
Internal Audit Strategy and Internal Audit Annual Plan 2016/17

Report by Chief Officer Audit & Risk

Audit & Risk Committee

29 March 2016

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 2016/17 for Scottish Borders Council to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.**
- 1.2 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 to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of the organisation.
- 1.3 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 Council's operation. In addition, the Chief Officer Audit & Risk is also required to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.
- 1.4 The report presents the background to the Internal Audit Strategy at Appendix 1 that outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance.
- 1.5 The proposed Internal Audit Annual Plan 2016/17 in Appendix 2 sets out the range and breadth of audit areas and sufficient work within the audit programme of work to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and assurance framework.
- 1.6 There are staff and other resources currently in place to achieve the Internal Audit Annual Plan 2016/17 and to meet its objectives.

2 RECOMMENDATION

- 2.1 I recommend that the Audit & Risk Committee approves the Internal Audit Strategy (Appendix 1) and Internal Audit Annual Plan 2016/17 (Appendix 2).**

3 BACKGROUND

- 3.1 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 Council's operation. In addition, the Chief Officer Audit & Risk is also required to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.
- 3.2 Management are responsible for designing and maintaining appropriate risk management, governance and internal control processes and systems to ensure robust and efficient governance of the Council. Management are also responsible for checking that these internal controls are operating effectively. These are known as the first and second lines of defence. Internal Audit is not a substitute for these management responsibilities. Rather it is the review function which will challenge current practices and recommend best practice and improvements to lead to a strengthening of the control environment and therefore assisting the Council in achieving its objectives. Internal Audit is the third line of defence.
- 3.3 The Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014 and came into force on 10 October 2014. The regulations 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.

4 INTERNAL AUDIT STRATEGY

- 4.1 The SBC Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013, along with the CIPFA Local Government Application Note for the United Kingdom.
- 4.2 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."
- 4.3 The Internal Audit Strategy at Appendix 1 outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance. It outlines the Council's assurance framework, states how the key themes will be covered to inform the annual audit opinion statement, describes the

approach to periodic risk based audit planning, sets out the relative allocation of resources, and describes the monitoring and reporting of Internal Audit progress with plans and its work.

- 4.4 The opportunity has been taken to address one of the improvement actions arising from the PSIAS external quality assessment (EQA) carried out in October 2015 by Renfrewshire Council. During the audit planning process the Chief Officer Audit & Risk held discussions with Senior Management to “determine the expectations and deliverables, in relation to adding value to the organisation through the work of Internal Audit taking account of the role of Internal Audit and resources available”. In addition key messages on the internal audit strategy and plans are reflected within this report and associated appendices to Management and the Audit and Risk Committee.
- 4.5 The Internal Audit activity adds value to the organisation (and its stakeholders) when it: considers the organisation’s strategies, objectives and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance.

5 INTERNAL AUDIT RESOURCES

- 5.1 The Council’s Internal Audit function must be adequately resourced to meet its objectives, in terms of diverse range of experience, knowledge, skills and technical competencies needed to complete the programme of work.
- 5.2 The staffing position within the function has been stable for some years now, with a good mix of experience, qualifications and skills. The findings from the External Quality Assessment of the PSIAS (October 2015) states that “The Internal Audit team is appropriately qualified and experienced. It was acknowledged by key stakeholders that the team was knowledgeable and professional. All members of the team are aware of the professional and ethical standards required.”
- 5.3 The Internal Audit Annual Plan 2016/17 has been developed on the assumption that existing staff resources will not change and it is estimated that the total productive days available for audit work will be of the order of 809 days. Staff resources comprise the Chief Officer Audit & Risk (50% allocation to Audit), Internal Audit Manager (75%), two Senior Internal Auditors, and two Internal Auditors. Staff resources estimated in the plan totalling 70 days have been allocated from existing Council resources to provide internal audit services to SB Cares in its second year of operation, to the Pension Fund and to the Scottish Borders Health and Social Care Partnership in its first year of operation to reflect the changing organisation structures and partnership arrangements. This leaves 739 audit days for provision of risk-based assurance and audit opinion for the Council.
- 5.4 It should be noted that within the financial plans for 2016/17, which were approved by the Council on 11 February 2016, a net reduction in costs of the Audit & Risk service is reflected as an efficiency savings target. Scenarios as to the achievement of this will be considered as part of the people planning processes that is underway, though any reduction in Internal Audit resources would limit the level of internal audit assurances to all existing organisations. Proposals will be brought forward in due course.
- 5.5 Internal Auditors will continue to attend relevant seminars, development workshops and user groups as part of their personal development plans, to meet Continuing Professional Development requirements as appropriate, ensuring that all remain well versed in new and emerging working practices, issues and risks and have the tools, processes and insights necessary to accomplish the objectives.

