
INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2023/24

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 March 2023

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 2023/24 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 2023/24 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 2023/24 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 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 2023/24 (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, and its risk management arrangements.
- 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 to these organisations. 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 Scottish Borders Council (SBC), Scottish Borders Council Pension Fund (SBCPF) and 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 14 March 2022, reflects the following:
- Amendments to the Scheme of Administration approved by Council in August 2022 to establish a separate Audit Committee with audit and risk functions;
 - The renaming of the Council Management Team, and the interim changes in Chief Officers in place of the Director Finance and Corporate Governance;
 - Specific references to the provision of Internal Audit services to the Pension Fund and the Health and Social Care Integration Joint Board, in addition to Scottish Borders Council;
 - The planned change in the approach to the delivery of the Internal Audit programme of work to consider the cross-cutting risks and controls relating to sustainable development goals and climate change in all assurance work (paragraph 7.2 (d) of Appendix 1). This is to meet the recommendations of the Accounts Commission report 'Scotland's councils' approach to addressing climate change' published September 2022, para 73 *"Integrating climate change into internal audits can provide assurance that the underlying controls and processes that support climate change commitments, plans and programmes are operating as intended. It is essential that decision-makers are provided with timely data and updates so that opportunities, barriers and challenges can be fully understood and considered when decisions are being made."*; and
 - Further to the above, to consider the cross-cutting risks and controls relating to people and succession planning, and integrated impact assessments in all assurance work to provide assurance on the level of compliance with the Council's controls and processes within Services.
- 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 2023/24

- 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.” (HIA = Head of Internal Audit)
- 5.4 The Chief Officer Audit & Risk and the Principal Internal Auditor have developed the proposed Internal Audit Annual Plan 2023/24 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 (Directors and Service Managers) at each of the Service 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 2023/24 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 Council Management Team and the Audit 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 2023/24 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 Interim Chief Officer Corporate Governance (operationally) and the Audit 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 (one is an interim contractor), and two Internal Auditors. All except the two Internal Auditors are required to 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. 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 767 days available for Internal Audit activity (2022/23 - 785).

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. The Internal Audit staff resources engage in a collaborative way with the Corporate Risk Officer during the course of carrying out audit work.

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 2023/24 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 2023/24).

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. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting its climate change obligations.

The Internal Audit Strategy (paragraph 7.2 (d) in the Appendix 1) includes the planned change in the approach to the delivery of the Internal Audit programme of work to consider the cross-cutting risks and controls on sustainable development goals and climate change in all assurance work to meet the recommendations of the Accounts Commission report 'Scotland's councils' approach to addressing climate change' published September 2022.

6.6 **Rural Proofing**

The revised Internal Audit Strategy and Annual Plan 2023/24 are unlikely to have a different impact in rural areas, based on completion of the checklist alongside the Internal Audit Charter, due to the nature of providing Internal Audit services.

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 Service Managers at each of their Senior Management Team 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 and appendix have been presented to the Council Management Team on 1 March 2023 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 Acting Chief Financial Officer, Interim Chief Officer Corporate Governance (and Monitoring Officer), Director – People Performance & Change, 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**

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Background Papers: Local Code of Corporate Governance; Financial Regulations
Previous Minute Reference: Audit Committee 14 March 2022

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Contact us at Internal Audit intaudit@scotborders.gov.uk