

# Audit Scotland

ANNUAL INTERNAL AUDIT PLAN 2017-18

January 2017



# CONTENTS

Internal Audit Approach	3
Audit Risk Assessment	4
Proposed resources and outputs	5
Appendices	
I Internal Audit Plan 2017 - 2018	6
II Internal Audit Plan Overview	7
III Phasing of Plan	10
IV Internal Audit Strategy 2015 - 2018	11
V Internal Audit Charter	13
VI Internal audit protocols and performance	16

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# 1. INTERNAL AUDIT APPROACH

## Introduction

Our role as internal auditors is to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Our approach, as set out in the Firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our approach complies with best professional practice, in particular the International Professional Practices Framework of the Chartered Institute of Internal Auditors, and the Public Sector Internal Audit Standards (PSIAS).

## Internal Audit at Audit Scotland

We have been appointed as internal auditors to Audit Scotland to provide the Board (via the Audit Committee), the Chief Operating Officer and other managers with assurance on the adequacy of internal control arrangements, including risk management and governance.

Responsibility for these arrangements remains fully with management, who should recognise that internal audit can only provide 'reasonable assurance' and cannot provide any guarantee against material errors, loss or fraud. Our role at Audit Scotland will also be aimed at helping management to improve risk management, governance and internal control, so reducing the effects of any significant risks facing the organisation.

In producing the internal audit plan for 2017-18 we have sought to gain an understanding of the business of Audit Scotland together with its risk profile, through document review and interview of key staff. This plan has been developed in the context of:

- The overall business strategy and objectives of Audit Scotland
- The key areas where management wish to monitor performance and the manner in which performance is measured
- The financial and non financial measurements and indicators of such performance
- The information required to 'run the business'
- The key challenges facing Audit Scotland

# 2. AUDIT RISK ASSESSMENT

## Background

Our risk based approach to internal audit uses Audit Scotland's own risk management process and risk register as a starting point for audit planning as this represents the client's own assessment of the risks to it achieving its strategic objectives.

The extent to which we can rely on management's own perception of risk largely depends on the maturity and effectiveness of Audit Scotland's own risk management arrangements. In estimating the amount of audit resource required to address the most significant risks, we have also sought to confirm that senior management's own assessment of risk accurately reflects Audit Scotland's current risk profile.

## Planned approach to internal audit 2017-18

The Internal Audit proposed audit programme for 2017-18 is shown at Appendix I. We will keep the programme under continuous review during the year and will introduce to the plan any significant areas of risk identified during that period.

We have set out further in Appendix II the rationale for the inclusion of particular reviews in the audit plan, based on our initial review of Audit Scotland's risk register, discussions with a number of key stakeholders and consideration of various documents, publications and information sources.

## Individual audits

When we scope each review, we will reconsider our estimate for the number of days needed to achieve the objectives established for the work and to complete it to a satisfactory standard in light of the control environment identified within Audit Scotland. Where revisions are required we will obtain approval from the Chief Operating Officer prior to commencing fieldwork.

In determining the timing of our individual audits we will seek to agree a date which is convenient to Audit Scotland and which ensures availability of key officers.

A proposed phasing of our audit plan, based on our current understanding of Audit Scotland's workloads is set out in Appendix III.

## Variations to the Plan

Significant variations to the plan arising from our reviews, changes to Audit Scotland's risk profile or due to management requests will be discussed in the first instance with the Chief Operating Officer and approved by the Audit Committee before any variation is confirmed.

# 3. PROPOSED RESOURCES AND OUTPUTS

## Staffing

The core team that will be delivering this programme to you is shown below:

Name	Grade
Claire Robertson	Director
Zahid Hanif	Senior Manager
Andrew O'Donnell	Assistant Manager

Our indicative staff mix to deliver the programme is shown below:

Grade	2017-18 (days)	Grade Mix (%)
Director	8	14
Senior Manager (IT)	10	18
Assistant Manager	28	50
Audit Assistant	10	18
Total	56	100

The core team will be supported by specialists from our national Risk and Advisory Team and wider firm as and when required.

