



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 30 MARCH 2022

SUBJECT: INTERNAL AUDIT PLAN – YEAR ENDING 31 MARCH 2023

BY: DEPUTY 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 2023.
- 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 **The Committee is asked to consider and note:**

- i) **the proposed internal audit coverage for the 2022/23 financial year; and**
- ii) **the possible disruption in the service provided by the Internal Audit Section due to the limitations placed on current and potential future working practices from the impact of the pandemic.**

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 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:

- Audit and Risk 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.
- 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 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
- 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.

3.8 The plan also takes in specific projects on which the External Auditor will seek to place reliance on by reviewing the audit files and re-performing certain audit

tests to validate the work completed. In line with the external audit plan this will take in:

- Housing benefits payments subsidy claim (substantive testing)
 - 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. Public Sector Internal Audit Standards 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 (MIJB), the Council's Audit and Risk Manager having been appointed as the Board's Chief Internal Auditor for the period to 31 March 2024. 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 MIJB 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 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 requires 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 audit activities, and participation assists Internal Audit in assessing potential for the occurrence of fraud and related fraud risk. It is planned that testing will initially be undertaken of NFI matches on a sample basis. Results of these checks will be used to determine if any additional testing is required.
- 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. In addition, all audit staff are

working from home, which brings some limitations to the audit. 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.

- 3.15 In normal times, there is often a need to accommodate 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 audit planning needs more flexibility 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 Audit and Risk 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 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 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 793 working days are available to be allocated for the 2022/23 year. This time is spread over a number of headings, principally audit projects but also work related to governance and risk management. However, recently the Internal Audit Service has been asked to also provide Business Continuity Support to the Council. It is anticipated that some additional staff resources will be provided, however this will require additional time for management and supervision.
- 3.18 Priority areas have been determined by internal audit and are listed in **Appendices 2 and 3**.
- 3.19 The Public Sector Internal Audit Standards requires 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 impact adversely on 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 a number of years, and it is expected this will continue. A review of the staffing establishment for the Internal Audit Service has recently been completed, and additional staff resources in the form of an Assistant Auditor have been agreed. It is hoped that this additional resource will

be sufficient to meet the needs of the Council, Moray IJB and the Grampian Valuation Joint Board.

- 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**
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 service managers and the external auditor.

5. CONCLUSION

- 5.1 This report invites the Committee to consider and note the planned internal audit coverage for the 2022/23.**

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