

Internal Audit Strategy 2018 - 2019

1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) ⁽¹⁾ 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 section 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 section also provides advisory services which are generally performed at the specific request of a Council Service, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 2.4 The Service supports the Head of Finance in his role as Section 95 Officer (Section 95 of the Local Government (Scotland) Act 1973). The Section 95 Officer is responsible for the proper administration of the Council's financial affairs.

3 Provision of Assurances

- 3.1 The audit plan is prepared on an annual basis and is continually reviewed. The plan shall be adjusted as necessary in response to changes in the Council's business, risks, operations, programs, systems and controls.
- 3.2 When preparing the audit plan the following are taken into consideration: -
 - the Corporate Risk Register and the Service Risk Registers;
 - review of the annual Corporate Governance self-assessment and Certificates of Assurance;
 - service plan actions and service performance indicators;
 - known strengths and weaknesses in the internal control system;

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- the Council's systems, structures and operations, including any planned, significant changes;
- any management concerns and expectations;
- the plans of external audit and other review agencies; and
- the available audit resources.

- 3.3 The annual audit plan details specific areas of audit which will be subject to review. Following each review, audit reports are issued in draft format, initially to provide management the opportunity to agree the factual accuracy of the audit findings. Copies of final audit reports are passed to the Executive Director, External Audit and to any other senior officer or manager of the Council who is responsible for acting on the recommendations.
- 3.4 The outcomes of audit reports feed into the Internal Audit Annual Report and Assurance Statement. The Report and Assurance Statement is presented to the Monitoring and Audit Committee.
- 3.5 The Report and Assurance Statement is also passed to the Head of Finance for consideration in the preparation of the Annual Governance Statement.

4 Significant Local and National Issues and Risks

- 4.1 The annual audit plan is prepared each year by the Chief Internal Auditor, and is approved, although not directed by the Council's Monitoring and Audit Committee, at the start of the financial year. The plan includes sufficient flexibility to allow the Chief Internal Auditor to direct internal audit resources as required so that new and revised local or national issues and risks can be appropriately reviewed, where considered necessary.

5 Service Delivery

- 5.1 The provision of the Internal Audit Service is through a directly employed in-house internal audit team. Within this method of service provision, facility exists to buy-in elements of specialist Internal Audit Service as required. This to date has been limited to the services of a Computer Auditor, whereby a Computer Auditor has been engaged to provide 10 days auditing to carry out a specific computer audit assignment. This will occur if there is adequate budget provision.
- 5.2 This method of service delivery maintains a core of in-house knowledge whilst drawing on specialist expertise as required.
- 5.3 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 CMMIA (Chartered Internal Auditor), CCAB (Consultative Committee of Accountancy Bodies qualified accountant) or equivalent and be suitably experienced.
- 5.4 The Internal Auditor posts must also be CCAB qualified accountants or equivalent with previous audit experience.

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- 5.5 Internal audit members of staff 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. The ability to attend training is however dependent on there being sufficient budget available to meet any costs. All training undertaken is recorded and assessed in a personal training record.
- 5.6 Internal audit members of staff are required to conform to the Codes of Ethics of the professional accountancy bodies of which they are members and to the Code of Ethics included within the PSIAS.
- 5.7 Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information.
- 5.8 The Internal Audit Section is an independent section and does not have any operational responsibilities. It does not 'own' any system, or have any responsibility for any aspect of work subject to audit.
- 5.9 Auditors are not assigned assurance work in areas where they have had any operational or other involvement.

Revised: March 2018

(1) The Local Authority Accounts (Scotland) Regulations 2014 requires the local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing. This therefore establishes a duty on the Council to comply with the Public Sector Internal Audit Standards.

Internal Audit Plan 2018 – 2019

1. Introduction

This document outlines the internal audit plan for the financial year 2018 – 2019.

The annual audit plan is formed on the basis of a number of contributing factors. These include: -

- 1) Consultation which was carried out with Executive Directors and/or Heads of Service to risk assess all service areas and to identify areas of concern which would merit audit attention;
- 2) Reviewing the Corporate Risk Register and all Service Risk Registers;
- 3) Review of the Corporate Governance self-assessment process for 2016/17 and the Certificates of Assurance completed by each member of the Corporate Management Team;
- 4) Review of service plan actions and service performance indicators;
- 5) Liaison with the external auditors to co-ordinate audit work and avoid duplication of effort;
- 6) Audit work previously undertaken, and the conclusions reached as to whether the systems examined were sound, or that there were weaknesses in the internal controls;
- 7) Any known relevant changes in legislation and other external factors;
- 8) The organisation's systems, structure and operations and any material changes.
- 9) Known strengths and weaknesses in the internal control system.

Whilst managing the risk of fraud and corruption is the responsibility of senior management, internal audit work is planned to consider and to minimise the risks and exposures that could allow fraud or corruption to occur.

The Internal Audit Section shall carry out specific fraud related work throughout the year, as required. This work is accounted for in the contingency allocation included within the annual audit plan.

2. Financial Systems

This section covers those systems classified as the Council's financial systems. The audit plan is set out with the intention of covering all of these systems over a five year period.

1 Core Financial Systems Testing

Days are allocated each year for the review of financial systems. Within the year, the finance systems audited shall include cash collection, sundry debtors and sundry creditors.

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There shall also be an audit of the migration of pensions data from existing manual records on to the pension administration system.

3. Other Systems

1 PARIS

PARIS is the health and social care system used within Orkney Health and Care, it is used for managing client's files for both children's services and adult and older people's services. The audit shall review the controls surrounding the use of this system, support bases and resilience of the system.

