

**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

**REPORT OF THE EXECUTIVE MANAGEMENT TEAM  
TO THE AUDIT & STANDARDS COMMITTEE**

**15<sup>th</sup> April 2019**

**1. INTERNAL AUDIT PLAN 2019/20**

**Submitted by:** Chief Internal Auditor, Clare Potts

**Portfolio:** Finance and Efficiency

**Ward(s) affected:** All

**Purpose of the Report**

To inform Members of the proposed Internal Audit Plan for 2019/20 and to seek their approval on its contents.

**Recommendations**

**A That in accordance with the Committee's terms of reference, the Internal Audit Plan for 2019/20 be approved.**

**B That the Internal Audit Charter for 2019/20 which sets out how the plan will be delivered be approved.**

**C That the Committee agree to receive quarterly reports on the delivery of the assignments within the plan and on the implementation of actions arising.**

**Reasons**

The Accounts and Audit Regulations include the statutory requirement for the provision of an adequate and effective internal audit function. The Public Sector Internal Audit Standards (PSIAS) place a duty on Internal Audit 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 available resources.

**1. Background**

1.1 The primary purpose of an Internal Audit service is to provide an independent, objective assurance and consulting service to the organisation; and through the efficient delivery of this service seeks to add value and improve the organisation's operations and controls to effectively deliver the council's Strategic Priorities. Internal Audit assists the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. Internal Audit is an independent appraisal function within the Borough Council under the control of the Executive Director Resources & Support Services (and Section 151 Officer).

1.2 The Public Sector Internal Audit Standards (PSIAS) apply to all internal audit service providers, whether in-house, shared services or outsourced. Assessment against the Standards provides assurance that the service is being delivered to a satisfactory level and in conformance to the standards.

- 1.3 The Accounts and Audit Regulations include the statutory requirement for the provision of an adequate and effective internal audit function and they specify that compliance with the relevant standards is required to demonstrate an appropriate standard of audit provision. The requirement to produce an audit plan is also specified in the Standards.
2. **Internal Audit Plan 2019/20**
- 2.1 This Internal Audit Plan has been produced by Stoke-on-Trent City Council who have an agreement in place to provide support to the Council's in-house Internal Audit team and undertake the role of Chief Internal Auditor as defined by the PSIAS.
- 2.2 The annual Internal Audit Plan for 2019/20 outlines the audits that are planned for the coming financial year and has been produced using a risk based approach. The results of this work will contribute to the annual internal audit opinion, which will then be included within the Annual Governance Statement (AGS).
- 2.3 The council's Internal Audit Charter sets out how the Internal Audit service will be delivered and this has been reviewed as part of producing the latest internal audit plan. To demonstrate compliance with the Public Sector Internal Audit Standards (PSIAS) the internal audit activity must be formally defined in an Internal Audit Charter. The external assessment of the internal service undertaken in April 2017 made a recommendation that the core principles for internal audit should be added to the charter at the next revision. To meet this requirement, the core principles have now been included in section 4.2 and a copy of the updated Charter can be found at Appendix 2. The Standards further require that the Charter is periodically reviewed and presented to senior management and the Audit Committee for approval. The Committee are therefore asked to approve this Charter.
- 2.4 The internal audit service focuses on the way in which the key risks faced by the services and ultimately the council can be incorporated and addressed through the planned reviews set out in the proposed plan. In exploring the areas to include within the 2019/20 plan a number of factors have been considered. These include the strategic risks faced by the council and also operational risks that its service areas are facing in the context of the objectives (both strategic and operational) they are striving to achieve. It also includes the controls that are currently in place and therefore the level of internal audit coverage that is appropriate for these areas of the business. A key objective has been to produce a plan that is aligned to the council's objectives and perceived risks. This approach acknowledges the council's risk management framework and open and forthright discussions have taken place with senior officers.
- 2.5 A risk assessment methodology continues to be developed in order to better inform the audit planning process. A significant factor within the audit planning process is the recognition and identification of emerging issues at both local and national level. Topical issues are monitored and tracked throughout the year by the Audit Team and, where relevant, highlighted for consideration or review. Examples of areas identified for inclusion include Elections, Risk Management, Ethics and Commercial Review. Following the delay in the agreement of the 18/19 plan a number of items have been rolled forward into the current year's plan and some areas have been deferred (in agreement with the Executive Director Resources & Support Services).
- 2.6 Executive Directors have provided valuable input into the plan based on their knowledge of key risk areas. The scope of each audit will be defined in further detail following a more detailed risk assessment to be undertaken before each audit and an assignment brief will be produced to identify the key objectives of each audit. This will present a further opportunity for Executive Directors and Heads of Service to provide feedback on the proposed scope of