## Reporting to the Audit Committee

We submit the Internal Audit Plan for discussion and approval by the Audit Committee at its meeting on 01 February 2017. We will liaise with the Chief Operating Officer and other senior officers as appropriate to ensure that internal audit reports summarising the results of our visits are presented to the appropriate Audit Committee meeting.

Following completion of the internal audit programme for 2017-18 we will produce an Internal Audit Annual Report summarising our key findings and evaluating our performance in accordance with agreed service requirements.

# APPENDIX I

## Internal Audit Plan 2017-18

Assurance Theme	Subject	Days	Assurance / Advisory
Finance and planning	Core financial controls	5	Assurance
	Procurement and contract management	7	Assurance
IT and business continuity	IT general controls	6	Assurance
	Business continuity planning	6	Assurance
Internal control systems	Quality management	7	Assurance
	Audit efficiency	7	Assurance
Human Resources	Workforce planning / resource management	7	Assurance
Follow up	Follow up	3	Assurance
Indirect Audit Activity	Client liaison	3	
	Audit Committee & Annual Reporting	5	
<b>TOTAL</b>		<b>56</b>	

# APPENDIX II

## Internal Audit Plan Overview

### Overview

The plan overview sets out the proposed audits in more detail and highlights further comment and rationale for inclusion in the Annual Internal Audit Plan 2017-18, together with the risk assessment source.

We will scope individual audits in advance of commencing any reviews and agree terms of reference with key officers involved.

Audit Area	Comment	Source
Core financial controls	We have included coverage of key financial control areas in each year of the internal audit plan. In 2017-18, we will perform a review of the financial reporting arrangements in place. We will assess whether an appropriate timetable is in place to comply with statutory reporting requirements, and whether effective financial reporting arrangements are in place to deliver clear, accurate and timely financial reports.	<ul style="list-style-type: none"> <li>a) BDO assessment</li> <li>b) Executive management</li> <li>c) Risk Register Ref 13</li> </ul>
Procurement and contract management	We will review the procurement arrangements in place from identifying procurement needs and forming a sourcing strategy, through to appraising options and contracting with suppliers. We will also review the detailed contract management arrangements in place to monitor supplier performance and ensure contracts are successfully executed. This will include value for money consideration of the use of added value performance measures and service level agreements.	<ul style="list-style-type: none"> <li>a) BDO assessment</li> <li>b) Executive management</li> <li>c) Risk Register Ref 12</li> </ul>
IT general controls	We will review the controls in place in relation to information technology and assess whether these are operating effectively. The review will focus on physical and logical access controls, system support arrangements and program change controls.	<ul style="list-style-type: none"> <li>a) BDO assessment</li> <li>b) Executive management</li> </ul>

# APPENDIX II

## Internal Audit Plan Overview

Audit Area	Comment	Source
Business continuity planning	In the context of Audit Scotland’s key risks, we will assess the adequacy of business continuity planning arrangements and compare these to best practice. The review will assess procedures for emergency response handling; business impact analysis; disaster recovery; contingency planning; and business resumption.	<ul style="list-style-type: none"> <li>a) BDO assessment</li> <li>b) Executive management</li> <li>c) Risk Register Ref 13</li> </ul>
Quality management	<p>Audit Scotland has outlined a commitment in the 2016-17 Corporate Plan to enhance the audit quality assurance framework for the new five-year audit appointments and to meet the requirements of the revised Code of Audit Practice.</p> <p>Our review will assess the quality assurance framework in place and the arrangements in place to continuously monitor and manage quality. We will assess whether Audit Scotland’s internal review processes are consistently and robustly applied and whether effective management action is taken in relation to findings arising from internal and external reviews on quality.</p>	<ul style="list-style-type: none"> <li>a) BDO assessment</li> <li>b) Executive management</li> <li>c) Risk Register Ref 7, 13</li> </ul>
Audit efficiency	A revised Code of Audit Practice has been prepared which outlines the audit scope for the current five year audit appointments. Our review will assess whether Audit Scotland has effective systems and controls in place to ensure audits are carried out efficiently, from planning through to reporting, and whether there are effective arrangements in place to ensure further audit efficiencies are identified.	<ul style="list-style-type: none"> <li>a) BDO assessment</li> <li>b) Executive management</li> <li>c) Risk Register Ref 11, 12</li> </ul>



