

Item: 3

Monitoring and Audit Committee: 30 March 2023.

Internal Audit Strategy and Plan.

Report by Chief Internal Auditor.

1. Purpose of Report

To consider Internal Audit Strategy and Plan for 2023/24.

2. Recommendations

It is recommended:

2.1.

That the Internal Audit Strategy and Plan for 2023/24, attached as Appendix 1 to this report, be approved.

3. Background

3.1.

The Public Sector Internal Audit Standards include the requirement for the Chief Internal Auditor to prepare a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

3.2.

The Chief Internal Auditor must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations and priorities.

3.3.

The audit plan must incorporate, or be linked to, a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.

4. Audit Strategy

4.1.

The internal audit strategy details how the internal audit service shall be developed and delivered in accordance with the Internal Audit Charter. The Strategy provides the links to organisational objectives and priorities.

4.2.

The internal audit strategy is incorporated within the audit plan and is reviewed annually and updated as required.

5. Audit Plan

5.1.

The annual audit plan is based on the following contributing factors:

- Consultation with the Chief Executive, Corporate Directors and Heads of Service to complete a risk assessment of all service areas and to identify and consider areas of concern which could possibly merit audit attention.
- Review of the Corporate and Service Risk Registers.
- Review of the Corporate Governance Self-Assessment process and Certificates of Assurance.
- Review of all service plan actions and service performance indicators.
- Consultation with the external auditors, taking account of their audit plan for the forthcoming year.
- Previous Internal Audit work.
- Relevant changes to legislation and other external factors.
- Consultation with the Chair and Vice Chair of the Monitoring and Audit Committee.

5.2.

The plan is based on the assumption that the audit team will be fully resourced throughout the year. However, as there is likely to be a temporary reduction in staffing resource within the Internal Audit team until the officers due to leave the team have been replaced, there may be a need to reprioritise some of the audits contained in the plan.

5.3.

There is a contingency allowance included for any unplanned audit work required during the year.

5.4.

Audit planning is a continuous process and the plan can be reviewed and adjusted as required in response to changes in business, risks, operations and priorities.

5.5.

Prior to the commencement of each individual audit assignment, internal audit staff shall be in contact with the relevant managers in order to agree an audit brief, which sets out the objectives, scope and timing of the assignment.

6. Corporate Governance

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

7. Financial Implications

There are no financial implications associated with the recommendations in this report. The budget for the Internal Audit service is contained within the Central Administration budget.

8. Legal Aspects

There are no legal implications arising from the recommendations in this report.

9. Contact Officer

Andrew Paterson, Chief Internal Auditor, extension 2107, email andrew.paterson@orkney.gov.uk.

10. Appendix

Appendix 1: Internal Audit Strategy and Plan 2023/24.



Internal Audit

Internal Audit Strategy and Plan 2023 to 2024

Issue date: 2 March 2023

Contents

Introduction	1
Internal Audit Objectives.....	1
Provision of Assurance.....	1
Service Delivery	2
Internal Audit Plan 2023 to 2024.....	3
Financial Systems.....	3
Systems Audits.....	3
Project Reviews.....	4
Annual Audits	4
Corporate Reviews	5
Follow up of Audit Actions.....	5
Integration Joint Board (IJB)	6
Orkney and Shetland Valuation Joint Board (VJB)	6
Contingency Allocation	6

Introduction

The Public Sector Internal Audit Standards (PSIAS) set out the requirement for the Chief Internal Auditor to prepare a risk-based audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

The Chief Internal Auditor must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations and priorities.

The audit plan must incorporate or be linked to a strategic or high-level statement of how the Internal Audit Service will be developed and delivered in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.

Internal Audit Objectives

The primary role of Internal Audit is that of an assurance function which provides an independent and objective opinion on the adequacy of the Council's control environment. Internal audit work is designed to add value and improve an organisation's operations, in particular in evaluating and improving the effectiveness of risk management, control and governance processes. In addition to the provision of assurances, Internal Audit undertakes non-assurance work including consulting services and fraud related work.

While Internal Audit contributes to the internal control environment by examining, evaluating and reporting to management on its adequacy and effectiveness, it should be noted that Corporate Directors are responsible for ensuring that adequate internal control systems, both financial and non-financial, are in place and that best value is achieved.

Provision of Assurance

The Audit Plan is prepared on an annual basis and is continually reviewed. The plan may be adjusted as necessary in response to changes in the Council's risk profile.

The audit planning process is based on the following contributing factors.

