



**Audit Scotland**

**Internal Audit Annual Plan**

**2014/15**

**FINAL**

**September 2014**

## Internal Audit Annual Plan

### INTRODUCTION

1. This Annual Plan is drawn up in accordance with the Terms of Reference of TIAA and the Internal Audit Strategic Plan. It is the responsibility of the Audit Committee of Audit Scotland to determine that the number of audit days to be provided and the planned audit coverage is sufficient to meet the requirements of the organisation. The Annual Plan was produced following consultation with the individual members of senior management within Audit Scotland and following a brief risk discussion with the Audit Committee.

### INTERNAL AUDIT ANNUAL PLAN

2. The Annual Plan (Annex A) sets out the reviews that will be carried out, the planned times and the scopes for each of these reviews. Any changes to the Internal Audit Strategic Plan Annual Plan which are incorporated into the Annual Plan are set out in Annex B.
3. The planned time set out in the Annual Plan for the individual reviews includes: research, preparation and issue of terms of reference, production and review of working papers and reports and sitework. The timings shown in the Annual Plan assume that the expected controls will be in place. Substantive testing will only be carried out where a review assesses the internal controls to be providing 'limited' or 'no' assurance with the prior approval of Audit Scotland and additional time will be required to carry out such testing. Audit Scotland is responsible for taking appropriate action to establish whether any loss or impropriety has arisen as a result of the control weaknesses.

### ASSESSMENT OF THE KEY RISK CONTROL OBJECTIVES

4. For each assurance review an assessment of the combined effectiveness of the controls in mitigating the key control risks will be provided. The assessments are:

Substantial Assurance	Reasonable Assurance	Limited Assurance	No Assurance
Based upon our findings there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risk of failure of the continuous and effective achievement of the objectives of the process, which at the time of our review were being consistently applied.	Based upon our findings there is a series of controls in place, however there are potential risks that they may not be sufficient to ensure that the individual objectives of the process are achieved in a continuous and effective manner. Improvements are required to enhance the adequacy and effectiveness of the controls to mitigate these risks.	Based upon our findings the controls in place are not sufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls.	Based upon our findings there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage the risks to the continuous and effective achievement the objectives of the process. Immediate action is required to improve the adequacy and effectiveness of controls.

**REPORTING**

5. **Assignment Reports:** A separate report will be prepared for each review or block of reviews carried out. Each report will be prepared in accordance with the arrangements contained in the Terms of Reference agreed with TIAA and which accord with the requirements of the IIA-UK Internal Audit Standards.
6. **Annual Report:** An Annual Report will be prepared for each year in accordance with the requirements set out in the IIA-UK Internal Audit Standards. The Annual Report includes our opinion of the overall adequacy and effectiveness of Audit Scotland's risk management, control and governance processes.

**LIMITATIONS AND RESPONSIBILITY**

7. Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future.
8. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.
9. Reliance will be placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.
10. The matters raised in the audit reports will only be those that come to the attention of the auditor during the course of the internal audit reviews and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. The audit reports are prepared solely for management's use and are not prepared for any other purpose.

**LIAISON WITH THE EXTERNAL AUDITOR**

11. We will liaise with Audit Scotland’s External Auditor. Any matters in the areas included in an Annual Plan that are identified by the external auditor in their audit management letters will be included in the scope of the appropriate review.

**PERFORMANCE**

12. The following Performance Targets will be used to measure the performance of internal audit in delivering the Annual Plan (Figure 1 below):

*Figure 1 - Performance Targets*

Area	Performance Measure	Target
Achievement of the plan	Completion of Planned Audits	100%
	Audits Completed in Time Allocation	100%
Reports Issued	Draft report issued within 10 working days of exit meeting	95%
	Final report issued within 10 working days of receipt of responses	95%
Professional Standards	Compliance with IIA-UK Standards	100%

**ACKNOWLEDGEMENT**

13. We would like to thank staff for their co-operation and assistance during the course of our work.

**RELEASE OF REPORT**

14. The table below sets out the history of this report.

<b>Date draft report issued:</b>	29 <sup>th</sup> August 2014
<b>Date revised draft report issued:</b>	1 <sup>st</sup> September 2014
<b>Date management responses rec'd:</b>	10 <sup>th</sup> September 2014
<b>Date final report issued:</b>	10 <sup>th</sup> September 2014
<b>Date revised final report issued:</b>	12 <sup>th</sup> September 2014

