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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b>	<b>24 April 2018</b>
<b>Report By:</b>	<b>Corporate Director Environment, Regeneration and Resources</b>	<b>Report No:</b>	<b>AC/21/18/SA/APr</b>
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<b>Subject:</b>	<b>INTERNAL AUDIT - ANNUAL STRATEGY AND PLAN 2018-2019</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to present the Internal Audit Annual Strategy and Plan for 2018-2019 to Members for approval.

## 2.0 SUMMARY

- 2.1 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.

- 2.2 The Audit Universe contains all areas that have been identified for review and an assessment has been undertaken of the risk relating to each area based on a number of criteria. Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan.

- 2.3 It is intended that audit work will be focused on areas of greater risk taking into account management's own view of risk and meetings have been held with Corporate Directors and Heads of Service as appropriate. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since the last audit.

- 2.4 In addition, the annual audit plan includes areas of proactive work in relation to corporate fraud reviews.

- 2.5 Furthermore, to meet the requirements of External Audit, the Annual Plan will include limited scope reviews of financial systems that are not subject to a full scope review or will not be covered in the External Audit Annual Audit Plan to maximise audit coverage and reduce duplication.

- 2.6 The proposed Annual Audit Strategy and Plan for 2018-19 is attached at Appendix 1. The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice.

Appendix  
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- 2.7 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

### **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that Members approve the Internal Audit Annual Strategy and Plan for 2018-2019.

**Scott Allan**  
**Corporate Director**  
**Environment, Regeneration and Resources**

## **4.0 BACKGROUND**

- 4.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising governance, risk management and control by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 4.2 The requirement for an Internal Audit function derives from local government legislation, including Section 95 of the Local Government (Scotland) Act 1973, which requires authorities to make arrangements for the proper administration of their financial affairs. Proper administration includes Internal Audit.
- 4.3 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.

## **5.0 CURRENT POSITION**

- 5.1 It is intended that audit work will be focused on areas of greater risk taking into account management's own view of risk and meetings have been held with Corporate Directors and Heads of Service as appropriate. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since the last audit.
- 5.2 Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan for 2018-2019.
- 5.3 Outlined below are the current risk factors influencing our proposed audit coverage for 2018-19:
  - General Data Protection Regulations come into force in May 2018. Internal Audit will review the adequacy and effectiveness of arrangements that are being put in place to ensure compliance with the regulations.
  - The Council has an established mobile phones policy. Internal Audit will review the processes and controls governing cell phone and mobile device management and utilisation and assess the adequacy of applicable policies, procedures and guidelines for consistency and completeness.
  - In order to facilitate payment for low value, high volume transactions, Council services use corporate purchase cards. Internal Audit will review the adequacy and effectiveness of arrangements that are in place to ensure compliance with relevant policies and procedures.
  - In relation to IR35 rules, public authorities are responsible for checking whether off-payment payroll rules apply to individuals or companies providing services to the organisation. Internal Audit will review the adequacy and effectiveness of arrangements that are in place
  - As part of the current budget exercise, a number of services within the Council will be reduced or will be subject to redesign. In order to facilitate the change management process, Directorate Change Boards have been established. Internal Audit will review the adequacy and effectiveness of the change board governance arrangements.
- 5.4 The proposed Annual Audit Strategy and Plan for 2018-19 is attached at Appendix 1. The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice. The plan also includes proposed resources for providing Internal Audit support to the Integrated Joint Board.

- 5.5 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

## 6.0 IMPLICATIONS

### Finance

- 6.1 The work required to deliver the Annual Internal Audit Plan will be contained in the existing Internal Audit budget.

#### Financial Implications:

##### One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
Internal Audit	Various	2018-2019			

##### Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

### Legal

- 6.2 There are no direct legal implications arising from this report.

### Human Resources

- 6.3 There are no direct HR implications arising from this report.

### Equalities

- 6.4 There are no direct equalities implications arising from this report.

### Repopulation

- 6.5 There are no direct repopulation implications arising from this report.