# APPENDIX II

## Internal Audit Plan Overview

Audit Area	Comment	Source
Workforce planning / resource management	Audit Scotland publishes an annual workforce plan. We will assess the design and operating effectiveness of key controls relating to the workforce planning arrangements in place within Audit Scotland to assess whether these are well designed to ensure sufficient, suitably qualified staff are recruited and developed to deliver Audit Scotland's ambition of world class audits on a consistent basis, within the context of changing audit requirements.	<ul style="list-style-type: none"> <li>a) BDO assessment</li> <li>b) Executive management</li> <li>c) Risk Register Ref 10, 13</li> </ul>
Follow up	The effectiveness of internal control systems may be compromised if management fails to implement agreed audit recommendations. Our follow up work will provide the Audit Committee with assurance that prior year, and in some cases in year, recommendations are implemented within the expected timescales.	<ul style="list-style-type: none"> <li>a) BDO assessment</li> </ul>

# APPENDIX III

## Phasing of the Plan

Respecting existing work pressures, and subject to the availability of key officers, we would look to agree with Audit Scotland the phasing of our audit work as shown in the following tables. We would normally seek to phase our work around Audit Committee dates.

### Block 1: April - June 2017

Review	Proposed Audit Sponsor
Business continuity planning	Diane McGiffen
Quality management	Diane McGiffen

### Block 2: July - September 2017

Review	Proposed Audit Sponsor
Audit efficiency	Diane McGiffen
Procurement and contract management	Diane McGiffen

### Block 3: October - December 2017

Review	Proposed Audit Sponsor
Core financial controls	Diane McGiffen
IT general controls	Diane McGiffen

### Block 4: January - March 2018

Review	Proposed Audit Sponsor
Workforce planning / resource management	Diane McGiffen
Follow up	Diane McGiffen

# APPENDIX IV

## Internal Audit Strategy 2015 - 2018

We have set out on the next two pages the areas selected for internal audit coverage over each of the next three years. These areas have been selected to ensure there is a spread of assurance over different financial, strategic and operational areas in each year.

Assurance Theme	Subject	2015 - 2016	2016 - 2017	2017 - 2018
Governance and Risk	Risk management framework		✓	
	Corporate governance	✓		
Finance and Planning	Core financial controls	✓	✓	✓
	Cost of audit / fees and funding	✓		
	VfM programmes		✓	
	Procurement of audit firms	✓		
	Procurement and contract management			✓
IT & Business continuity	IT strategy	✓		
	IT general controls			✓
	Business continuity planning			✓
	IT and information security		✓	
Internal Control	Communications and stakeholder engagement	✓		
	Business performance management and reporting		✓	
	Quality management			✓
	Audit efficiency			✓
	PABV programme development	✓		
	Best Value audit approach		✓	

## APPENDIX IV

### Internal Audit Strategy 2015 - 2018 (continued)

Assurance Theme	Subject	2015 - 2016	2016 - 2017	2017 - 2018
Human Resources	Staff performance management		✓	
	Staff recruitment and induction		✓	
	Workforce planning / resource management			✓
Follow up	Follow up	✓	✓	✓

# APPENDIX V

## Internal Audit Charter

### Purpose of this Charter

This Charter formally defines Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within Audit Scotland and defines the scope of Internal Audit activities.

### Internal Audit's Purpose

Internal Audit provides an independent, objective assurance and consulting activity designed to add value and improve Audit Scotland's operations. It helps Audit Scotland accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit acts primarily to provide the Audit Committee with information necessary for it to fulfil its own responsibilities and duties. Implicit in Internal Audit's role is that it supports Audit Scotland's management to fulfil its own risk, control and compliance responsibilities.

### Internal Audit's Authority

The Head of Internal Audit and internal audit staff are authorised to:

- Have unrestricted access to all Audit Scotland's records, property, and personnel relevant to the performance of engagements
- Obtain the necessary assistance of Audit Scotland's personnel in relevant engagements, as well as other specialised services from within or outside Audit Scotland.

Internal Audit has no authority or management responsibility for any of its engagement subjects.

Internal Audit will not make any management decisions or engage in any activity which could reasonably be construed to compromise its independence.

