



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 16 JUNE 2021

SUBJECT: INTERNAL AUDIT PLAN – YEAR ENDING 31 MARCH 2022

**BY: DEPUTE CHIEF EXECUTIVE (EDUCATION, COMMUNITIES,
AND ORGANISATIONAL DEVELOPMENT)**

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 2022.
- 1.2 This report is submitted to Committee in terms of Section III (I) (6) of the Council's Scheme of Administration relating to reporting on Internal Audit's programme of work.

2. RECOMMENDATIONS

2.1 **It is recommended that the Committee:**

- i) consider and note the proposed internal audit coverage for the 2021/22 financial year;**
- ii) consider and note that Internal Audit's ability to provide the necessary audit assurances is likely to continue to be impacted by changed working practices as a consequence of the pandemic, and by forthcoming vacancies in internal Audit's staffing establishment; and**
- iii) seek clarification on any matters arising from the report or from the attached appendices.**

3. BACKGROUND

- 3.1 The Public Sector Internal Audit Standards (PSIAS) applicable to Local Government in Scotland requires the Internal Audit Manager to report functionally to the Audit and Scrutiny Committee on various issues relative to 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:
- Internal Audit Manager to prepare a risk-based audit plan which takes into account the Council's strategic objectives, associated risks and the views of senior management and the Committee;
 - Internal Audit 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 24 February 2021 (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. Note, however, that the audit universe, whilst a key factor, is not the only consideration when determining the audit plan. Senior management have been consulted on priority areas for review, and cognisance is taken of the plans of external audit and other statutory agencies, in order to avoid duplication, and increase potential for cross reliance.
- 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
 - overall audit assessment of the control environment

- 3.7 This information aids the development of a plan designed to enable the Internal Audit Manager to meet the 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.
- 3.8 The plan also takes in specific projects which the external auditor will seek to place reliance on by reviewing the audit files and re-performing of certain audit tests to validate the work completed. In line with the external audit plan this will take in
- Housing benefit payments subsidy claim (substantive testing).
 - Internal audit work on COVID funding support streams
 - National Fraud Initiative (testing of data matches)
 - Governance and corporate initiatives (collation of management assurances for the annual governance statement.)
- 3.9 While the roles of internal audit and external audit are separate and distinct, internal audit maintains a close working relationship with the external auditor as required in order to secure an optimum combined benefit from the audit resource and avoid duplication. The recent external quality assessment report encourages internal audit to consider if there are other bodies whose work internal audit could place reliance on for assurance purposes.
- 3.10 An additional element of the planning process takes place for the Moray Integration Joint Board (IJB), the council's internal audit manager having been appointed as the Board's Chief Internal Auditor for the period to March 2022. A Moray IJB Audit, Performance and Risk Committee has been established and a separate internal audit plan is prepared for the Board which has its own governance and accounting arrangements.
- 3.11 The audit role for the IJB involves providing assurances that governance and financial arrangements have been developed and are operating in line with policy and that selected systems and processes are suitably controlled. Planned audit inputs operationally to date have focused on social care services the Council delivers under direction from the IJB. Links have been established with internal audit providers and finance managers in NHS Grampian, Aberdeen City and Aberdeenshire Councils and IJBs and the practice of ensuring appropriate assurances are available continues to be refined with audit processes being developed as the IJBs mature.
- 3.12 The Council's internal audit service also undertakes internal audit work for Grampian Valuation Joint Board and this 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.
- 3.13 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 co-ordinate 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 planned audit activities, and participation assists internal audit in assessing potential for the occurrence of fraud and related fraud risk.

- 3.14 The pandemic has resulted in significant changes within current working practices that make Audit Planning challenging, and uncertainty remains regarding these arrangements in the period ahead. All audit staff are still working from home which brings some limitations to the audit process and in the past few months some team members were redeployed into non-audit duties – still in roles that contributed to good governance practice but not operating as independent auditors. Team members have been fortunate to be classed as mobile workers each with a dedicated work laptop and mobile phone but lack of face to face contact has slowed the pace of audits. Also, many of the employees internal audit would ordinarily work with have had a focus elsewhere to ensure continuity of service in front facing services.
- 3.15 In normal times, there is often a need to accommodate any additional audit work that may be required to address any emerging issues or specific matters of concern, and the plan provides a number of audit days for this purpose. These days can also be used where completion of a planned project takes longer than anticipated either due to the complexity of the project or the identification of a need for additional testing. Recent experience has shown that there needs to be more flexibility in audit planning given the pace of change. 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’.
- 3.16 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 Internal Audit Manager as an emerging issue or come from a recommendation from this Committee. Details of the available audit days are provided in **Appendix 1**.

Internal Audit Resourcing

- 3.17 The staff complement of the team is currently 3.8 FTE including the Internal Audit Manager who has a range of responsibilities including the management and supervision of the team, planning work, development of the service, servicing Committees, overseeing risk management, overseeing the work of a Corporate Investigations Officer and participating in the preparation of the annual governance statement. On the basis that all posts are filled, and allowing for overheads for holidays, training, administration and the like, some 792 working days are available to be allocated for the 2021/22 year. However given the need to maintain an agile response to issues relating to the pandemic and the impending vacancies in the Internal Audit Manager post and one of the Auditor posts (2 FTE), only 600 of these days have meantime been allocated. This may be ambitious depending on how long the vacancies are carried and the consequential ‘knock on’ impacts on the other members of the internal audit team. Any further proposed changes to the plan will be shared with the Committee.

- 3.18 Meantime, priority areas have been determined by internal audit and are listed in **Appendices 2 and 3**.
- 3.19 The Public Sector Internal Audit Standards require the Internal Audit 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 impact adversely on the provision of the annual internal audit opinion, to draw that to the attention of the Committee. The Internal Audit Manager vacancy should provide an opportunity to review the remit and staffing establishment for internal audit to ensure it remains fit for purpose going forward, and this is under consideration by management. Until this is completed, there is a risk the service may have insufficient capacity to meet the requirements placed upon it by the internal auditing standards.
- 3.20 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. It should also be noted that Internal Audit is not the only scrutiny activity within the Council, with services challenged through other mechanisms including external inspection and performance management reporting.

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**
It will be important to review staffing arrangements promptly to ensure internal audit has the capacity to deliver its responsibilities to the council Moray IJB and the Grampian Valuation Joint Board; that is, to conduct sufficient work on which to base an annual opinion on the governance, risk management and internal control systems for each organisation.
- (f) **Property**
No implications.

(g) Equalities/ Socio Economic Impact

No impacts to report.

(h) Consultations

Planned audit work is informed throughout the year from various sources including service managers. There have been no direct consultations in respect of this report.

5 CONCLUSION

5.1 This report invites the Committee to consider and note the planned internal audit coverage for the 2021/22 year, noting there will be challenges for the audit team to provide the necessary audit assurances as a consequence of staff vacancies in the team, including that of the Internal Audit Manager post.

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Background Papers: Internal audit files
Ref: SPMAN-1042990102-63