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**REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 APRIL 2019**

**SUBJECT: INTERNAL AUDIT PLAN – YEAR ENDING 31 MARCH 2020**

**BY: CORPORATE DIRECTOR (CORPORATE SERVICES)**

**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 2020.
- 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:**

- i) **note the proposed internal audit coverage for the 2019/20 financial year; and**
- ii) **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 require 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.

**Internal Audit Plan**

- 3.2 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. In developing the plan, regard is had to available information sources including the Local Outcomes Improvement Plan, the council's Corporate Plan and budget information. The Corporate Risk Register is also a reference source for possible audit topics and an 'audit universe' is being developed over time within the internal audit software package to rank audit area risks dependent on the outcomes from previous audit work, service staff changes or time elapsed since a prior audit. Internal Audit also reviews Committee agendas to

obtain an overview of policy developments across the council and to assess their potential impact on systems of control.

- 3.3 These various sources as well as inputs from managers inform the content of the plan, which is designed to enable the Internal Audit 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.
- 3.4 Planned activity therefore takes account of the need to annually review elements of the Council's main financial systems (the risk here relating to materiality), together with a range of audits across selected service areas within Departments. 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 recently reported external audit plan this will take in
- Housing benefit payments subsidy claim (substantive testing).
  - Risk management arrangements
  - National Fraud Initiative (testing of data matches)
  - Governance and corporate initiatives (collation of management assurances for the annual governance statement.)
- 3.5 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. A recent external inspection report encourages internal audit to develop a more formal assurance mapping process to assess if there are other bodies whose work internal audit could place reliance on.
- 3.6 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 2020. 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.
- 3.7 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 community 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 refined as the IJBs mature.
- 3.8 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.

- 3.9 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.
- 3.10 A particular challenge in developing the plan is to recognise the extent of change taking place across the council as a consequence of service redesign, revised working practices and changes in staffing. This if anything is more marked than previously with services challenged to deliver services against a general background of reducing funding and increasing demands from service users. Change can have an impact on the effectiveness of established systems of control, more likely controls may be reviewed and revised where systems and processes are modernised and greater reliance is placed on technological solutions. While development of systems and associated controls would be expected to be taken forward together, change can elevate the risk that established controls are diluted or lost and this requires to be taken into consideration.
- 3.11 To accommodate any additional audit work that may be required to address any emerging issues or specific matters of concern 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'.
- 3.12 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 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**

- 3.13 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. Allowing for overheads for holidays, training,

administration and the like, some 792 working days are available to be allocated for the 2019/20 year. This time is spread over a number of headings; principally audit projects but also work related to governance and risk management.

- 3.14 The days not utilised for core systems, risk management and supporting other corporate initiatives are allocated to audit areas within specific services and departments. Priority areas have been determined by internal audit and are listed in **Appendices 2 and 3**. The detailed scope of these projects will be further developed in consultation with the Director or Head of Service concerned. The planned use of days on Moray IJB / Social Care audits remains under development.
- 3.15 The PSIAS 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. At this point in time all posts are filled and the team is suitably experienced, however, with the role extending to supporting good governance, risk management and controls assurances across all services the service is operating at capacity, albeit for now it is assessed as being sufficient to meet the needs of the council, the Moray IJB and the Grampian Valuation Joint Board.
- 3.16 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, performance management reporting, and separate scrutiny reviews by this Committee.

#### **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 Impact**

No impacts to report.

**(h) 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 2019/20.**

Author of Report: Atholl Scott  
Background Papers: Internal audit files  
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