### Internal Audit's Responsibility

The Head of Internal Audit is responsible for all aspects of Internal Audit activity, including strategy, planning, performance, and reporting.

The Head of Internal Audit will:

#### Strategy

- Develop and maintain an Internal Audit Strategy
- Review the Internal Audit Strategy at least annually with management and Audit Committee

# APPENDIX V

## Internal Audit Charter

### Planning

- Develop and maintain an Internal Audit Plan to fulfil the requirements of this Charter and the Internal Audit Strategy
- Engage with Management and consider Audit Scotland's strategic and operational objectives and related risks in the development of the Internal Audit Plan
- Review the Internal Audit Plan periodically with management
- Present the Internal Audit Plan, including updates, to the Audit Committee for periodic review and approval
- Prepare an Internal Audit Budget sufficient to fulfil the requirements of this Charter, the Internal Audit Strategy, and the Internal Audit Plan
- Submit the Internal Audit Budget to the Audit Committee for review and approval annually
- Coordinate with and provide oversight of other control and monitoring functions, including Risk Management, Compliance & Ethics, and external audit
- Consider the scope of work of the external auditors for the purpose of providing optimal audit coverage to Audit Scotland.

### Performance

- Implement the Internal Audit Plan
- Maintain professional resources with sufficient knowledge, skills and experience to meet the requirements of this Charter, the Internal Audit Strategy and the Internal Audit Plan
- Allocate and manage resources to accomplish Internal Audit engagement objectives
- Establish and maintain appropriate internal auditing procedures incorporating best practice approaches and techniques
- Monitor delivery of the Internal Audit Plan against the Internal Audit Budget
- Ensure the ongoing effectiveness of Internal Audit activities.

### Reporting

- Issue a report to management at the conclusion of each engagement to confirm the results of the engagement and the timetable for the completion of management actions to be taken
- Provide periodic reports to management and the Audit Committee summarising Internal Audit activities and the results of Internal Audit Engagements
- Provide periodic reports to management and the Audit Committee on the status of management actions taken in response to Internal Audit Engagements
- Report annually to the Audit Committee and management on Internal Audit performance against goals and objectives
- Report as needed to the Audit Committee on management, resource, or budgetary impediments to the fulfilment of this Charter, the Internal Audit Strategy, or the Internal Audit Plan
- Inform the Audit Committee of emerging trends and practices in internal auditing.

# APPENDIX V

## Internal Audit Charter

### Independence and Internal Audit's Position within Audit Scotland

To provide for Internal Audit's independence, its personnel and external partners report to the Head of Internal Audit, who reports functionally to the Audit Committee. The Head of Internal Audit has free and full access to the Chair of the Audit Committee.

The Head of Internal Audit reports administratively to the Chief Operating Officer who provides day-to-day oversight.

The appointment or removal of the Head of Internal Audit will be performed in accordance with established procedures and subject to the approval of the Chair of the Audit Committee.

The Internal Audit service will have an impartial, unbiased attitude and will avoid conflicts of interest.

If the independence or objectivity of the Internal Audit Service is impaired, details of the impairment should be disclosed to either the Chief Operating Officer, or the Chair of the Audit Committee, dependent upon the nature of the impairment.

The Internal Audit Service is not authorised to perform any operational duties for Audit Scotland; initiate or approve accounting transactions external to the Internal Audit Service; or direct the activities of any Audit Scotland employee not employed by the Internal Auditing Service, except to the extent such employees have been appropriately assigned to Service or to otherwise assist the Internal Auditor.

### Internal Audit's Scope

The scope of Internal Audit activities includes all activities conducted by Audit Scotland. The Internal Audit Plan identifies those activities that have been identified as the subject of specific Internal Audit engagements.

Assurance engagements involve the objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are determined by Internal Audit.

Consulting engagements are advisory in nature and are generally performed at the specific request of management. The nature and scope of consulting engagement are subject to agreement with management. When performing consulting services, Internal Audit should maintain objectivity and not assume management responsibility.

### Standards of Internal Audit Practice

Internal Audit will perform its work in accordance with the International Professional Practices Framework of the Chartered Institute of Internal Auditors, and the Public Sector Internal Audit Standards (PSIAS). This Charter is a fundamental requirement of the CIIA Framework.

