



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 14 FEBRUARY 2024

SUBJECT: INTERNAL AUDIT PLAN YEAR ENDING 31 MARCH 2025

BY: AUDIT AND RISK MANAGER

1. REASON FOR REPORT

- 1.1 This report provides the Committee with details of the planned internal audit coverage for the year ending 31 March 2025.
- 1.2 This report is submitted to Committee in terms of Section III (I) (7) of the Council's Scheme of Administration relating to having responsibility for focusing audit resources through a process of agreeing on an annual audit plan.

2. RECOMMENDATIONS

2.1 The Committee is asked to consider and:

- i) note the proposed internal audit coverage for the 2024/25 financial year; and**
- ii) seek clarification on any matters arising from the report or the attached appendices.**

3. BACKGROUND

- 3.1 The Public Sector Internal Audit Standards (PSIAS) applicable to Local Government in Scotland requires the Audit and Risk Manager to report functionally to the Audit and Scrutiny Committee on various issues concerning audit planning. This requirement includes preparing a risk based internal audit plan for submission to Committee and providing the Committee with details of internal audit resourcing or other issues that may impact on the scope of audit work.

Definition of Internal Audit

- 3.2 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.

Public Sector Internal Audit Standards (PSIAS) Requirements

3.3 PSIAS sets out the requirement for the:

- Audit and Risk Manager to prepare a risk-based audit plan which considers the Council's strategic objectives, associated risks and the views of senior management and the Committee.
- Audit and Risk Manager to review and adjust the plan as necessary in response to changes in the Council's business, risks, operations and priorities.
- Audit Plan to incorporate or be linked to a strategic or high-level statement of how Internal Audit will be delivered and developed in accordance with the Internal Audit Charter approved by this Committee at its meeting on 23 November 2022 (para. 8 of the minute refers) and how it links to the organisational objectives and priorities.

Internal Audit Plan

3.4 The Internal Audit Plan is a means of determining the priorities of the internal audit activity and how these fit with the wider goals of the Council. Internal Audit's approach to annual audit planning is risk-based, with all areas which may be subject to audit review contained within an 'audit universe'. The audit universe is reviewed and updated on an ongoing basis to include all significant activities and systems that contribute to the achievement of the Council's priorities and objectives.

3.5 The audit universe is risk assessed each year to help determine the annual audit plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Consideration is also taken to the demands within services to ensure a proportionate audit coverage is taken across the functions of the Council. Note that the audit universe, whilst a key factor, is not the only consideration when determining the audit plan. Senior management has been consulted on priority areas for review, and cognisance is taken of external audit plans and other statutory agencies to avoid duplication and increase the potential for cross-reliance. In addition to senior management, consultation has also been undertaken this year with the Leader of the Council and the Chair of the Audit and Scrutiny Committee; the Audit and Risk Manager has considered their views in the preparation of the Annual Audit Plan for 2024/25.

3.6 The audit universe risk assessment is based upon a number of factors including:

- materiality (based on expenditure or income)
- sensitivity (based on whether a service is a statutory duty, statutory power or non-statutory, is customer facing and whether it features as a specific challenge in the Council's Service Plans)
- time elapsed since an area was last subject to review
- Corporate Risk Register - assessment of any movement in the assessment of principal risks facing the Council
- overall audit assessment of the control environment

