
Report To:	Audit Committee	Date:	22 February 2022
Report By:	Interim Director Finance and Corporate Governance	Report No:	AC/06/22/AP/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	INTERNAL AUDIT - ANNUAL STRATEGY AND PLAN 2022-2023		

1.0 PURPOSE

- 1.1 The purpose of this report is to present the Internal Audit Annual Strategy and Plan for 2022-2023.

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 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 2022-2023 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 1
- 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 2022-2023.

Alan Puckrin
Interim Director
Finance and Corporate Governance

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 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.
- 5.3 Outlined below are the current risk factors influencing our proposed audit coverage for 2022-2023:
 - The Council has a number of residential care homes run by Children's Services which provide a safe, supportive and homely environment to young people to enable them to develop physically, emotionally and socially in order that they are able to live as independent adults who make a positive contribution to society. Internal Audit will review the adequacy and effectiveness of governance, risk management and internal control procedures in relation to residential care homes within Children's Services.
 - Key projects are underway within HSCP including Learning Disability Hub and SWIFT Replacement System. Internal Audit will provide advice and audit support to the projects during implementation phase to ensure governance, risk management and controls are adequate and effective.
 - The Council has a workforce planning framework which includes a workforce plan and succession plan for each service area. Internal Audit will review the adequacy and effectiveness of the framework.
 - The Council has an embedded supplier management process which aims to provide a consistent and effective approach when managing suppliers. Internal Audit will review the adequacy and effectiveness of the supplier management process in place across the Council.
 - Cyber incidents pose an increasing threat to public bodies' management of information, with hacking, ransomware, cyber fraud and accidental information losses all evident throughout the public sector. Good practice guidance has recently been updated by the National Audit Office to reflect the increased prevalence of targeted ransomware, including those which can cause serious disruption to an organisation's operations. Internal Audit will review the Council's arrangements in relation to Cyber Security in accordance with the guidance.
 - In 2021, the Council procured a new system to manage freedom of information requests on a corporate basis. Internal Audit will review the risk management, governance and control processes to ensure that these are adequate and effective.

- 5.4 The proposed Annual Audit Strategy and Plan for 2022-23 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 within 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	2022-2023			

Annually Recurring Costs/ (Savings)

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

6.2 Legal

There are no direct legal implications arising from this report.

6.3 Human Resources

There are no direct HR implications arising from this report.

6.4 Equalities

- (a) Has an Equality Impact Assessment been carried out?

YES	
X	NO – This report does not introduce a new policy, function or strategy or recommend a substantive change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required

(b) Fairer Scotland Duty

If this report affects or proposes any major strategic decision:-

Has there been active consideration of how this report's recommendations reduce inequalities of outcome?

	YES – A written statement showing how this report's recommendations reduce inequalities of outcome caused by socio-economic disadvantage has been completed.
X	NO

(c) Data Protection

Has a Data Protection Impact Assessment been carried out?

	YES – This report involves data processing which may result in a high risk to the rights and freedoms of individuals.
X	NO

Repopulation

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

7.0 CONSULTATIONS

7.1 Discussions have taken place with 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.

8.0 LIST OF BACKGROUND PAPERS

8.1 Internal Audit Annual Plan 2022-2023. Available from Andi Priestman, Chief Internal Auditor.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2022-2023**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.

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- 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.
- 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 2022-2023**4 Service Delivery**

- 4.1 The provision of the Internal Audit Service is through a directly employed in-house team. The Chief Internal Auditor is provided through a shared service arrangement with West Dunbartonshire Council.
- 4.2 In relation to the total staff days allocated to the 2022-2023 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. The combined operational plan is 740 days which will be resourced as follows:

Team Member

Audit Practitioner – 185

Audit Assistant – 185

Senior Corporate Fraud Officer – 185

Corporate Fraud Officer – 185

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. Any 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 record 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 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.

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5 Proposed Audit Coverage 2022-2023

- 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 Area	Risk Score	Staff Days
Risk-Based Audit Reviews			
Children's Services – Residential Care (b/f)	HSCP	9102	25
Workforce Planning Arrangements	ECOD	8120	25
Supplier Management	Corporate	7840	30
Cyber Security Arrangements	ERR	6724	30
Freedom of Information Arrangements	Corporate	6642	30
Climate Change – Utilities Management	ERR	5658	25
Total			165
Limited Scope Financial System Reviews			
Debt Recovery	Finance	6486	25
Total			25
Project Assurance Reviews			
Learning Disability Hub	HSCP	9800	25
SWIFT Replacement System Implementation	HSCP	8190	25
Total			50
Corporate Fraud Reviews			
Discretionary Payments	Finance	N/A	20
Client Accounts – Quarterly Checks	HSCP	N/A	20
Catering – Quarterly Stock Checks	ECOD	N/A	10
Education Establishment Placing Requests	ECOD	N/A	15
Total			65
Regularity Audits			
Education – CSA	ECOD	-	30
Corporate Purchase Cards – Quarterly Checks	Corporate	-	20
Total			50
Corporate Governance Reviews			
Annual Governance Statement (2021/2022)	Corporate	-	10
Total			10
Other Work			
Audit follow up	Corporate	-	15
National Fraud Initiative Investigations	Corporate	-	140
National Fraud Initiative 2022 Planning	Corporate	-	30
Other Investigations	Corporate	-	70
SPOC Liaison with DWP	-	-	5
IJB – Internal Audit Service	-	-	40
Contingency	-	-	35
Grant Verification	Roads and Transportation	-	5
C/f from 2021-2022 Audit Plan	-	-	35
Total			375
Total Staff Days			740

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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 2022-2023 these have been set as follows:

Measure	Description	Target
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 v 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 high and medium matches	Percentage of National Fraud Initiative high and medium matches investigated within timescales.	100%
9. NFI other matches	Percentage of National Fraud Initiative other matches investigated within timescales.	90%
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	100
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 2022-2023.