
Internal Audit Annual Plan 2015/16

Report by Chief Officer Audit & Risk

Audit & Risk Committee

23 March 2015

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide details of the proposed Internal Audit programme of work 2015/16 to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment and to gain approval of the Internal Audit Annual Plan 2015/16 for Scottish Borders Council.**
- 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. The proposed Internal Audit Annual Plan 2015/16, which is attached as Appendix 1, sets out the programme of work necessary to enable the Chief Officer Audit & Risk to prepare such an opinion.
- 1.4 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.
- 1.5 There are staff and other resources in place to achieve the Internal Audit Annual Plan 2015/16 and to meet its objectives.

2 RECOMMENDATION

- 2.1 I recommend that the Audit & Risk Committee approves the Internal Audit Annual Plan 2015/16.**

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 establishing 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 managing fraud risks and ensuring that internal controls systems are designed to guard against fraud and misappropriation. 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.
- 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 RESOURCES

- 4.1 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 planned programme of work. The staffing position within the function has been stable for some years now, with a good mix of experience, qualifications and skills.
- 4.2 The Internal Audit Annual Plan 2015/16 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.
- 4.3 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.

5 INTERNAL AUDIT ANNUAL PLAN 2015/16

- 5.1 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.

- 5.2 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.”
- 5.3 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.”
- 5.4 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 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.
- 5.5 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. This exercise is also informed by key developments at both a national and local level and other relevant background information contained for example within the Corporate Plan, Directorate Business Plans, 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.
- 5.6 The proposed programme of work to be included in the Internal Audit Annual Plan 2015/16 is summarised at Appendix 1. 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 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.

- 5.7 The following table summarises how the initial allocation of available audit days will be for the Internal Audit Annual Plan 2015/16.

Areas	Audit Days 2015/16
Corporate Governance	185
Financial Governance	195
IT Governance	60
Internal Controls	85
Asset Management	25
Legislative & Other Compliance	50
Consultancy	80
Other	129
Total Audit Days	809

- 5.8 The past twelve months has resulted in significant changes in the Council including the senior management restructuring, implementation of approved shadow governance arrangements associated with the Integration programme for Health & Social Care, development and implementation of alternative service delivery arrangements including feasibility of options for Cultural services and SB Cares for Adult Social Care services, and the emerging corporate transformation agenda. In recognition that it is envisaged that 2015/16 will continue to be year of change for the Council, 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.
- 5.9 The Internal Audit Annual Plan 2015/16 allows for the provision of internal audit services to SB Cares, the Council's new 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.

6 MONITORING AND REPORTING ARRANGEMENTS

- 6.1 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 23 March 2015. 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.
- 6.2 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 KPMG, the Council's appointed external auditor.

- 6.3 The Chief Officer Audit & Risk will provide the required assurance to Corporate Management 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 in the Internal Audit Annual Report which is reported to Corporate Management and the Audit & Risk Committee.
- 6.4 Assurance reports relating to Internal Audit work carried out for SB Cares, the Council's new arms-length external organisation (ALEO) providing Adult Social Care services, under a service level agreement, will be reported to the SB Cares Board.

7 IMPLICATIONS

7.1 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 2015/16 were approved by the Council on 12 February 2015 and the following table shows the analysis of Internal Audit budget for 2015/16 relative to the above resources:

Budget Heading	2015/16 £	2014/15 £
Employee Costs	240,671	239,449
Transport Related Expenses	1,500	800
Supplies & Services	1,520	3,509
TOTAL	243,691	243,758

7.2 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.

7.3 Equalities

- (a) 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.

7.4 Acting Sustainably

- (a) There are no direct economic, social or environmental issues with this report.

7.5 Carbon Management

- (a) There are no direct carbon emissions impacts as a result of this report.

7.6 Rural Proofing

- (a) This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

7.7 Changes to Scheme of Administration or Scheme of Delegation

- (a) No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

8 CONSULTATION

- 8.1 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 taken into account.
- 8.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 8.3 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.
- 8.4 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: Audit Committee 10 March 2014

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

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