- Consultation with the Chief Executive, Corporate Directors and Heads of Service to risk assess service areas and to identify areas of concern which would merit audit attention.
- Reviewing the Corporate Risk Register and all Directorate Risk Registers.
- A review of the Corporate Governance self-assessment process and the Certificates of Assurance completed by each member of the Corporate Leadership Team.
- A review of service plan actions and service performance indicators.
- A review of the external auditors' annual report.
- Audit work previously undertaken, and the conclusions reached as to whether the systems examined were sound, or that there were weaknesses in the internal controls.
- Any known relevant changes in legislation and other external factors.
- Known strengths and weaknesses in the internal control system.
- Consultation with the Chair and Vice Chair of the Monitoring and Audit Committee

The planning process takes account of the work of other assurance providers both within and external to the Council. If we intend to rely on any work of another provider, we will review the reports and procedures employed.

The audit plan details specific areas of audit which will be subject to review. Following each review, audit reports are issued in draft format, initially to provide management with the opportunity to agree the factual accuracy of the audit findings. Copies of final audit reports are passed to the Corporate Director and to any other senior officer or manager of the Council who is responsible for acting on the recommendations.

The outcomes of audit reports feed into the Internal Audit Annual Report and Assurance Statement which is presented to the Monitoring and Audit Committee.

The audit plan is prepared each year by the Chief Internal Auditor and is approved by the Council's Monitoring and Audit Committee at the start of the financial year. The plan includes sufficient flexibility to allow the Chief Internal Auditor to direct internal audit resources as required so that new local or national issues and risks can be appropriately reviewed, where considered necessary.

Whilst managing the risk of fraud and corruption is the responsibility of senior management, internal audit work is planned to consider and to minimise the risks and exposures that could allow fraud or corruption to occur.

Service Delivery

The provision of the Internal Audit Service is through an in-house Internal Audit Team. This method of service delivery maintains a core of in-house knowledge. As part of the planning process the resourcing requirements of the Internal Audit Team are assessed and, providing that the team is fully staffed, the resources are deemed to be appropriate to carry out the plan.

Given the range and complexity of areas to be reviewed, it is important that suitable, qualified, experienced and trained individuals are appointed to internal audit positions. The PSIAS requires that the Chief Internal Auditor must hold a professional qualification such as CMIIA (Chartered Member of the Institute of Internal Auditors), CCAB (Consultative Committee of Accountancy Bodies qualified accountant) or equivalent and be suitably experienced.

The Internal Auditors must also have IIA qualifications or be CCAB qualified accountants or equivalent. The skills and knowledge of internal auditors are kept up to date through a range of in-house and specialist training courses and seminars.

Internal auditors are required to conform to the Codes of Ethics of the professional accountancy bodies of which they are members and to the Code of Ethics and Standards included within the PSIAS. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

The Internal Audit team is independent and does not have any operational responsibilities. It does not 'own' any system or have any responsibility for any aspect of work subject to audit. Auditors are not assigned assurance work in areas where they have had any recent operational or other involvement.

Internal Audit Plan 2023 to 2024

Financial Systems

This section covers systems classified as the Council's financial systems. The audit plan is set out with the intention of covering all of these systems over a five-year period. This year we will review the following financial systems:

Cash and Income Collection

This review will cover income that the Council receives in cash, cheque, on-line payments, standing orders, credit and debit cards and direct debits.

Debtor Accounts

This review will look at the sundry debtors' system in place for the collection and recording of sums of money due to the Council, which are not accounted for by the specialist revenues systems used for Council Tax, Non-Domestic Rates and Housing Rents.

Creditors

This is a review of the procedures and internal controls in place for the creditors system. The review is to ensure that payments are properly authorised, paid only when goods have been received, in a timely manner, to valid creditors and recorded in the financial ledger.

Systems Audits

School Establishment Audits – KGS and Dounby, North Walls and Eday Primary Schools.

These are reviews of the procedures followed within the schools, including areas such as school administration, financial management, human resource management, school funds, risk assessments and security.

Roads Operations

This audit will review the work of roads operations, roads support and contractors, focusing on the requirements of the Construction (Design and Management) Regulations 2015.

Fleet Management

This audit will review the procedures and processes in place around best value procurement of vehicles and the fleet management systems in place to ensure that the Council achieves best value and operates according to industry best practice and relevant legislation.

IT Operations Management

This audit will review the policies and procedures in place to ensure that IT operations meet the needs of the Council, comply with legislation and follow best practice.

