

MEETING BEING SUBMITTED TO Audit and Risk Committee

1. **HEADING** Internal Audit Plan 2015/16

Submitted by: Audit Manager

Portfolio: Finance and Resources

Ward(s) affected: All

Purpose of the Report

To inform Members of the proposed Internal Audit Plan for 2015/16 and to seek their approval as to its contents.

To agree with members the reporting arrangements for performance against the 2015/16 proposed plan.

Recommendations

A That the Internal Audit Plan for 2015/16 is approved

B That Members agree to the continuation of the reporting arrangements as set out in the report.

Reasons

Under the Public Sector Internal Audit Standards (PSIAS) Internal Audit has a duty to plan effectively to ensure it contributes to the Council's objectives at strategic and operational levels. Planning also enables Internal Audit to demonstrate that they are making the best use of resources.

1. **Background**

- 1.1 The Local Government Accounts and Audit Regulations 2011 require every Local Authority to maintain an adequate and effective system of internal audit of accounting records and control systems. Internal Audit is an independent appraisal function within the Borough Council under the control of the Executive Director Resources and Support Services and Section 151 Officer. The Section also provides a service to management by giving assurance that there are adequate internal controls in operation, ensuring the proper, economic, efficient and effective use of resources, to include the security of assets and data and to assist management in preventing and detecting fraud. This is covered by routine system and regularity audits and under a wider remit by value for money and special audits.
- 1.2 A sufficiently resourced and effective Internal Audit Section is key to providing assurance on the Council's systems of internal control and the prevention and detection of fraud and corruption. In addition External Audit require assurance that 'the Council has arrangements in place to maintain a sound system of internal control' with evidence to support that:
- The Council reviews and reports on its systems of internal control

- The Council has an audit committee or equivalent and an internal audit function and that the internal audit function operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.

Best practice guidance states that Internal Audit should achieve 90% of its internal audit plan. Any divergence from the plan should be due to legitimate operational factors, i.e. special investigations, and the plan should be reappraised.

1.3 In reviewing the effectiveness of the Internal Audit function, external auditors will look for:

- Evidence of a risk assessment of material items of income and expenditure and that Internal Audit reviews all high risk financial systems each year and medium risk financial systems on a cyclical basis;
- Evidence that such risks are reported to Members;
- Evidence that Internal Audit has the resources to deliver its work programme;
- Evidence of a process to ensure that accepted recommendations by Internal Audit are reviewed by senior management and members;
- Evidence that arrangements for discharging the functions of an Audit Committee have been considered, such functions would include;
 - Reviewing the adequacy of policies and practices to ensure compliance with statutory and other guidance;
 - Reviewing the adequacy of internal controls and
 - Monitoring the performance of internal audit and agreeing to the external audit plan.

A review of the Council's Corporate Governance arrangements and Internal Audits role in this helps to support and demonstrate compliance in these areas.

2. **Issues**

Internal Audit Plan for 2015/16

- 2.1 The Internal Audit Plan is calculated in terms of audit days, 500 for 2015/16, see Appendix A, this is based on a full risk assessment of each audit area which considers expenditure, income, management controls, operational practices, political and legislative influences and the risk of fraud. In accordance with the PSIAS the plan is fixed for no longer than one year and outlines the areas to be covered together with the estimated resource, in terms of audit days required to complete the reviews.
- 2.2 Information from risk assessments on each audit area is subjected to a weighted risk assessment process to allocate the available resources to those audit reviews identified to be of greatest risk. At present the risk model is set up to ensure all areas are covered over a three year cycle. Appendix B shows an example of the risk assessment conducted against each audit area. In addition to this Executive Directors and Heads of Service are requested to raise any new areas that may require auditing or a change in practices to existing audit areas and to comment on the proposed annual plan and resultant Audit Services. At the beginning of each audit a brief is sent to Executive Directors and Heads of Service highlighting the objectives of the audit and requesting any comments or inputs into the proposed work. At the end of every audit a new risk assessment is completed to reflect any changes to the audit area and therefore risks, and this is then subject to the weighted risk assessment process and the plan is updated annually.
- 2.3 In producing the Audit Plan for 2015/16 using the existing risk model and in an ideal situation where the Internal Audit Team is fully resourced on a regular basis, a total of 938 productive

days are required if all risks are to be covered. However, this model has to be balanced against the resources available and those reasonable for an authority of this size. Audit days available for 2015/16 have been calculated at 500. The plan is refined to match the available resources ensuring that all 'A' risk audit areas will be covered and then priority is given to 'B' risk areas, in this way reviews are prioritised based on need and relevance to the Council's priorities. The revised plan covers all 'A' risk audit areas which total 197 days and 303 days for 'B' risk areas.