6 INTERNAL AUDIT ANNUAL PLAN 2016/17

- 6.1 The SBC Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013, along with the CIPFA Local Government Application Note for the United Kingdom.
- 6.2 The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:
- Standard 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”
 - Standard 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.”
- 6.3 The CIPFA Publication ‘Audit Committees: Practical Guidance for Local Authorities and Police – 2013 Edition’ 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.”
- 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.”
- 6.4 In practice within Scottish Borders Council, a risk-based plan for the organisation, outlining the planned programme of work to be undertaken by the Internal Audit function, is developed annually by the Chief Officer Audit & Risk. The Internal Audit Annual Plan includes the range and breadth of audit areas and sufficient work to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council’s overall control environment. The audit opinion is included within the Internal Audit Annual Report which is reported to senior management and members of the Audit & Risk Committee on an annual basis.
- 6.5 Key components of the internal audit planning process include a clear understanding of the Council’s functions, associated risks, and assurance framework (comprising assurances from within the organisation and from external providers of assurance). The internal audit plan is also informed by key developments at both a national and local level, knowledge of planned review and re-design of business processes and systems, and other relevant background information contained for example within the Corporate Plan, Directorate Business Plans and associated Risk Registers, reports from external audit and inspection bodies, and committee reports. In addition, as in previous years, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted. This consultation has included discussions with senior management at various Service and Departmental Management Teams and other key stakeholders such as KPMG, the Council’s appointed external auditor.

- 6.6 The programme of work within the Internal Audit Annual Plan takes account of external audit and inspection activities to avoid duplication of assurance work. For example: Internal Audit will meet with the External Auditors to agree which internal audit assurance work will be relied upon by External Audit for its annual audit; the schools internal audit work on internal financial controls is designed to complement inspections carried out by Education Scotland; and any matters raised by other inspection bodies, including Care Inspectorate and Scottish Housing Regulator, are considered in self-assessment validation work agreed with Management.
- 6.7 National reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies are considered and applied as part of the audit process to evidence improvements in the Council's practices on a continuous basis.
- 6.8 The proposed programme of work to be included in the Internal Audit Annual Plan 2016/17 is summarised at Appendix 2. The proposed reviews have been grouped into key themes which are integral to the assurance gathering process across the Council's activities. For each review area included within the plan there is a brief commentary. For each assurance review and in line with recognised good practice an Audit Assignment detailing the scope, objectives and timing will be prepared and agreed with the relevant Service Director and manager prior to commencement of the audit fieldwork.
- 6.9 Other areas included in the Annual Plan relate to those consultancy and support activities which support Management in delivering innovation and transformational change.
- 6.10 The following table summarises how the initial allocation of available audit days will be for the Internal Audit Annual Plan 2016/17.

Areas	Audit Days 2016/17
Corporate Governance	190
Financial Governance	180
IT Governance	60
Internal Controls	45
Asset Management	55
Legislative & Other Compliance	50
Consultancy	90
Other	69
Non SBC	70
Total Audit Days	809

- 6.11 The past twelve months has resulted in significant changes in the Council including the governance arrangements associated with the Integration programme for Health and Social Care, development and implementation of alternative service delivery arrangements including Integrated Sports and Culture Trust and SB Cares respectively, and the continuing corporate transformation agenda. In recognition that it is envisaged that 2016/17 will continue to be year of change for the Council including the transition phase of the ICT Review, the plan should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new need or arrangements or changing risks and priorities of the Council. Any amendments will be brought to the Audit & Risk Committee for approval.