## 7.0 CONSULTATIONS

- 7.1 Discussions have taken place with Corporate Directors and Heads of Service as appropriate in relation to the proposed annual audit plan coverage.
- 7.2 There will be regular ongoing discussion with External Audit to ensure respective audit plans are reviewed as circumstances change in order to minimise duplication of effort and maximise audit coverage for the Council. In their annual audit plan for 2017-2018 External Audit intend to place reliance on a number of areas of Internal Audit work carried out during 2017-2018.

## **8.0 LIST OF BACKGROUND PAPERS**

- 8.1 Internal Audit Annual Plan 2018-2019. Available from Andi Priestman, Chief Internal Auditor.

## INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2018-2019

### 1. Introduction

- 1.1 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.
- 1.2 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.
- 1.3 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.
- 1.4 The strategy shall be reviewed on an annual basis as part of the audit planning process.

### 2. Internal Audit Objectives

- 2.1 The definition of internal auditing is contained within the PSIAS as follows:

"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."

- 2.2 The primary aim of the internal audit service is to provide assurance services which requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
- 2.3 The internal audit service also provides advisory services, generally at the request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 2.4 The internal audit service supports the Chief Financial Officer in his role as Section 95 Officer.

### 3. Risk Assessment and Audit Planning

- 3.1 The internal audit approach to annual audit planning is risk-based and all areas which may be subject to audit review are contained within an Audit Universe which is subject to formal review, at least annually.
- 3.2 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

## INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2018-2019

- 3.3 The Audit Universe is risk assessed each year to determine the Annual Audit Plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Each area within the Audit Universe is assessed for impact against a number of broad risk categories as follows:
- Strategy Risks associated with the setting and achievement of strategic objectives.
  - Economy Risks associated with the economy in which Inverclyde Council operates.
  - Reputation Risks associated with threats to Inverclyde Council's name and standing in the sector.
  - Customer Risks associated with customer relationships.
  - Legal/Regulatory Risks associated with the requirement to comply with a wide range of statute.
  - Financial Risks associated with financial loss or inefficiency.
  - Technology Risks associated with application systems, their integrity, security and development.
  - Management Information Risks associated with the provision of information for decision-making purposes.
  - Human Resources Risks associated with people, eg recruitment, succession, development, motivation and morale etc.
  - Operations Risks associated with the business operating process.
  - Business Continuity/Resilience Risks associated with disaster scenarios which would threaten the continuing operation of Inverclyde Council.
  - Security Risks associated with security over customer and Inverclyde Council's assets.
  - Stakeholder Risks associated with management of stakeholder expectations (eg Government or local communities)
  - Fraud Risks associated with asset misappropriation, corruption and financial statement fraud.
- 3.4 Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan for 2018-2019.
- 3.5 There will be regular ongoing discussion with External Audit to ensure respective audit plans are reviewed as circumstances change in order to minimise duplication of effort and maximise audit coverage for the Council.

**INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2018-2019****4 Service Delivery**

- 4.1 The provision of the internal audit service is through a directly employed in-house team.
- 4.2 In relation to the total staff days allocated to the 2018-2019 plan, each member of staff completes a resource allocation spreadsheet for the year which is split between annual leave, public holidays, training days, general administration and operational plan days. This spreadsheet is reviewed and updated each period by each member of staff against time charged to timesheets.

The combined operational plan is 725 days which will be resourced as follows:

Team Member

Audit Practitioner – 191  
Audit Assistant (0.8 FTE) – 152  
Senior Corporate Fraud Officer – 191  
Corporate Fraud Officer – 191

The Chief Internal Auditor does not directly carry out the assignments included in the annual audit plan but provides the quality review and delivery oversight of the overall plan. As such, no direct time is included within the plan. Where there are any resource issues which may impact on delivery of the plan, this will be reported to Audit Committee at the earliest opportunity.

