

MEETING BEING SUBMITTED TO Audit and Risk Committee

1. **HEADING** Internal Audit Plan 2017/18
- Submitted by:** Head of Audit & Elections
- Portfolio:** Finance IT and Customer
- Ward(s) affected:** All

Purpose of the Report

To inform Members of the proposed Internal Audit Plan for 2017/18 and to seek their approval as to its contents.

To agree with members the reporting arrangements for performance against the 2017/18 proposed plan.

Recommendations

A That the Internal Audit Plan for 2017/18 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 Public Sector Internal Audit Standards.

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 the Councils Monitoring Officer and has more recently taken on the responsibility for Elections and Electoral Registration, and now is the Head of Audit and Elections. Careful consideration was given to this to ensure that this role will not undermine and compromise the independence role of the audit. As set out in the Audit Charter any audit work undertaken in relation to electoral services or directly related to the Monitoring Officer will be reported to the Section 151 Officer and not the Head of Audit and Elections.

2.0 **Issues**

Internal Audit Plan for 2017/18

- 2.1 The Internal Audit Plan is calculated in terms of audit days, 435 for 2017/18, 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. The risk model has recently been reviewed due to the implementation of the new audit management system, Pentana. Appendix B shows an example of the risk assessment factors that are taken into consideration when reviewing an audit area. These factors are weighted according to the potential impact on the individual audit area. For

example areas where income and expenditure are high will score more points than those with lower income and expenditure. When the weightings have been applied to each audit area a score is calculated which results in audits been classified as an A, B or C risk. An A Risk has a weighted score over 750 and is required to be audited annually, a B Risk has a weighted score between 500 and 749 and will be audited once every 2 or 3 years and a C Risk has weighted score between 250 and 499 and will be audited once every 3 to 5 years. Priority will always be given to those audit areas with an A risk. Audits classified as a B or C risk will be reviewed subject to the resources available.

- 2.3 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.
- 2.4 The risk model in the new audit system is still very much work in progress and in producing the audit plan for 2017/18 this has been based on the planning model which has been developed to date within the system and a combination of those audit reviews that have been carried forward from 2016/17 when the plan was revised to take into consideration a reduction in audit resource.
- 2.5 In addition for 2017/18 the plan has clearly identified other areas of work in terms of Computer Audit, Information Assurance, and Corporate Fraud. Previously elements of these areas were included in the plan, but these were shown as either a corporate review or included within a specific Directorate.
- 2.6 There have also been a number of new areas identified for review during 2017/18; these include the recently proposed Newcastle under Lyme Lottery 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.
- 2.7 As mentioned in 2.2 above work has continued with the development of the new audit management system, Pentana. Implementation of this system has been slower than 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. During the last few weeks there has been significant development with the system and it is anticipated that we should be able to go live with the new system sometime during March 2017 so that the system will be operational for the new financial year. The new system will provide the automation of recommendation tracking and performance reporting for both management and this committee.
- 2.8 In 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 2017/18 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 2017/18 is currently going through the procurement process, and an update will be provided to the committee in due course.

4.0 Proposal

- 4.1 In agreeing the proposed Audit Plan for 2017/18 members are agreeing to a review of all audit areas listed, following a risk assessment based on the information available for review during 2017/18 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 for money.

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 4.2 posts, which include the Head of Audit and Elections, 2 Audit Technicians, 1 Corporate Fraud Officer and 0.2 FTE Information Assurance Officer. In addition 30 days are brought in from specialist external computer auditors,

9.2 The Audit Plan for 2017/18 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 the 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 External 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 2017/18

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 2017-18-(Electronic file)