2 HEEPS ABS Grant Claims

The Council receives funding from the Scottish Government to assist home owners, private sector tenants and landlords to improve the energy efficiency of their homes. Under the Home Energy Efficiency Programmes for Scotland (HEEPS): Area Based Scheme (ABS) funding can be received for a number of energy efficiency measures. Firefly Energi (Orkney) Ltd have been appointed by the Council to manage the initiative. The audit will review the arrangements with Firefly Energi and the process followed for the awarding and payment of grants under the scheme.

3 Business Continuity

The Council maintains a business continuity management system (BCMS) which forms part of the corporate governance arrangements of the Council. The system maintains plans for the purpose of ensuring, so far as is reasonably practicable, that if an emergency occurs the Council is able to continue to perform its functions. This audit will review the arrangements in place for business continuity throughout the Council.

4 Self-Directed Support

Self-Directed Support (SDS) legislation came into force on 1 April 2014 with the aim to provide people with freedom, choice, dignity and control. SDS allows people to arrange some or all of the support they need to live as independently as they want to. It can provide alternatives to services and support provided directly by the local authority. Assessments for SDS are carried out by the Adult Social Work Team. This audit will review the processes in place for SDS.

5 Human Resources (HR) Processes

A sample of transactions relating to HR processes shall be reviewed across all Council Services to review the efficiency and effectiveness of these processes.

6 School Establishment

This is a review of procedures followed within a school, including areas such as school administration, financial management, human resource management and security. Although the audit shall focus on one school the Education Service can

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apply the audit findings and any recommendations made to other schools as required.

4. Annual Audits

1 Orkney College – Credits Audit

Orkney College is required to provide a Further Educational Statistical (FES) return to the Scottish Funding Council (SFC) annually. The FES return details student activity data for the academic year, which is used to determine the activity which is fundable by the SFC and then to calculate the grant-in-aid allocation for the next academic year.

An audit certificate and audit report must be prepared annually for each FES return to comply with SFC requirements.

2 Orkney College – Discretionary and Childcare Funding

The College submits an annual return for the Discretionary Fund and Childcare Fund expenditure. This return must be checked to confirm that the information included is in agreement with the underlying records. Internal Audit must also provide an opinion on whether the funds have been used in accordance with the Scottish Funding Council conditions of grant.

3 LEADER

The LEADER programme is part of the Scottish Rural Development Programme and is primarily aimed at promoting economic and community development within rural areas. Orkney was awarded £2.5 million for LEADER funding for the period 2014-2020. The scheme opened for applications from Spring 2016. The audit shall be completed in October 2018 and shall review procedures followed to date. The audit is completed in accordance with the scheme guidelines.

4 Statutory Performance Indicators

This audit involves checking the systems from which information is produced for a sample of indicators, to assess the reliability of the data included. An analytical review of all indicators is also performed.

5 Finance Performance Indicators

This includes gathering and submitting the performance measures for finance services to the Chartered Institute of Public Finance Accountants (CIPFA).

6 Stock Checks

Each year, as part of the financial year end procedures, stock takes are carried out to confirm that stocks have been correctly counted and recorded for the financial year end. This includes stock takes carried out at the Hatston depot, the Marine Services store and The Orkney Museum.

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7 Cash, asset and security spot checks

Checks shall be carried out on cash handling, inventories or security arrangements for buildings, as required.

8 Miscellaneous Grant Claims

Audit work required includes the checking and certification of grant claims as required.

5. Corporate Reviews

1 Corporate Governance and Risk Management

The Public Sector Internal Audit Standards require 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 ERD Process and Mandatory Training

The Council has in place a Corporate Employee Review and Development (ERD) Scheme which requires Line Managers to undertake ERD meetings with each member of staff at least once a year and agree an Employee Development Plan (EDP) in accordance with the scheme. OIC-iLearn is an online facility through which staff can complete e-learning courses including mandatory courses applicable to all staff and to particular posts. This audit will assess compliance with the Corporate ERD scheme and also review the process followed for mandatory training.

6. Follow up of Action Plans

Performance Management and Risk Software (Aspireview) is used to track the implementation of agreed internal audit recommendations. The progress on implementing agreed actions shall be checked via this system on a six-monthly basis and actions assessed as not complete and overdue are reported to the Senior Management Team.

The internal audit team shall review the assessments provided by responsible officers and where any recommendations have been marked as complete, will complete checks to confirm the assessments. Where it is confirmed that actions have been completed, the recommendations will be archived on the system.

7. Computer Audit

A computer auditor will be engaged to provide computer audit services for ten days to the Council's Internal Audit Service. The Council's Internal Audit team do not possess the required technical expertise to undertake all types of computer audit work, so it is therefore necessary to hire in the services of a specialist auditor. Additional time has been allocated for the internal audit team to support the work of the computer auditor and to complete further computer audit review work as required.

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8. Contingency Allocation

A contingency allowance has been included for any unplanned audit work which must be completed during the year.

9. Orkney Health and Care – Integration Joint Board

The Orkney Integration Joint Board (OIJB) appointed the OIC Chief Internal Auditor as the internal auditor for the OIJB for two financial years, 2017/18 and 2018/19.

The audit requirements shall be accommodated within the contingency resources of the internal audit plan.

The internal auditors from NHS Orkney shall also make an in-kind contribution towards the audit from the contingency resources within their audit plan.

An internal audit plan for the OIJB for 2018/19 was agreed by the OIJB Audit Committee on 13 March 2018.