- 3.7 These various sources are designed to enable the Audit and Risk Manager to meet a requirement to provide an annual internal audit opinion on the adequacy and effectiveness of the systems of internal control for inclusion in the annual governance statement published with the Council's annual financial statements. A review is also undertaken of the internal audit plans for other local authorities as per their committee reporting available online. This provides an opportunity to gain an understanding of issues being faced by other local authorities and identify any auditable areas for the Moray Council.
- 3.8 PSIAS encourage internal audit to consider if there are other bodies whose work internal audit could place reliance on for assurance purposes. While internal and external audit roles are separate and distinct, internal audit maintains a close working relationship with the external auditor as required to secure an optimum combined benefit from the audit resource and avoid duplication.
- 3.9 The Annual Audit Plan details what Internal Audit anticipates being able to review in the year, assuming stability in resources available to the Section. The time allocation for all audits assumes that systems to be reviewed are adequately documented, detailing the controls put in place by management and that testing identifies that these controls are being complied with. If this is not the case, there will be an impact on the time taken to review planned areas and on the plan's achievability.
- 3.10 The Plan also includes time to assist services in developing their controls and approach to improving compliance. This reflects the continuing development of a more proactive value-added approach by Internal Audit to supplement the more traditional core compliance-oriented audit work. However, this needs to be balanced with the requirement for Internal Audit to complete sufficient work to provide an evidence based annual opinion on the adequacy and effectiveness of the Council's internal control system. Internal Audit will continue to review the Council's risk registers and update its own risk assessments based on audit findings throughout the Plan's term.
- 3.11 Whilst undertaking planned work, it is possible that Internal Audit may identify governance issues that are not within the stated scope of the review being undertaken. PSIAS require that Internal Audit report such instances to those charged with governance. In this respect, Internal Audit reports may contain issues that appear to be "outwith scope". Where at one time five year audit plans were commonplace, the PSIAS standards now advocate annual planning, noting that 'the plan should be sufficiently flexible and kept up to date with the organisation and its changing risks and priorities'.
- 3.12 Sufficiently flexible is not defined; however, it suggests that 'contingency days' should be held to deal with emerging issues. Thus a proportion of the available audit days are being retained as contingency days, which if not used, can accommodate additional audit projects that may be brought into the audit plan later in the year. These projects may be identified by the Audit and Risk Manager as an emerging issue or come from a recommendation by Committee. Details of the available audit days are provided in **Appendix 1**.

- 3.13 An additional element of the planning process takes place for the Moray Integration Joint Board (MIJB); the Council's Audit and Risk Manager is also the Board's Chief Internal Auditor. A separate Internal Audit Plan is prepared for the MIJB and is reported to their Audit, Performance and Risk Committee. The established working protocol is for audit reviews of interest to the MIJB to be reported to the Council's Audit and Scrutiny Committee before the Audit, Performance and Risk Committee. However, depending on the proposed dates of future committees, the Audit and Risk Manager will consider some flexibility in this reporting arrangement to ensure that the requirement of meeting the functions of both Committees can be achieved.
- 3.14 The audit role for the MIJB involves providing assurances that governance and financial arrangements have been developed and are operating in line with policies and that selected systems and processes are suitably controlled. Previous years audit testing have noted significant findings in the administration and management of adult social care. These audits and the follow up reviews to evidence implementation of the recommendations have been a particularly time consuming commitment on the Internal Audit Section. It is anticipated this requirement will continue in 2024/25.
- 3.15 Links have been established in previous years with the internal audit providers and finance managers in NHS Grampian, Aberdeen City and Aberdeenshire Councils IJBs. The aim was to develop joint working arrangements for undertaking reviews that could provide more effective use of internal audit resources and allow a holistic view of the control environment across all the Organisations. The Internal Audit Plan includes a review of the governance arrangements to prevent fraud and corruption. The audit will review systems and procedures for both the Council and the MIJB. It has been agreed, subject to the approval of each Organisations Audit Plans for this review to be part of a joint working arrangement with the Internal Audit Services of Aberdeen City Council, Aberdeenshire Council and the Internal Audit Provider of NHS Grampian.
- 3.16 In addition, the Council's Internal Audit Service undertakes the internal audit work for the Grampian Valuation Joint Board, which requires the provision of annual assurances on the main financial systems operated for payroll, payments and income from funding requisitions from the constituent authorities and other sources. The Joint Board's systems align with those of the Council but require annual review and testing in order to provide assurances for the separate annual financial statements the Board is required to prepare and publish.
- 3.17 While the prevention of fraud and error rests with management through the design and operation of suitable systems of control, the audit plan continues to provide time for Internal Audit to coordinate the Council's participation in the National Fraud Initiative, a data matching exercise involving a range of public sector bodies. This activity is viewed as complementary to other audit activities, and participation assists Internal Audit in assessing the potential for the occurrence of fraud and related fraud risk. Testing will primarily be undertaken by Services, with Internal Audit undertaking an overview of the process. However, any irregularity or potential fraud will still be referred to Internal Audit for investigation. Due to the budgetary constraints facing the Council, there is no longer funding to fill a vacant Corporate Investigations Officer post within the Internal Audit Section. This reduction in resources will impact the Section's

ability to support good governance and review systems and practices to ensure the Council has effective standards for countering fraud and corruption. In order to fully assess the impact of this vacancy, a review of the Council's compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Managing the Risk of Fraud and Corruption is included within the Audit Plan for 2024/25.

