

## **Item: 3**

**Monitoring and Audit Committee: 4 April 2019.**

**Internal Audit Annual Strategy and Plan.**

**Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To present the Internal Audit Annual Strategy and Plan 2019 to 2020.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That a comprehensive audit planning process has been undertaken by the Chief Internal Auditor for the year 2019 to 2020.

**It is recommended:**

#### **2.2.**

That the Internal Audit Annual Strategy and Plan for the year 2019 to 2020, 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 delivered and developed 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, attached as Appendix 1 to this report, has been based on a number of contributing factors, including the following:

- Consultation with Executive Directors and/or 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 all service plan actions and service performance indicators.
- Consultation with the external auditors, taking account of their audit plan for the forthcoming year.

### **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 is reviewed and adjusted as required in response to changes in business, risks, operations and priorities.

### **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 sign off and agree an audit brief, which sets out the objectives, scope and timing of the assignment.

## **6. Corporate Governance**

This report relates to 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 Annual Strategy and Plan for year 2019 to 2020.

## Internal Audit Strategy 2019 - 2020

### 1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) <sup>(1)</sup> 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.
- 1.2 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.
- 1.3 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.
- 1.4 The strategy shall be reviewed on an annual basis as part of the audit planning process.

### 2. Internal Audit Objectives

- 2.1 The definition of internal auditing is contained within the PSIAS, as follows:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 2.2 The primary aim of the section is to provide assurance services, which requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
- 2.3 The section also provides advisory services which are generally performed at the specific request of a Council Service, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 2.4 The Service supports the Head of Finance in his role as Section 95 Officer (Section 95 of the Local Government (Scotland) Act 1973). The Section 95 Officer is responsible for the proper administration of the Council's financial affairs.

### 3 Provision of Assurance

- 3.1 The audit plan is prepared on an annual basis and is continually reviewed. The plan shall be adjusted as necessary in response to changes in the Council's business, risks, operations, programs, systems and controls.
- 3.2 When preparing the audit plan the following are taken into consideration: -
  - the Corporate Risk Register and the Service Risk Registers;
  - review of the annual Corporate Governance self-assessment and Certificates of Assurance;

- service plan actions and service performance indicators;
- known strengths and weaknesses in the internal control system;
  
- the Council's systems, structures and operations, including any planned, significant changes;
- any management concerns and expectations;
- the plans of external audit and other review agencies; and
- the available audit resources.

- 3.3 The annual 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.
- 3.4 The outcomes of audit reports feed into the Internal Audit Annual Report and Assurance Statement. The Report and Assurance Statement is presented to the Monitoring and Audit Committee.
- 3.5 The Report and Assurance Statement is also passed to the Head of Finance for consideration in the preparation of the Annual Governance Statement.

#### **4 Significant Local and National Issues and Risks**

- 4.1 The annual audit plan is prepared each year by the Chief Internal Auditor, and is approved, although not directed 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 and revised local or national issues and risks can be appropriately reviewed, where considered necessary.

#### **5 Service Delivery**

- 5.1 The provision of the Internal Audit Service is through a directly employed in-house internal audit team. Within this method of service provision, facility exists to buy-in elements of specialist Internal Audit Service as required. This to date has been limited to the services of a Computer Auditor, whereby a Computer Auditor has been engaged to provide 10 days auditing to carry out a specific computer audit assignment. This will occur if there is adequate budget provision.
- 5.2 This method of service delivery maintains a core of in-house knowledge whilst drawing on specialist expertise as required.
- 5.3 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 Internal Auditor), CCAB (Consultative Committee of Accountancy Bodies qualified accountant) or equivalent and be suitably experienced.
- 5.4 The Internal Auditor posts must also be CCAB qualified accountants or equivalent with previous audit experience.

- 5.5 Internal audit members of staff identify training needs as part of an appraisal process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their development. The ability to attend training is however dependent on there being sufficient budget available to meet any costs. All training undertaken is recorded and assessed in a personal training record.
- 5.6 Internal audit members of staff 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 included within the PSIAS.
- 5.7 Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information.
- 5.8 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.
- 5.9 Auditors are not assigned assurance work in areas where they have had any operational or other involvement.

**Revised: March 2019**

(1) The Local Authority Accounts (Scotland) Regulations 2014 requires the local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing. This therefore establishes a duty on the Council to comply with the Public Sector Internal Audit Standards.

# Internal Audit Plan 2019 - 2020

## 1. Introduction

This document outlines the internal audit plan for the financial year 2019 – 2020.