### Approval and Validity of this Charter

This charter shall be reviewed and approved annually by Management and by the Audit Committee on behalf of the Board of Audit Scotland.

# APPENDIX VI

## Internal Audit Working Protocols & Performance

### Working Protocols

The table below illustrates the key communication and reporting points between Audit Scotland and Internal Audit, which we will be subject to regular review. Any future changes to the communication and reporting points will be reported to the Audit Committee for approval.

Table One: Liaison Meetings between Internal Audit and Audit Scotland

Meeting	Frequency	Audit Committee	Chief Operating Officer	Managers	Relevant Staff	External Audit
Internal Audit Update Meeting	As required		✓	✓		
Quality Assurance Meeting	Annually		✓			
Internal Audit Liaison meeting with Chair of Audit Committee	As required	✓				
Access to Audit Committee to discuss internal audit progress	As necessary	✓				
Meetings to raise immediate concerns	As necessary	✓	✓	✓	✓	
Meetings with External Audit	As necessary					✓



# APPENDIX VI

## Internal Audit Working Protocols & Performance

Table Two: Key reporting points between Internal Audit and Audit Scotland

Meeting	Audit Committee	Chief Operating Officer	Managers	Relevant Staff
Annual Internal Audit Plan	✓	✓	✓	✓
Individual Internal Audit Planning Documents			✓	✓
Draft Internal Audit Reports			✓	✓
Final Internal Audit Reports	✓	✓	✓	✓
Quality Progress Reports	✓			
Annual Internal Audit Report	✓	✓		✓

# APPENDIX VI

## Internal Audit Working Protocols & Performance

### Performance Measurement

Performance measurement is the use of measures and associated targets to assess objectively the performance of a body. It is now well established as an important means of improving performance and reinforcing accountability. BDO LLP has been appointed as internal auditors to Audit Scotland, subject to satisfactory performance. Consequently there is value in reviewing the quality of our service on a regular basis.

### Internal Audit Performance measures and indicators

Internal audit performance can be assessed in two ways. Firstly, there is the ability for us to self assess our performance on a regular basis and report back to the Audit Committee on certain measures around inputs and satisfaction from those officers who have been subject to a review. Secondly, the view of the Audit Committee as to the value being received from its internal audit provider has to be taken into account. For our part we will look to report to the Audit Committee regularly on the internal audit inputs as detailed below.

The tables below contain performance measures and indicators that we consider to have the most value in assessing the efficiency and effectiveness of internal audit. We recommend that the Audit Committee approves the following measures which we will report to each meeting and / or annually as appropriate.

Table Three: Performance Reporting to each Audit Committee

Measure / Indicator
<i>Audit Coverage</i>
Audits completed against the Annual Audit Plan
Actual days input compared with Annual Audit Plan
<i>Audit Planning and Reporting</i>
Days to issue draft report after end of fieldwork

# APPENDIX VI

## Internal Audit Working Protocols & Performance

Table Four: Annual performance reporting to Audit Committee

Measure / Indicator
<i>Relationships and Customer Satisfaction</i>
Customer Satisfaction Reports
<i>Staffing and Training</i>
Staff mix compared with budget
Percentage of Partner and Manager time
Continuity of staffing
Use of specialist staff (e.g. IT Risk and Advisory)
Provision of appropriate training for staff

### Management Performance Measures and Indicators


Management's ability to respond efficiently to internal audit findings and recommendations helps the Audit Committee to form its own view of the internal control framework. Importantly, Management's consideration of internal audit findings plays a contributory factor in our ability to deliver timely reports to the Audit Committee. We recommend, therefore, that the following measures are also reported to the Audit Committee.

Measure / Indicator	Timing
<i>Audit Reporting</i>	
Days for receipt of management responses	As data becomes available

### Other Performance Measures

In addition to the above mentioned measures we will also provide the Audit Committee with the results of other reviews of our internal audit service as and when they become available, including:

- Independent quality assurance reviews as required by the Chartered Institute of Internal Auditors (IIA); and
- BDO internal quality assurance reviews



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