

## **Item: 8**

**Monitoring and Audit Committee: 4 June 2020.**

**Internal Audit Strategy and Plan.**

**Report by Chief Internal Auditor.**

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

To present the Internal Audit Strategy and Plan 2020 to 2021.

### **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 2020 to 2021.

**It is recommended:**

#### **2.2.**

That the Internal Audit Strategy and Plan for the year 2020 to 2021, 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 is based on a number of contributing factors, including the following:

- Consultation with 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 all service plan actions and service performance indicators.
- Consultation with the external auditors, taking account of their audit plan for the forthcoming year.
- Consultation with the Chief Executive and 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 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 2020 to 2021.



## Internal Audit

# Internal Audit Strategy and Plan 2020 to 2021

Issue date: 3 March 2020

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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 delivered and developed 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 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.

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 operational or other involvement.

# Internal Audit Plan 2020 to 2021

## 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:

**Housing and Council Tax Benefits.**

**Travel and Subsistence.**

**Members Expenses.**

**Treasury Management.**

**Election Expenses (December 2019 General Election).**

## Systems Audits

### Contract Managed Services

OHAC commissions various specialist groups to provide support and care through a framework agreement. This audit will review governance processes around changes to individual care packages in place.

### Carers Scotland Act Implementation

The Carers (Scotland) Act 2016 is designed to support carers' health and wellbeing and help make caring more sustainable. This audit will review the implementation of the provisions of the Carers (Scotland) Act 2016.

### School Establishment Audits - Sanday Junior High School and North Walls Primary

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

### 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. Internal Audit can provide an independent opinion on the efficiency and effectiveness of project governance, risk management and control.

### Quarry Management

The Council owned Cursiter Quarry currently supplies stone and aggregate materials for Council roads and building projects as well as the local construction industry. This audit will review the Council's policies and procedures surrounding the management and operation of the quarry to ensure that these are in line with industry best practice.

## **Strategic Projects**

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

## **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.

## **Property Asset Management**

The Scheme of Delegation to Officers was changed in 2018 giving limited authority to officers to manage land and property transactions without Asset Management Sub-committee approval. This audit will review the controls around these transactions.

## **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. Internal Audit can provide an independent opinion on the efficiency and effectiveness of project governance, risk management and control.

## **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**

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.

## **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.

## **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.

## **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**

### **Contract Management**

Good Contract Management ensures that the Council maximises savings and quality of service, while ensuring that all parties involved in the contract fully understand their obligations and responsibilities and fulfil them as efficiently and effectively as possible.

Once a contract commences it is important that there is a robust basis on which to monitor the performance of the contract. This review will look at the methods employed to monitor contract performance.

### **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 Regulation (GDPR) and security breaches. The focus of this audit will be confirmed closer to the time of the review.

## **Follow up of Audit Actions**

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 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**

The role of IJB Chief Internal Auditor for 2019/20 and 2020/21 is being fulfilled by the NHS Chief Internal Auditor.

OIC Internal Audit Section will provide internal auditors to support the completion of the IJB internal audit plan.