work.

- 2.7 The planning and delivery of a robust audit plan ensures that an annual opinion and overall level of assurance can be provided by the Chief Internal Auditor to those charged with governance, thereby complying with constitutional requirements and sector standards. This opinion is one of the elements of the assurance framework which is reported in the annual governance statement.
- 2.8 The Internal Audit team also includes a Fraud Investigator. This post allows the team to focus on both proactive and reactive work, with the primary aim of detecting (e.g. data-matching exercises), investigating and preventing fraud and where appropriate strengthen controls. The Council continues to work with Stoke-on-Trent City Council to develop a partnership approach to counter fraud which includes joint working and data-matching.
- 2.9 Throughout the year the work programme at Appendix 1 will be reviewed, and detailed quarterly work programmes produced. Progress will be measured in order to report on the delivery of the audit plan.
- 2.10 For assurance on key financial systems that have previously been assessed as Well or Adequately Controlled, the approach will be to undertake a health-check audit. A health-check provides a snapshot of key aspects and controls of a system, and explores the measures in place to ensure procedures; processes and management are in place to effectively achieve its objectives. This approach is the most efficient way for internal audit to provide assurance on well controlled systems and ensures available resources are used as efficiently as possible.
- 2.11 As audit resources are finite, it is important to target these resources at areas considered to be high risk (where risk includes potential impact on the delivery of the council's objectives) and high priority, ahead of medium/low ranked audits. In this way the audit resource will be most efficiently utilised and will produce the greatest benefit. The plan will be regularly monitored and where necessary revised to take into account both unforeseen and new developments. Whilst the audit plan must be detailed enough to identify in advance the specific areas to be audited it must also remain flexible enough to cope with unforeseen events and must reflect the changing risks and priorities of the council. Any variations or developments; significant matters that jeopardise the delivery of the plan or require changes to the plan will be reported to the Audit Committee at the earliest opportunity. Where requests are received to undertake consulting engagements, consideration will be given to their potential to improve the management of risks, to add value and to improve the council's operations.

### 3. **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 IT Audit skills is a specialist area and one that is constantly changing. Whilst internal auditors can provide a level of IT auditing looking at environmental controls and some of the basics in relation to systems and project management, for more technical areas, additional expertise will be bought in. The provision of IT Assurance Audit work for 2019/20 has therefore been allocated to both the in-house internal audit team and to specialist external IT Audit support.

### 4. **Proposal**

- 4.1 In agreeing the proposed Audit Plan for 2019/20, Members are agreeing to a review of all areas listed in Appendix 1.

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 Sustainable Community Strategy and Corporate Priorities**

6.1 The proposed plan directly contributes to the corporate priority "transforming our Council to achieve excellence". The mission of internal audit is "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight." (Public Sector Internal Audit Standards). The Council's internal audit charter states that Internal Audit supports the Authority in the effective delivery of services. The results derived from completing the attached risk based plan of work for the forthcoming year will contribute to the overall annual internal audit opinion and by reporting on the outcome of this work, assists the Audit & Standards Committee and the Executive Management Team to discharge their roles of accountability and stewardship which represents a key element within the Authority's governance framework.

6.2 The Internal Audit function also 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. 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. **Legal and Statutory Implications**

7.1 The Accounts and Audit (England) Regulations 2015, state that "A relevant authority [the Council] must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." (para 5(1)).

7.2 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements *for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*'. CIPFA has defined '*proper administration*' in that it should include '*compliance with the statutory requirements for accounting and internal audit*'.