- 3.18 As the new smarter working arrangements have become embedded across the Council, the Internal Audit Section has adapted, and greater use has been made of electronic methods of communication. However, sometimes this has proved challenging and has slowed the pace of audits. Committee should therefore be aware of potential delays in progressing and completing audit reviews.

Internal Audit Resourcing

- 3.19 The staff complement of the team is currently 3.8 FTE, including the Audit and Risk Manager, who has a range of responsibilities, including the management and supervision of the team, planning work, development of the service, servicing Committees, overseeing the development of business continuity and risk management arrangements. On the basis that all posts are filled and allowing for overheads for holidays, training, administration and the like, some 790 working days are available to be allocated for the 2024/25 year. This time is spread over a number of headings, principally audit projects but also work related to governance, business continuity and risk management. In addition, the Audit and Risk Manager has been appointed as the Chief Internal Auditor for the Moray Growth Deal. This requires an overview of the internal audit activity undertaken by partner Organisations, in addition to a commitment to reviewing systems and practices on a regular basis.
- 3.20 Priority areas have been determined by internal audit and are listed in **Appendices 2 and 3**.
- 3.21 The PSIAS require the Audit and Risk Manager to consider whether or not the audit staffing resources are sufficient to meet the audit needs of the organisation and where it is believed that the level of resources may adversely impact the provision of the annual internal audit opinion, to draw that to the attention of the Committee. Demands on the Internal Audit Service have increased over the years, and this is expected to continue. After a review of the staffing establishment, the Council agreed that the Internal Audit Service required additional staff resources in the form of an Assistant Auditor. Unfortunately, due to the current financial climate, it has been decided not to fill this post and the budget has been taken as a financial saving. This is also in addition to providing additional budgetary savings by not replacing the Corporate Investigations Officer. As the Audit and Risk Manager, I am required, in accordance with the PSIAS to inform the Committee of my concerns about whether available resources will be sufficient to meet the auditing needs of the Council, Moray Integration Joint Board and the Grampian Valuation Joint Board.
- 3.22 The current financial climate is appreciated, and there is a need for all managers to consider alternative methods of service delivery where budget savings can be achieved. A Budget Savings / Transformation Template has been submitted to management with a proposal to replace the Corporate Investigations Officer with an Assistant Auditor on a lower grade and reallocate service responsibilities within the Section. This would result in reduced staff resources to meet the Council and partner Organisations requirements for

counter fraud and corruption controls. However, it is hoped more effective use of resources could be implemented to maintain service delivery while also providing additional budgetary savings to the Council.

3.23 In considering the sufficiency of the audit coverage, Committee is reminded that the responsibility for developing and maintaining a sound control environment rests with management and not with Internal Audit.

4. SUMMARY OF IMPLICATIONS

- (a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**
No direct implications.
- (b) Policy and Legal**
The activities of Internal Audit assist the organisation to demonstrate the control environment and risk management arrangements are consistent with good practice.
- (c) Financial Implications**
No direct implications.
- (d) Risk Implications**
The work of internal audit mitigates the risk of dilution of controls established within systems to ensure best value is secured in the use of public resources.
- (e) Staffing Implications**
No direct implications.
- (f) Property**
No implications.
- (g) Equalities/ Socio Economic Impacts**
No implications.
- (h) Climate Change and Biodiversity Impacts**
No implications.
- (i) Consultations**
Planned audit work is informed throughout the year from various sources, including Heads of Services.

5. CONCLUSION

5.1 This report invites the Committee to consider and note the planned internal audit coverage for 2024/25.

Authors of Report: Dafydd Lewis, Audit and Risk Manager
Background Papers: Internal audit files
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