Works, Inspections, Repairs and Maintenance

The audit will review the Council's policies and procedures surrounding the inspection of Council owned properties and the procedures followed for managing repairs and maintenance.

Equality Impact Assessments

This audit will review the process throughout the Council for the completion of equality impact assessments.

College Business Units (Agronomy, Archaeology and Northern Studies)

Each business unit will be reviewed individually, the purpose of these reviews is to determine if the business units are operating in accordance with Council plans and objectives, financial regulations, policies and procedures. As well as the individual business unit's terms of reference, business plans and the requirements of the UHI will be reviewed.

Childcare Resource Centres

This is a review of the procedures followed within the centres, including areas such as administration, financial management, human resource management, risk assessments and security.

Direct Payments

Direct payments allow people to arrange some or all of the support they need to live as independently as they want to. Assessments for direct payments are carried out by the Adult Social Work Team. This audit will review the processes in place for managing direct payments.

Project Reviews

Strategic Projects

Failure of a project can have a significant impact on the Council's reputation and the confidence of its stakeholders. These reviews will provide an independent opinion on the efficiency and effectiveness of project governance, risk management and control at stages throughout the strategic projects.

Scapa Flow Museum

This review will provide an independent opinion on the efficiency and effectiveness of project governance, risk management and control throughout the redevelopment project and review the operational procedures of the museum.

The Electronic Document and Records Management System (EDRMS) Project

This review will provide an independent opinion on the efficiency and effectiveness of project governance, risk management and control throughout the EDRMS project.

Annual Audits

Orkney College – Credits Audit

Orkney College is required to provide a Further Educational Statistical (FES) return to the Scottish Funding Council (SFC) annually. The FES return details student activity data for the academic year, which is used to determine the activity which is fundable by the SFC and then to calculate the grant-in-aid allocation for the next academic year.

An audit certificate and audit report must be prepared annually for the FES return to comply with SFC requirements.

Orkney College – Discretionary and Childcare Funding

Orkney College submits an annual return to the SFC for the Discretionary Fund and Childcare Fund expenditure. This return must be checked to confirm that the information included agrees with the underlying records. Internal Audit must also provide an opinion on whether the funds have been used in accordance with the Scottish Funding Council conditions of grant.

Climate Change Reporting

The objective of this audit is to review the systems and processes from which information is produced for the Climate Change Duties Report and to assess the reliability and accuracy of the information contained within the report.

Statutory Performance Indicators

This audit involves checking the systems from which information is produced for a sample of indicators, to assess the reliability of the data included. An analytical review of all indicators is also performed.

Finance Performance Indicators

This includes gathering, reviewing and submitting the performance measures for finance services to the Chartered Institute of Public Finance and Accountancy (CIPFA).

Stock Checks

Each year, as part of the financial year end procedures, stock takes are carried out to confirm that stocks have been correctly counted and recorded for the financial year end. This includes stock takes carried out at the Hatston depot, the Marine Services store, Cursiter Quarry and The Orkney Museum.

Cash, asset and security spot checks

Checks will be carried out on cash handling, inventories or security arrangements for buildings, as required.

Miscellaneous Grant Claims

Audit work includes the checking and certification of grant claims as required by grant agreements.

Corporate Reviews

Performance Management

This review will focus on how performance throughout the Council is measured, reported and scrutinised and how performance targets are used to drive continuous improvement.

Follow up of Audit Actions

Performance Management and Risk Software (Pentana Risk) is used to track the implementation of agreed internal audit recommendations. The progress on implementing agreed actions will be

checked via this system on a three-monthly basis. Progress on the implementation of actions is reported to the Corporate Leadership Team and the Monitoring and Audit Committee.

The Internal Audit Section will review the assessments provided by responsible officers and where any recommendations have been marked as complete, we will complete checks to confirm the assessments. Where it is confirmed that actions have been completed, the recommendations will be archived on the system.

Integration Joint Board (IJB)

The role of the IJB Chief Internal Auditor is fulfilled by the OIC Chief Internal Auditor for a five-year period from April 2021.

OIC Internal Audit Team and NHS Orkney Internal Audit will provide internal audit resource to support completion of the IJB internal audit plan.

Orkney and Shetland Valuation Joint Board (VJB)

The role of the VJB Chief Internal Auditor is fulfilled by the OIC Chief Internal Auditor. The OIC Internal Audit Team will provide resource to complete the VJB internal audit plan.

Contingency Allocation

A contingency allowance has been included for any unplanned audit work required during the year.