- 2.4 Given the resources available for 2015/16 a total of 438 days were required to be adjusted out of the plan, these were identified as follows;
- a review of the planning model where a total of 196 days were identified for areas that were no longer relevant and included reviews such as Pericles Replacement, Agresso System, Use of Resources, United Charities, Slum Clearance, FLARE (Environmental Health System) and Renew.
 - since 2011/12 key financial systems are reviewed on a rotational basis whereby half the systems are done in full and the other half are just reviewed in terms of key controls, this has allowed for a further 107 days to be adjusted from the plan for 2014/15,
 - the remaining 135 days were identified by reviewing days already allocated to audit reviews in the plan and some audit areas that had been completed in 2014/15 and as a result did not warrant a further review in 2015/16.
- 2.5 There have been a number of new areas identified for review during 2015/16; these include Safeguarding, Locality Commissioning, The Transparency Agenda and Ethical Governance. In terms of these reviews these have been identified by Heads of Service as new areas or identified as a growing area thorough networking with local and national audit forums. One such area identified through the latter is that of Ethical Governance, this is not to be confused with Corporate Governance which looks at the Annual Governance Statement but which looks more widely at the overall governance requirements as set out in the Localism Act 2011, to ensure that there are adequate arrangements in place
- 2.6 When deciding on which areas to leave in the plan and which to remove a number of factors were taken into consideration these included the date of the last audit, knowledge gathered as part of other reviews, and feedback from Heads of Service etc.
- 2.7 During the course of 2015/16 the current audit management system APACE will be replaced with a new fully integrated and modern internal audit management system, Ideagan (Pentanna). APACE has been in place since 2002 and is now considerably outdated. With no prospect of development of the system from the supplier of APACE a procurement exercise was undertaken to identify a system that would provide a more modern and efficient way of working for the Internal Audit Service. Four suppliers responded and all the systems were evaluated for price and quality to ensure that the most economically advantageous system was procured. Ideagan (Pentanna) scored the highest in terms of price and quality and as such were awarded the contract to supply the new audit system. The system will be implemented during 2015/16 and developed over the course of the year. Updates on the progress of this will be provided as part of the quarterly reports to the committee.
- 2.8 The new system will provide a new and efficient way of working for the Internal Audit Service in that the system is fully integrated with the capability of automatically producing an audit report from the compilation of audit working papers; in addition the system provides an automated recommendation tracking facility. Both of these facilities alone will provide efficient working practices for the Internal Audit Service. Additionally functionality includes a library facility for audit programmes and also a quality control and sign off procedure which will

enable the service to demonstrate compliance with the Public Sector Internal Audit Standards (PSIAS).

Internal Audit Performance Reporting

Progress against the Audit Plan will be reported as part of regular quarterly reports to Audit and Risk Committee.

3.0 Options Considered

- 3.1 In considering the resourcing of the Internal Audit Section consideration is given to the skills required and those that are available internally, or are best provided by external companies. The provision of Computer Audit skills is a specialist area and one that is constantly changing. Whilst internal auditors can provide a level of computer auditing looking at environmental controls and some of the basics in relation to systems and project management, the more technical expertise will be bought in. The provision of Computer Audit work for 2015/16 is currently being reviewed and quotations are in the process of being obtained. The Committee will be advised of the results of this process through reports to future meetings.

4. Proposal

- 4.1 In agreeing the proposed Audit Plan for 2015/16 members are agreeing to a review of all audit areas listed, following a risk assessment based on the information available for review during 2015/16 and within the resources available to the Section as identified at the beginning of the year.
- 4.2 Once agreed the plan will be translated into an operational plan detailing the audit assignments to be carried out, the purpose of each assignment and the allocation of resources. Each assignment will have clear objectives and scope to be delivered within the allocated resources and will be supervised for quality and consistency.

5. Reasons for Preferred Solution

- 5.1 By agreeing to the proposed plan the Internal Audit Section is fulfilling its responsibility to plan effectively and ensure that it contributes to the Council's objectives at strategic and operational levels. The plan will also enable Internal Audit to demonstrate that they are making the best use of their resources balanced against the perceived risks to the Council.

6. Outcomes Linked to Corporate Priorities

- 6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money. Therefore ensuring the best use of the Council's resources and improving efficiency where weaknesses are identified.
- 6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

7. Legal and Statutory Implications

- 7.1 The Accounts and Audit Regulations 2011 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8. **Equality Impact Assessment**

- 8.1 There are no differential equality impact issues identified from the proposal.

9. **Financial and Resource Implications**

Resourcing of the Internal Audit Section

- 9.1 The present Internal Audit Section has 3.5 posts, which include the Audit Manager and 2.5 operational staff providing, a combined total of 470 days in addition 30 days are brought in from specialist external computer auditors,
- 9.2 The provision of computer audit for 2015/16 will be delivered by an external computer audit specialist. Quotations are currently being sought for this work and as mentioned earlier in this report the results of this market testing will be brought to a later meeting of this committee.
- 9.3 The Audit Plan for 2015/16 can be provided within current revenue budgets provided that the staffing resources remain unchanged from estimates used in support of the proposed plan.

10. **Major Risks**

- 10.1 Any issue that increases the demand on Internal Audit Section which in turn diverts the attention from the completion of the Audit Plan is a risk to the organisation. Non completion of the Audit Plan will increase the risk to the Council of poor financial and managerial controls due to assurance not being given for these. This in turn could result in District Audit Management Letters, poor value for money and increase the risk of fraud or corruption.
- 10.2 A full risk assessment has been completed in respect of the Internal Audit Service; a copy of this assessment is shown at Appendix C

11. **Key Decision Information**

- 11.1 Not applicable.

12. **Earlier Cabinet/Committee Resolutions**

- 12.1 Not applicable.

13. **List of Appendices**

Appendix A Proposed Internal Audit Plan 2015/16

Appendix B A risk assessment conducted against each audit area

Appendix C Risk Assessment in respect of the Audit Service

14. **Background Papers**

- 14.1 Internal Audit Plan 2015-16-(Electronic file)