

MEETING BEING SUBMITTED TO: Audit and Standards Committee

1. **HEADING** Internal Audit Plan 2018/19
- Submitted by:** Peter Harrison, Director, TIAA limited
- Portfolio:** Finance and Efficiency
- Ward(s) affected:** All

Purpose of the Report

To inform Members of the proposed Internal Audit Plan for 2018/19 and to seek their approval as to its contents.

To agree with members the reporting arrangements for performance against the 2018/19 proposed plan.

Recommendations

A That the Internal Audit Plan for 2018/19 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 Audit's role in this helps to support and demonstrate compliance in these areas.

2.0 Internal Audit Plan for 2018/19

- 2.1 This Internal Audit Plan has been produced by TIAA Limited as a result of the continued absence of the Head of Internal Audit.
- 2.2 The Internal Audit Plan is calculated at 435 audit days for 2018/19 (see Appendix A). 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.
- 2.3 Normally, the Head of Internal Audit bases the plan 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. 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.
- 2.4 These factors are weighted according to the potential impact on the individual audit area, with audits being 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.
- 2.5 Given the short time in which this year's plan has been produced, it has not been possible to complete the full risk assessment, therefore, following discussion with staff and a review of risk registers, the weighted score used in the previous year has been applied.
- 2.6 In addition to this, Executive Directors have provided input in to the plan, being asked to identify any new areas that may require auditing or where a change in practice to existing audit areas has been effected. 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 will be completed to reflect any changes to the audit area and therefore risks. These will be subject to the weighted risk assessment process which can then be used to inform future audit plans.

- 2.7 Areas that have been identified for review during 2018/19 include Business Continuity, which hasn't been reviewed in the previous five years, and is not to be confused with ICT Disaster Recovery, although there are clearly some linkages. The review of operations at the new Public Sector Hub will cover elements such as post, communications and Customer Services. Given the current position, it was determined that any internal audit input on the Ryecroft development would not be beneficial at this stage. Similarly, any review of Elections at this point is deemed too early. It is expected that these two areas would be considered for the 2019/20 plan.
- 2.8 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.
- 2.9 In May 2015, a Corporate Fraud Officer 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 2018/19 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 2018/19 will continue to be provided by Information Security Advice Limited.

4.0 Proposal

- 4.1 In agreeing the proposed Audit Plan for 2018/19 members are agreeing to a review of all audit areas listed 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 2018/19 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.

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 2018/19

14.0 Background Papers

- 14.1 Internal Audit Plan 2017-18