## Annual Plan – 2014/15

Quarter	Audit	Type	Days	Scope	Risk Register Ref.
2 (August 2014)	Risk Workshop Facilitation (Completed)	Workshop	2	<p><u>Rationale</u> The risk facilitation workshop will assist in providing focus on Audit Scotland's key strategic risks and mitigating controls.</p> <p><u>Scope</u> TIAA will act as a facilitator, to assist in the development of robust risk register.</p>	
3 (October 2014)	Management Information – reporting to the Board & Management Team	Gov	4	<p><u>Rationale</u> Management Information is key to effective decision making and assisting with the setting the Audit Scotland's strategic direction.</p> <p><u>Scope</u> The review considers the system in place to ensure the Board and Management Team receive accurate, timely and relevant information to allow them to make informed decisions. This scope of this review does not include assessment of the actual management information provided.</p>	Risk 5: Audits are of insufficient quality leading to reduced confidence in our work
3 (October 2014)	Office Relocation – Relocation Plan Health Check	Appr	2	<p><u>Rationale</u> A smooth transition to new offices is critical to ensuring the minimal disruption to the business operations of Audit Scotland</p> <p><u>Scope</u> The review will undertake a health check on the Audit Scotland Office Relocation Plan. The scope of the review does not include assessment of the appropriateness of the new location or consideration of benefits/risks faced by relocating.</p>	Risk 8: We fail to achieve or demonstrate value for money leading to insufficient resources to deliver our work
3 (November 2014)	Workforce planning	Appr	4	<p><u>Rationale</u> Workforce planning and the efficient use of important resources is critical in the delivery of quality work, the retention and development of staff and the maintaining morale within the workforce.</p>	Risk 9: We fail to recruit, retain, develop and motivate people with skills we need to do

Quarter	Audit	Type	Days	Scope	Risk Register Ref.
				<p><u>Scope</u></p> <p>The review considers the system in place to ensure auditors' skills, expertise and available time is used to ensure maximum benefit is obtained and workflow is effectively and efficiently managed. The scope of the review does not include assessment of individual officer's abilities or effectiveness.</p>	our work leading to reduced quality of our work.
3 (December 2014)	Management of Corporate Projects	Appr	4	<p><u>Rationale</u></p> <p>Audit Scotland undertakes corporate projects and assurance is required that these projects are managed in the most effective and efficient manner, which results in full staff engagement and the best possible output.</p> <p><u>Scope</u></p> <p>The review considers the process followed to: identify projects; resource them and the system of monitoring and reporting progress. The scope of the review does not include assessment of the appropriateness of individual projects.</p>	Risk 4: Audits focus on the wrong issues or are not timely leading to reduced relevance to stakeholders.
4 (January 2015)	ICT - Compliance with Information Security Standard ISO 27001:2013	ICT	6	<p><u>Rationale</u></p> <p>This audit is to provide Audit Scotland with assurance that they have an appropriate approach to ensure compliance with ISO 27001:2013.</p> <p><u>Scope</u></p> <p>The review considers the approach taken to ensure compliance with ISO 27001:2013 including: reviewing the Information Security Policy and Security Management structure, the inventory of information assets and information security risks, the risk treatment plan, identification of the ISO27001:2013 controls in place to mitigate risk and identification of any gaps in controls. The scope will not include detailed testing and review of the effectiveness IT systems controls in place.</p>	Risk 11: ICT services are unavailable for a significant period.
4 (January 2015)	Finance - Payments & Payroll	Assur	5	<p><u>Rationale</u></p> <p>The audit of payments and payroll is required in order to provide independent confirmation that key financial controls are operating as required.</p>	Risk 8: We fail to achieve or demonstrate value for money leading to insufficient resources

