

MEETING BEING SUBMITTED TO Audit and Risk Committee

1. **HEADING** Internal Audit Plan 2016/17
- Submitted by:** Audit Manager
- Portfolio:** Finance IT and Customer
- Ward(s) affected:** All

Purpose of the Report

To inform Members of the proposed Internal Audit Plan for 2016/17 and to seek their approval as to its contents.

To agree with members the reporting arrangements for performance against the 2016/17 proposed plan.

Recommendations

A That the Internal Audit Plan for 2016/17 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.

1.0 **Background**

- 1.1 The Local Government Accounts and Audit Regulations 2015 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 Councils 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.

In terms of Governance the Audit Manager is also the Councils Monitoring Officer, a role that she has undertaken since 2014. Careful consideration was given to this to ensure that this did not undermine the independence role of the audit, however given the similarity in nature to both the roles it was felt that there would be no compromise to independence. In fact as part of the research for this it was found that there have been occasions in other authorities where the role of Monitoring Officer has also been undertaken by the Head of Audit, in a combined post.

2.0 **Issues**

Internal Audit Plan for 2016/17

- 2.1 The Internal Audit Plan is calculated in terms of audit days, 526 for 2016/17, 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 2016/17 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 2016/17 have been calculated at 526. 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 247 days and 279 days for 'B' risk areas.
- 2.4 Given the resources available for 2016/17 a total of 412 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 143 days were identified for areas that were no longer relevant and included reviews such as Pericles Replacement, Agresso System, Use of Resources, Objective 2 Funding, Slum Clearance, NMP Exit Strategy Content Management 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 45 days to be adjusted from the plan for 2016/17,
 - the remaining 224 days were identified by reviewing days already allocated to audit reviews in the plan and some audit areas that had been completed in 2015/16 and as a result did not warrant a further review in 2016/17.
- 2.5 There have been a number of new areas identified for review during 2016/17; these include Electronic Document Records Management, SubLyme (Communications Company), 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 2015/16 work began to replace the current audit management system APACE 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. Implementation of this system has been slower than has originally anticipated due to a number of factors including staff resource due to a member of the audit team being seconded to Finance to cover a period of maternity leave and a number of special investigations which have had to take precedence. Work is progressing with the system and it anticipated that we will be in a position to go live with the new system early in the new financial year once we have been able

to fully test all the functionality which will include the automation of recommendation tracking and performance reporting.

- 2.8 Since May 2015, a Corporate Fraud Officer has joined the Internal Audit Team, the post transferred from Revenues and Benefits following the transfer of Benefits Investigation Staff to the Department of Work and Pensions (DWP) under the Single Fraud Investigation Service (SFIS). This post provides a resource to look at some of the issues of Corporate Fraud and a number of specific projects have also been included in the Audit Plan for 2016/17 which includes the National Fraud Initiative and Procurement. In addition we are continuing to work with Stoke-on-Trent City Council as part of the North West Staffordshire Corporate Fraud Team. Operationally this joint venture will see the set-up of a data hub which will allow all the organisations to share information across the different service areas and will also incorporate the award winning 'Spot the Cheater' campaign being rolled out across Borough.

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 2016/17 will be provided by Information Security Advice Limited.

4.0 Proposal

- 4.1 In agreeing the proposed Audit Plan for 2016/17 members are agreeing to a review of all audit areas listed, following a risk assessment based on the information available for review during 2016/17 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.

5.0 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.

6.0 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.

7.0 **Legal and Statutory Implications**

7.1 The Accounts and Audit Regulations 2015 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8.0 **Equality Impact Assessment**

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

9.0 **Financial and Resource Implications**

Resourcing of the Internal Audit Section

9.1 The present Internal Audit Section has 4.5 posts, which include the Audit Manager and 3.5 operational staff, including one Corporate Fraud Officer providing, a combined total of 496 days in addition 30 days are brought in from specialist external computer auditors,

9.2 The provision of computer audit for 2016/17 will be delivered by Information Security Advice Limited.

9.3 The Audit Plan for 2016/17 can be provided within current revenue budgets provided that the staffing resources remain unchanged from estimates used in support of the proposed plan.

10.0 **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

11.0 **Key Decision Information**

11.1 Not applicable.

12.0 **Earlier Cabinet/Committee Resolutions**

12.1 Not applicable.

13.0 **List of Appendices**

Appendix A Proposed Internal Audit Plan 2016/17

Appendix B A risk assessment conducted against each audit area

Appendix C Risk Assessment in respect of the Audit Service

14.0 **Background Papers**

14.1 Internal Audit Plan 2016-17-(Electronic file)