The annual audit plan is based on several contributing factors. These include: -

- 1) Consultation which was carried out with Executive Directors and/or Heads of Service to risk assess all service areas and to identify areas of concern which would merit audit attention;
- 2) Reviewing the Corporate Risk Register and all Service Risk Registers;
- 3) Review of the Corporate Governance self-assessment process for 2016/17 and the Certificates of Assurance completed by each member of the Corporate Management Team;
- 4) Review of service plan actions and service performance indicators;
- 5) Liaison with the external auditors to co-ordinate audit work and avoid duplication of effort;
- 6) 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;
- 7) Any known relevant changes in legislation and other external factors;
- 8) The organisation's systems, structure and operations and any material changes.
- 9) Known strengths and weaknesses in the internal control system.

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.

The Internal Audit Section shall carry out specific fraud related work as required. This work is accounted for in the contingency allocation included within the annual audit plan.

## 2. Financial Systems

This section covers those 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.

### 1 Core Financial Systems Testing

Days are allocated annually for the review of financial systems. Within the year, the finance systems audited will include Council tax, payroll, insurance and pension investment.

## 3. Other Systems

### 1 HEEPS ABS Grant Claims

The Council receives funding from the Scottish Government to assist home owners, private sector tenants and landlords to improve the energy efficiency of their homes. Under the Home Energy Efficiency Programmes for Scotland (HEEPS): Area Based Scheme (ABS)

funding can be received for a number of energy efficiency measures. Firefly Energi (Orkney) Ltd have been appointed by the Council to manage the initiative. The audit will review the arrangements with Firefly Energi and the process followed for the awarding and payment of grants under the scheme.

## 2 Human Resources (HR) Processes

A sample of transactions relating to HR processes shall be reviewed across all Council Services to review the efficiency and effectiveness of these processes

## 3 School Establishment - Stromness Academy

This is a review of procedures followed within a school, including areas such as school administration, financial management, human resource management and security. Although the audit shall focus on one school the Education Service can apply the audit findings and any recommendations made to other schools as required.

## 4 Business Continuity

The Council maintains a business continuity management system (BCMS) 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.

## 5 Capital Programme Slippage

The Council has in place a Capital Programme Management process. Approval of the Capital Programme constitutes the approval of individual projects or provisions contained therein. This audit will review the management of a sample of capital projects to ascertain if compliance with Council procedures and relevant legislation and guidance is maintained, as well as issues that lead to slippage in the timing of these projects.

## 6 Burial Grounds

Following public concern around the recent programme of burial ground safety inspections and subsequent actions, this audit will review of the methodology employed in relation to published best practice.

## 7 Community Councils

Community Councils, in keeping with all other bodies entrusted with public funds, must uphold the basic principles of transparency in decision making, accountability and traceability, ensuring that all decisions are taken in the best interests of their community in addition to being compliant with the Scheme for Orkney Community Councils. This audit will review the processes in place for the oversight of Community Council financial management and governance.

## 8 Elderly – Residential Care Homes

This is a review of procedures followed within a residential care home, including areas such as administration, financial management, human resource management and security. Although the audit shall focus on one location, OHAC can apply the audit findings and any recommendations made to other care homes as required



## **4. Annual Audits**

### **1 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 each FES return to comply with SFC requirements.

### **2 Orkney College – Discretionary and Childcare Funding**

The College submits an annual return 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.

### **3 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 from Spring 2016, the audit will review procedures followed to date. The audit is completed in accordance with the scheme guidelines.

### **4 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.

### **5 Finance Performance Indicators**

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

### **6 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.

### **7 Cash, asset and security spot checks**

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

### **8 Miscellaneous Grant Claims**

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

## **5. Corporate Reviews**

### **1 Corporate Governance and Risk Management**

The Public Sector Internal Audit Standards require the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

Whilst all audit work contributes to providing this opinion, the local code of corporate governance self-assessment and risk management arrangements are reviewed on an annual basis.

## **6. Follow up of Action Plans**

Performance Management and Risk Software (Aspireview) 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 six-monthly basis and actions assessed as not complete and overdue are reported to the Senior Management Team.

The internal audit team shall 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.

## **7. Computer Audit**

A computer auditor will be engaged to provide computer audit services for ten days to the Council's Internal Audit Service. The Council's Internal Audit team do not currently possess the required technical expertise to undertake all types of computer audit work, so it is therefore necessary to hire in the services of a specialist auditor. Additional time has been allocated for the internal audit team to support the work of the computer auditor and to complete further computer audit review work as required.

## **8. Contingency Allocation**

A contingency allowance has been included for any unplanned audit work which must be completed during the year.

## **9. Orkney Health and Care – Integration Joint Board**

The Orkney Integration Joint Board (OIJB) appointed the OIC Chief Internal Auditor as the internal auditor for the OIJB for two financial years, 2017/18 and 2018/19. For 2019/20 and 2021/22 The NHS Chief Internal Auditor will take on this role.

OIC will provide internal auditors to support the completion of the OIJB internal audit plan.