

Item: 6

Monitoring and Audit Committee: 1 April 2021.

Internal Audit Strategy and Plan.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the Internal Audit Strategy and Plan for 2021/22.

2. Recommendations

2.1.

It is recommended:

That the Internal Audit Strategy and Plan for 2021/22, 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, Executive 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.

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

5.3.

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, including the challenges relating to the current COVID-19 pandemic.

5.4.

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 procedural issues 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 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

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10. Appendix

Appendix 1: Internal Audit Strategy and Plan 2021/22.



Internal Audit

Internal Audit Strategy and Plan 2021 to 2022

Issue date: 1 March 2021

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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 Executive 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, Executive Directors and Heads of Service to risk assess all service areas and to identify areas of concern which would merit audit attention.
- Reviewing the Corporate Risk Register and all Service Risk Registers.
- A review of the Corporate Governance self-assessment process for 2018/19 and the Certificates of Assurance completed by each member of the Corporate Management Team.
- A review of service plan actions and service performance indicators.
- Liaison with the external auditors to co-ordinate audit work and avoid duplication of effort.
- 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 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 the opportunity to agree the factual accuracy of the audit findings. Copies of final audit reports are passed to the Executive Director, External Audit 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.

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 be CMIIA or CCAB qualified accountants or equivalent with previous audit experience. 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 Section is an independent section 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 2021 to 2022

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:

Non-Domestic Rates

Financial Planning and Corporate Budget Setting

Budget Monitoring Process

Members' Expenses

Staff Travel and Expenses

Election Expenses (May 2021 Scottish Parliamentary Election)

Systems Audits

Kinship Payments and Adoption Allowance

This audit will review the procedures and controls in place to ensure that kinship payments and adoption allowances paid are accurate, timely and in line with policy.

Elderly Residential Care Homes

This audit will review procedures followed within Hamnavoe House, including areas such as administration, financial management, human resource management and security. Although the audit will focus on one location, the audit findings and any recommendations made may be relevant to other care homes. This review will only be carried out once COVID-19 restrictions allow.

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.

School Establishment Audit - North Walls Primary

This is a review of the procedures followed within the school, including areas such as school administration, financial management, human resource management, school funds, risk assessments and security. This review will only be carried out once COVID-19 restrictions allow.

Rent Arrears

This audit will review the procedures and controls in place regarding rent arrears of Council tenants, including information available to tenants on methods of payment and advice and support to those who are having difficulties.

St Andrews Primary School – Capital Project

Failure of a project can have a significant impact on the Council's reputation and the confidence of its stakeholders. This project was highlighted recently with regard to issues of costs increasing since the project was initiated. This audit will review the project documentation to identify the reasons for the apparent increase in costs.

Education, Leisure and Housing 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 projects.

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 projects.

The Electronic Document and Record Management System (EDRMS) Project

Failure of a project can have a significant impact on the Council's reputation and the confidence of its stakeholders. This review will provide an independent opinion on the efficiency and effectiveness of project governance, risk management and control throughout the EDRMS project.

Vehicle and Plant Disposal

All vehicles, plant and equipment have a defined life expectancy. This audit will review the arrangements in place for the disposal of end of life or surplus vehicles, plant and equipment.

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.

LEADER

The LEADER programme is part of the Scottish Rural Development Programme and is primarily aimed at promoting economic and community development within rural areas. Orkney was awarded £2.5 million for LEADER funding for the period 2014-2020. The scheme opened for

applications in spring 2016 and has been extended to December 2021. The audit will review procedures followed to date. The audit is completed in accordance with the scheme guidelines.

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 Accountants (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 and The Orkney Museum.

Cash, asset and security spot checks

Checks shall 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

Business Continuity

The Council maintains a business continuity management system which forms part of the corporate governance arrangements of the Council. The system maintains plans for the purpose of ensuring, so far as is reasonably practicable, that if an emergency occurs the Council is able to continue to perform its functions. This audit will review the arrangements in place for business continuity throughout the Council.

IT Audit

The risk of poor information systems, security and back up arrangements leads to the possibility of fraud, error, non-compliance with the General Data Protection Regulations (GDPR) and security breaches. The focus of this audit will be confirmed closer to the time of the review following an assurance mapping exercise.

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 and actions assessed as not complete and overdue are reported to the Corporate Management Team.

The Internal Audit Section will review the assessments provided by responsible officers and where any recommendations have been marked as complete, will complete checks to confirm the

assessments. Where it is confirmed that actions have been completed, the recommendations will be archived on the system.

Contingency Allocation

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

Integration Joint Board (IJB)

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

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