Quarter	Audit	Type	Days	Scope	Risk Register Ref.
				<p><u>Scope</u></p> <p>Payments - the review considers the arrangements for authorising and paying costs incurred by Audit Scotland and the arrangement for control of automated payments. The scope does not include providing an assurance that the expenditure was necessary or that value for money was achieved from the expenditure committed.</p> <p>Payroll – the review considers the arrangements for: the creation, amendment and deletion of payroll records; payment of allowances and pay awards; and payment of salaries. The scope of the review does not include determination of salary scales, appointment and removal of staff, severance payments or reimbursement of travel and subsistence expenses, or pension arrangements.</p>	to deliver our work.
4 (February 2015)	Audit Process – QA framework	Assur	5	<p><u>Rationale</u></p> <p>Audit Scotland has a system of internal and external review which provides them with a quality assurance process. This audit is to build upon the work undertaken by the Audit Scotland Quality Group.</p> <p><u>Scope</u></p> <p>The review considers the audit process framework as a whole, taking into consideration the internal quality assurance process and the external quality assurance input milestones This audit will take into consideration the work of the Audit Scotland Quality Group. The scope of the review does not include assessment of individual Audit Scotland reviews.</p>	Risk 5: Audits are of insufficient quality leading to reduced confidence in our work.
4 (February 2015)	Follow up	FU	3	The review ascertains whether by half year there are any Priority 1 & 2 recommendations arising from selected internal audit work carried out at Audit Scotland during the previous financial year. The scope of the review does not include detailed testing of the actions taken to assess their effectiveness.	
1	2014/15 Annual Plan	Gov	-		
4	2014/15 Annual Report	Gov	2		
1-4	Audit Management		5		



Quarter	Audit	Type	Days	Scope	Risk Register Ref.
		<b>Total days</b>	<b>42</b>		

**KEY**

QUARTER ONE	QUARTER TWO	QUARTER THREE	QUARTER FOUR
April – June 2014	July – September 2014	October – December 2014	January – March 2015

Types of Review	
<b>Assurance (Assur)</b>	Consideration of the risks to the effective control of a system and then establishing that controls are in place to minimise the potential risk. The appropriate level of testing is carried out to assess the actual effectiveness of the controls.
<b>Compliance (Comp)</b>	Consideration of whether the organisation’s procedures previously identified by an assurance review are being followed. The emphasis of the compliance reviews is on establishing by detailed testing the integrity of the arrangements being operated.
<b>Appraisal (Appr)</b>	Consideration of the extent to which the arrangements in place accord with regulations, good practice; statutory and other guidance, but do not extend to detailed compliance checking.
<b>Governance (Gov)</b>	Consideration of the strategic and corporate control arrangements.
<b>Risk (Risk)</b>	Consideration of the risk management arrangements.
<b>ICT (ICT)</b>	Consideration of the controls within the organisation’s computer services.
<b>Follow Up (FU)</b>	Testing the extent of effective implementation of previous internal audit recommendations.

## Rolling Strategic Plan

System	Review	Days Required		
		2014/15	2015/16	2016/17
<b>Regulatory Assessments</b>				
<b>Governance</b>				
Risk Workshop Facilitation	Workshop	2		
Performance Management – Framework	Appraisal		✓	
Board Effectiveness – Training & Development	Appraisal		✓	
Strategic Controls	Appraisal		✓	
Strategic Planning	Appraisal			✓
HR Management – Recruitment, Retention, Training, Development & Succession Planning	Appraisal			✓
Management Information – reporting to Board & Management Team	Appraisal	4		
Budget Setting, Approval & Reporting Performance	Assurance			✓
<b>Assurance Framework</b>				
<b>Risk</b>				
Business Continuity Planning	Assurance		✓	
Risk Management – Framework	Appraisal		✓	
Risk Management – Maturity	Appraisal			✓
<b>Internal Control</b>				
ICT - Compliance with Information Security Standard ISO 27001:2013	Assurance	6		
Finance - Payments & Payroll	Assurance	5		
Workforce Planning	Appraisal	4		
Management of Corporate Projects – Framework – Health Check	Appraisal	4		
Management of Corporate Projects - capturing & using lessons learnt from past projects	Appraisal			✓
Fee Setting Process	Assurance			✓
Audit Process – Quality Assurance Framework	Assurance	5		
Office Relocation – Relocation Plan Health Check	Appraisal	2		

Office Relocation – post project review	<b>Appraisal</b>			✓
ICT – Management Controls	<b>Assurance</b>		✓	
Finance – Income Management	<b>Assurance</b>		✓	
Impact Measurement System	<b>Appraisal</b>		✓	
ICT – Disaster Recovery	<b>Assurance</b>			✓
<b>Other</b>				
Follow up	<b>Follow up</b>	3	3	3
Audit Needs Assessment & Annual Plan		-	2	2
<b>Annual Report</b>		2	2	2
<b>Audit Management</b>		5	5	5
	<b>Totals</b>	42	55	55