
Report To:	Audit Committee	Date:	25 April 2023
Report By:	Head of Legal, Democratic, Digital and Customer Services	Report No:	AC/10/23/IS/APr
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Subject:	INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2023-24		

1.0 PURPOSE

- 1.1 For Decision For Information/Noting
- 1.2 The purpose of this report is to present the Internal Audit Annual Strategy and Plan for 2023-2024.

2.0 RECOMMENDATIONS

- 2.1 It is recommended that Members approve the Internal Audit Annual Strategy and Plan for 2023-2024.

Iain Strachan
Head of Legal, Democratic, Digital and Customer Services

3.0 BACKGROUND AND CONTEXT

- 3.1 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.
- 3.2 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.
- 3.3 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.
- 3.4 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.
- 3.5 Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers.
- 3.6 Outlined below are the current risk factors influencing our proposed audit coverage for 2023-2024:
- Succession planning is an integrated, systematic process of identifying, developing and retaining existing employees who have the potential to fill critical positions which become vacant. Internal Audit will review the Council's arrangements for succession planning.
 - Internal Audit will review the process to ensure commercial waste is being collected promptly and efficiently by the council and that all income from commercial waste collection and disposal is properly collected and accounted for.
 - Building Standards enforce the regulations that prescribe minimum standards which can reasonably be expected to be achieved in buildings and building operations. Internal Audit will review the governance, risk management, and control procedures that are in place to ensure these are adequate and effective.
 - 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.
 - The UK Government launched the UK Shared Prosperity Fund in April 2022 and Inverclyde Council has been allocated funding over a 3 year period. The Council has prepared an investment plan which will allocate funding across the 3 themes set out by the UK Government. An assurance framework will be in place and Internal Audit will provide advice and support on the relevant governance, risk management and internal controls in relation to the assurance framework.
 - ASN Transport – a value for money review will be undertaken to ensure that current modes of transport are providing best value for the Council.
 - Swift Replacement System – quality assurance will be provided at the implementation stage of the project focusing on systems and user acceptance testing processes on a corporate basis. Internal Audit will review the risk management, governance and control processes to ensure that these are adequate and effective.

- The Cashless Catering system is being replaced during 2023-24. Internal Audit will provide audit advice and support during the implementation phase of the project.
- The Council operates an Attendance Management Policy which is designed to provide support for employees who are ill and to improve attendance levels across the council. Internal Audit will review the adequacy and effectiveness of the attendance management arrangements across the Council.

3.7 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.

4.0 PROPOSALS

4.1 The Audit Committee is asked to approve the Internal Audit Annual Strategy and Plan 2023-24.

5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendation is agreed:

SUBJECT	YES	NO	N/A
Financial		X	
Legal/Risk	X		
Human Resources		X	
Strategic (LOIP/Corporate Plan)	X		
Equalities & Fairer Scotland Duty		X	
Children & Young People's Rights & Wellbeing		X	
Environmental & Sustainability		X	
Data Protection		X	

5.2 Legal/Risk

The role of Internal Audit is to provide Audit Committee with assurance on the Council's governance, risk management and internal control arrangements. Consideration of this report enables the Audit Committee to discharge its responsibility for approving the Internal Audit Strategy and Plan and monitor its performance.

5.3 Strategic

This report relates to strong corporate governance.

6.0 CONSULTATIONS

6.1 Discussions have taken place with Directors and Heads of Service as appropriate in relation to the proposed annual audit plan coverage.

6.2 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.

7.0 LIST OF BACKGROUND PAPERS

7.1 None.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2023-2024**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 2023-2024

- 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 2023-2024**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 2023-2024 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 720 days which will be resourced as follows:

Team Member

Audit Practitioner – 180

Audit Assistant – 180

Senior Corporate Fraud Officer – 180

Corporate Fraud Officer – 180

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.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2023-2024

5 Proposed Audit Coverage 2023-2024

- 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			
Supplier Management (deferred from 2022/23)	Corporate	8680	25
Succession Planning	Corporate	8400	25
Attendance Management	Corporate	8100	25
Building Standards	ERR	7885	25
ASN Transport	ECOD	7800	20
Commercial Waste Income (Billing and Collection)	ERR	7200	30
Total			150
Limited Scope Financial System Reviews			
Non-Domestic Rates	Finance	4410	20
Total			20
Advisory Reviews			
Education – Cashless Catering Replacement System	ECOD	N/A	15
UK Shared Prosperity Fund Assurance Arrangements	ERR	N/A	15
Total			30
Project Assurance Reviews			
SWIFT Replacement System Implementation	HSCP	N/A	15
Total			15
Corporate Fraud Reviews			
Employee Expenses	Corporate	N/A	12
Client Accounts – Quarterly Checks	HSCP	N/A	12
Catering – Quarterly Stock Checks	ECOD	N/A	12
Education Establishment Placing Requests	ECOD	N/A	10
Total			46
Regularity Audits			
Education – CSA	ECOD	-	25
Corporate Purchase Cards – Quarterly Checks	Corporate	-	20
HSCP – Imprest	HSCP	-	20
Total			65
Corporate Governance Reviews			
Annual Governance Statement (2022/2023)	Corporate	-	10
Total			10
Other Work			
Audit follow up	Corporate	-	15
National Fraud Initiative Investigations	Corporate	-	170
National Fraud Initiative 2022 Monitoring	Corporate	-	14
Other Investigations	Corporate	-	95
SPOC Liaison with DWP	-	-	15
IJB – Internal Audit Service	-	-	40
Contingency	-	-	20
C/f from 2022-2023 Audit Plan	-	-	15
Total			384
Total Staff Days			720

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2023-2024

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 2023-2024 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 2023-2024.