- 4.3 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 Internal Auditor), CCAB or equivalent and be suitably experienced. The internal auditor posts must also be CMIIA/CCAB or equivalent with previous audit experience.
- 4.4 Internal audit staff members identify training needs as part of an appraisal process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their development. All training undertaken is recorded in a personal training records for CPD purposes.
- 4.5 Internal audit staff members require to conform to the Code of Ethics of the professional body of which they are members and to the Code of Ethics included within the PSIAS. An annual declaration is undertaken by staff in relation to specific aspects of the Code.
- 4.6 Following each review, audit reports are issued in draft format to agree the accuracy of findings and agree risk mitigations. Copies of final audit reports are issued to the Corporate Director, Head of Service and Service Manager responsible for implementing the agreed action plan. A copy of each final audit report is also provided to External Audit.
- 4.7 The overall opinion of each audit report feeds into the Internal Audit Annual Report and Assurance Statement which is presented to the Audit Committee and is used by the Chief Financial Officer in the preparation of the Annual Governance Statement.



## INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2018-2019

## 5 Proposed Audit Coverage 2018-2019

- 5.1 The proposed audit coverage is set out in the table below. This includes a range of risk based reviews, limited scope financial reviews and regularity audits.
- 5.2 The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice.

Audit Area	Service	Risk Score	Staff Days
<b>Risk-Based Audit Reviews</b>			
General Data Protection Regulations	Corporate	8732	30
Corporate Purchase Cards	Corporate	6500	30
IR35 Compliance	Corporate	6000	30
Mobile Phones Policy and Procedures	Corporate	5520	40
<b>Total</b>			<b>130</b>
<b>Limited Scope Financial System Reviews</b>			
FMS Logical Access Controls	Finance	6960	25
BACS Payment Process	Finance	6480	25
<b>Total</b>			<b>50</b>
<b>Project Assurance Reviews</b>			
Change Board Governance Arrangements	Corporate	-	30
<b>Total</b>			<b>30</b>
<b>Regularity Audits</b>			
Education – Control Self Assessment	Education	-	30
Council Tax Reduction Scheme – Discounts and Exemptions	Finance	-	60
Employee Expenses – Quarterly Checks	Corporate	-	50
Stock/Inventory Control – Quarterly Checks	Corporate	-	50
<b>Total</b>			<b>200</b>
<b>Corporate Governance Reviews</b>			
Annual Governance Statement (2017/2018)	Corporate Review	-	20
<b>Total</b>			<b>20</b>
<b>Other Work</b>			
Audit follow up	Corporate	-	20
National Fraud Initiative	Corporate	-	60
SPOC Liaison with DWP	-	-	40
Fraud Awareness Training	Corporate	-	10
IJB – Internal Audit Service	-	-	50
Contingency	-	-	45
C/f from 2017-2018 Audit Plan	-	-	70
<b>Total</b>			<b>295</b>
<b>Total Staff Days</b>			<b>725</b>

## INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2018-2019

**6 Quality and Performance**

- 6.1 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment.
- 6.2 In addition, the performance of Internal Audit continues to be measured against key service targets focussing on quality, efficiency and effectiveness. For 2018-2019 these have been set as follows:

<b>Measure</b>	<b>Description</b>	<b>Target</b>
1. Final Report	Percentage of final reports issued within 2 weeks of draft report.	100%
2. Draft Report	Percentage of draft reports issued within 3 weeks of completion of fieldwork.	90%
3. Audit Plan Delivery	Percentage of audits completed as planned.	85%
4. Audit Budget	Percentage of audits completed within budgeted days.	80%
5. Audit Recommendations	Percentage of audit recommendations agreed.	90%
6. Action Plan Follow Up	Percentage of action plans followed up – Internal and External Audit.	100%
7. Customer Feedback	Percentage of respondents who rated the overall quality of internal audit as satisfactory or above.	100%
8. NFI recommended matches	Percentage of National Fraud Initiative recommended matches investigated within timescales.	100%
9. NFI other matches	Percentage of National Fraud Initiative other matches investigated within timescales.	80%
10. DWP liaison	Percentage of cases referred to/ actioned for DWP within DWP timescales.	100%
11. Staff compliance with CPD	Number of training hours undertaken to support CPD	140
12. Management engagement	Number of meetings with CMT and DMTs as appropriate	1 per quarter

- 6.3 Actual performance against targets will be included in the Internal Audit Annual Assurance Report for 2018-2019.