- 6.12 The Internal Audit Annual Plan 2016/17 allows for the provision of internal audit services to other organisations, including:
- SB Cares, the Council's arms-length external organisation (ALEO) providing Adult Social Care services, under a service level agreement. The internal audit work will be determined and agreed with the SB Cares Board and Management;
 - Scottish Borders Pension Fund to reflect the recent legislative requirements on governance; and
 - Scottish Borders Health and Social Care Integration Joint Board (IJB) following the decision by the IJB on 1 February 2016 to appoint Mrs Stacey as the IJB Chief Internal Auditor and to agree that the Internal Audit services for the IJB will be provided by the Council's Internal Audit team for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources. The internal audit work will be determined and agreed with the IJB, its Audit Committee and the Health and Social Care Management Team.

7 MONITORING AND REPORTING ARRANGEMENTS

- 7.1 Internal Audit is committed to delivering its service to meet the needs of Management and the Audit & Risk Committee in support of the Council discharging its responsibilities and achieving its objectives. The Internal Audit plan will be delivered in accordance with the Internal Audit Charter that is included within the agenda for approval by Audit & Risk Committee on 29 March 2016. This sets out the role, professional requirements and overall responsibilities of Internal Audit as well as the authority, access rights and reporting arrangements for the Internal Audit function.
- 7.2 On completion of each review Internal Audit will issue a draft report to the relevant Depute Chief Executive, Service Director and Manager. The report will include an overall opinion on the adequacy of internal control and governance arrangements in the area under review and an action plan, as appropriate, setting out any recommendations for improvement. The Service Director and Manager will be required to provide responses on the factual content of the report and to each recommendation, as appropriate. Internal Audit will issue a final report, including completed action plan as appropriate, to the Chief Executive, relevant Depute Chief Executive, Service Director and Manager, and external auditor.
- 7.3 The Chief Officer Audit & Risk will provide the required assurance to the Corporate Management Team and the Audit & Risk Committee in relation to corporate governance, risk management and internal controls throughout the year. Periodic reports on progress with completing the annual plan and executive summaries on the findings arising from each completed internal audit review will be presented. An overall summary of Internal Audit work carried out and opinion on the adequacy of corporate governance of the Council will be provided within the Internal Audit Annual Report which is reported to Corporate Management Team and the Audit & Risk Committee.
- 7.4 Assurance reports relating to Internal Audit services carried out for other organisations, will be presented as follows:
- An internal audit annual report on the internal control, risk management and governance arrangements operating within SB Cares, the Council's arms-length external organisation (ALEO) providing Adult Social Care services, will be presented to the SB Cares Management and Board;

- An Internal Audit assurance statement within the Scottish Borders Pension Fund Annual Report; and
- An internal audit annual report on the adequacy of the arrangements for risk management, governance and control of the delegated resources of the Scottish Borders Health and Social Care Integration Joint Board (IJB) will be reported to the Health and Social Care Management Team and the IJB's Audit Committee.

8 IMPLICATIONS

8.1 Financial

- (a) The Internal Audit function within the Audit & Risk Management service has established staff resources comprising Chief Officer Audit & Risk (50% allocation to Audit), Internal Audit Manager (75%), two Senior Internal Auditors, and two Internal Auditors.
- (b) The Scottish Borders Council financial plans for 2016/17 were approved by the Council on 11 February 2016 and there is base budget 2016/17 for Internal Audit relative to the above resources.
- (c) It should be noted within the Scottish Borders Council financial plans for 2016/17 that were approved by the Council on 11 February 2016 that a net reduction in costs of the Audit & Risk service is reflected as an efficiency savings target. Scenarios as to the achievement of this will be considered as part of the people planning processes that is underway, though any reduction in Internal Audit resources would limit the level of internal audit assurances. Proposals will be brought forward in due course.

8.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter, including "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."
- (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. As in previous years, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted.

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 Scheme of Delegation are required as a result of this report.

9 CONSULTATION

- 9.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR and the Clerk to the Council have been consulted on this report and any comments received have been taken into account.
- 9.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 9.3 The Depute Chief Executives, Service Directors and service managers at Department Management Teams have been consulted on the risk-based audit approach and the resultant planned audit coverage to ensure it will provide assurance to Management on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities within the Council.
- 9.4 Other key stakeholders including KPMG, the Council's appointed external auditor, have been consulted on the approach and the resultant planned internal audit coverage to ensure that audit work is co-ordinated and programmed to avoid duplication and maximise assurance.

Approved by

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

Author(s)

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Background Papers: Appropriate Internal Audit files

Previous Minute Reference:

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

Contact us at James Collin jcollin@scotborders.gcsx.gov.uk