

Future internal audit arrangements

- This paper provides Committee members with an update in relation to the provision of internal audit services from 1 April 2020.

Recommendations

Approve:

- Further engagement with Scottish Enterprise (SE) with a view to securing the service from 1 April 2020, subject to the Council executive being satisfied with the financial terms.

Financial implications

- The current outsourced contract is for the provision of 60 audit days (inclusive of management time) at cost of £475.30 plus VAT per day which equates to £28,518 plus VAT. The cost of SFC's share of the joint service and the number of days provision is yet to be determined.

Future internal audit provision

Purpose

1. The purpose of this paper is to provide the Committee with an update on future arrangements in relation to the provision of internal audit services.

Internal audit services

2. The internal audit service is currently provided by a business advisory and accountancy firm, Scott-Moncrieff, under a contract agreed in 2016.
3. With the establishment of the Enterprise and Skills Strategic Board the relevant agencies are expected to improve management arrangements and work more closely together across the range of their activities.
4. SE has an in-house team of auditors who now provide an Internal Audit Shared Service to SE, Skills Development Scotland and Clyde Gateway. The South of Scotland Enterprise agency is expected to join in April 2020.
5. The Chair of the Audit and Compliance Committee, the Chief Operating Officer and a Senior Financial Analyst met with the head of the SE internal audit service in October to explore the relevant issues.
6. The Chief Internal Auditor of the SE team is available to discuss this issue at the Audit Committee.

Issues

7. Resources. There could be concerns that moving to an in-house arrangement would reduce the quality of the resource applied to audits. The Head of Internal Audit advised that his team are qualified and experienced auditors. The team also has access to an arrangement with an external firm for specialist resource relating to IT. The team work in accordance with Chartered Institute of Internal Audit (CIIA) Standards for both the management of the team and in individual audit assignments.
8. Quality. We need to be sure that the quality control arrangements are equivalent to those currently in place. The Head of Internal Audit advised that management of the service was compliant with IIA Standards, including a regular external review. He supplied a copy of the report from the most recent review undertaken on behalf of the CIIA (provided as an annex to this paper) which came to the following conclusion:

“Scottish Enterprise (SE) has an effective internal audit (IA) service. It is held in high regard for its integrity, honesty, challenge and practical advice founded

upon independence and objectivity.... SE internal audit is in the upper quartile of all the IA functions we have reviewed (approximately 80 functions since 2012) making it one of the better IA operations we have seen.”

9. Independence. There is a need to be assured about the extent of independence of an in-house arrangement. The SE Head of Internal Audit is independent of SE management in relation to the work carried out by the team being answerable to the Audit Committee. The team operates within the line management and HR processes of HR. It is envisaged that the Head of Internal Audit will have unfettered and direct access to the Chair of the Audit and Compliance Committee at SFC.
10. Confidentiality. There is a need for clarity on controls over sharing of information about the Council across the organisations served by SE internal audit. The Head of Internal Audit gave assurances that no such information would be shared with other agencies, in accordance with IIA Standards.

Finance

11. There are two arrangements which have been identified which would enable SFC to access the service. It is proposed that the SFC executive be delegated to work with SE to identify the optimal arrangement for both agencies.
12. The first option is for SE to enhance internal audit team numbers so that the team is resourced to meet the staffing requirements of its several contracts, including SFC. SFC would be billed by invoice and incur VAT. This solution would be very similar to the arrangement SFC currently has with an accountancy firm providing the service. All risk would be borne by SE, including how to manage the situation should SFC wish to withdraw from the arrangement.
13. The second option is for SFC to employ an auditor on the understanding that the person employed is part of the SE audit team, and equally SFC have access to the rest of the SE resource. This solution may not involve any invoicing. However, there will need to be an identification and control of all cross-flows of resource between the two agencies. All Human Resources implications will need to be thought through and risks mitigated, including the situation as at option 1 should SFC wish to withdraw from the arrangement, but also line management and appraisal processes.

Recommendation

14. The Committee is invited to:
 - Approve further engagement with Scottish Enterprise (SE) with a view to securing the service from 1 April 2020, subject to the Council executive being satisfied with the financial terms.

Equality and diversity assessment

15. There are no specific equality and diversity aspects arising from the matters covered in this paper.

Risk assessment

16. Ensuring the Committee has a clear understanding of the background and work performed to date mitigates the risk of the Committee's work being misdirected. The Committee is invited to note this paper.

Publication

17. Consistent with the Committee's standing orders, the Committee's agendas and papers will be made available on request, subject to the provisions of the Freedom of Information (Scotland) Act 2002.

Further information

18. Contact: Steve Keightley, Senior Financial Analyst (direct line: 0131 313 6587, email: skeightley@sfc.ac.uk)