7.3 The activities of Internal Audit are planned in accordance with the Accounts and Audit Regulations which place a duty upon the Chief Internal Auditor to report to members on a regular basis. By acting upon recommendations within internal audit reports, the council is demonstrating its commitment to maintain an adequate and effective system of internal control, as required by these regulations. Satisfactory delivery of the audit plan assists the Executive Director Resources & Support Services (and Section 151 Officer), in discharging her duties under section 151 of the Local Government Act 1972.

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

9.1 The work outlined for 2019/20 will be carried out within the approved budget for Internal Audit. The financial implications resulting from the recommendations made within audit reports will be highlighted within individual reports wherever possible. It is the responsibility of managers receiving audit reports to take account of these financial implications, and to take the appropriate action.

9.2 Internal Audit is directed by the Chief Internal Auditor provided through a service agreement by Stoke-on-Trent City Council. The approved structure consists of 2 full time internal auditors. In addition, support is provided by Stoke-on-Trent City Council to provide quality assurance and management support to the team. The team will continue to undertake training and development opportunities to ensure their skills and knowledge are kept up to date. In addition, specialist external IT audit support and advice will continue to be procured. As mentioned in para 2.8 above, the internal audit team also work closely with the Fraud Investigator to ensure a robust approach to fraud prevention and detection.

9.4 In estimating the number of days available for the delivery of the audit plan, the following are taken into account:

<b>Details</b>	<b>Days</b>	Days	%
2 full time staff x 265 days <sup>1</sup>		530	
Less			
Leave Entitlement	(80)		
Absence Contingency (2%)	(11)	(91)	
<b>Net Resources Available</b>		<b>439</b>	
Training, development & meetings	(16)		
<b>Direct Resources</b>		<b>423</b>	
Planned Audit Assurance Work		335	79%
Other Planned Work		88	21%

9.5 The level of available resource has been allocated between indirect and direct work; the indirect element includes attendance at meetings, training and service improvement projects etc. Through continued work on improving the efficiency of the service, it is intended to reduce the amount of indirect / support resources and thereby maximise the resources that can be deployed in delivering audit assignments.

9.6 Available (direct) days will be allocated over the following areas:

---

<sup>1</sup> 265 days from 1 /4/19 to 5/4/20

- Proactive/planned assurance
- Assurance to External Stakeholders
- Advice & support to achieve improvements
- Verification of completed audit recommendations
- Proactive fraud prevention (including the National Fraud Initiative)
- Third Party requests
- Ad hoc requests for assistance/consultancy/investigation

9.7 The following categories have been identified as the basis for inclusion in this year's work plan:-

- Work identified as still relevant from 2018/19 and in progress at year end
- Key systems assurance
- Funding body requirement as requested
- Priority from risk assessment of service area
- Management request/Discussions with management
- Emerging risks / changes to the council's systems and controls

10. **Major Risks**

10.1 The key risk to be considered in reviewing the attached plan is that the areas proposed for coverage do not sufficiently address the key risks faced by the council and therefore the independent and objective assurance provided by Internal Audit is, or is perceived to be, compromised. The consequence of which is that opportunities to improve the council's system of internal controls, governance framework and the delivery of its objectives are not identified or acted upon.

10.2 This risk is managed through a combination of the governance and reporting frameworks within which Internal Audit operates and the overview carried out by this Committee. No risks have been identified that are not within acceptable tolerances. Continual review of the work contained within the audit plan ensures that where necessary adjustments are made to provide the most appropriate coverage.

11. **Sustainability and Climate Change Implications**

11.1 There are no sustainability or climate change implications of the proposals.

12. **Key Decision Information**

12.1 This report is not a key decision as defined by the Council's Constitution.

13. **Earlier Cabinet/Committee Resolutions**

13.1 This report is not in reference to previous Cabinet or Committee resolutions.

14. **List of Appendices**

Appendix A – Proposed Internal Audit Plan 2019/20  
Appendix B – Draft Internal Audit Charter 2019/20

15. **Background Papers**

15.1 No background papers are required for this report.