plan 2022/23 and to meet the key objective of delivering an effective Internal Audit function and providing the statutory internal audit opinion on internal controls, governance and risk. The Chief Officer Audit & Risk and Principal Internal Auditor carry out budget monitoring of the Audit and Risk service on a monthly basis to manage service delivery within budget and discussions are held at least on a quarterly basis with Finance staff to address any budgetary control issues or other financial matters.

## 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 efficacy of Risk Management arrangements and associated internal controls put in place by Management and provide independent assurance on the effectiveness of the Risk Management Strategy and activities as part of its assurance on the Council's Corporate Governance arrangements.
- 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 2022/23, 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 2022/23 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 2022/23 to underpin the statutory audit opinion to Management and the Audit 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 during the preparation of the Internal Audit Strategy and Plan 2022/23. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting sustainable development.

## 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 in this report. The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards.

## 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 Strategic Leadership Team has been consulted on this report to ensure their awareness and oversight of Internal Audit performance against Plan.
- 9.2 The Acting Chief Financial Officer, 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 Committee 14 March 2022

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