
Internal Audit - Work Plan 2016-19 - Summary Report

Committee considering report:	Governance and Ethics Committee
Date of Committee:	Governance and Ethics Committee on 25 April 2016
Portfolio Member:	Councillor James Fredrickson
Date Portfolio Member agreed report:	16 th March 2016
Report Author:	Ian Priestley
Forward Plan Ref:	GE3008

1. Purpose of the Report

- 1.1 This report sets out the proposed plan of work for internal audit over the next three years.
- 1.2 The report outlines the method used to compile the plan, which is based around risk.

2. Recommendation

- 2.1 The Committee should review and approve the work plan.

3. Implications

- 3.1 **Financial:** None
- 3.2 **Policy:** None
- 3.3 **Personnel:** None
- 3.4 **Legal:** None
- 3.5 **Risk Management:** Internal Audit work supports the risk management process by identifying weaknesses in systems and procedures and making recommendations to provide mitigation
- 3.6 **Property:** None
- 3.7 **Other:** None

4. Other options considered

- 4.1 None

5. Executive Summary

- 5.1 The purpose of this report is to set out a risk based plan of work for Internal Audit that will provide assurance to the Governance and Ethics Committee on the operation of the Council's internal control framework and support the Committee's review of the Annual Governance Statement.
- 5.2 The work of internal audit is regulated by the "Public Sector Internal Audit Standards" based on the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). These provide a:
- (1) Definition of Internal Auditing
 - (2) Code of Ethics
 - (3) International Standards for the professional practice of internal auditing (including interpretations and glossary)
- 5.3 The report covers the following points:
- (1) Audit objectives and outcomes
 - (2) How audit work is planned to ensure significant local and national issues are addressed.
 - (3) Basis for the opinion of the Chief Internal Auditor on the internal control framework
 - (4) Methods of providing and resourcing the service.
- 5.4 There are a number of changes to the priorities of the team that have been made in response to the reduced level of resource available to the team.
- (1) The audits of the "Key Financial Systems", in Customer Services and Finance, used to be carried out annually, partly because of the scale and materiality of them and partly as the Council's external auditor relied on the work Internal Audit does on these systems. However, the external auditor no longer requires us to audit these systems annually, and so they have been moved over to a cyclical basis.
 - (2) In the past all audits were subject to a follow up audit to measure the extent to which agreed recommendations had been implemented. In future only audits with weak or very weak opinions will always be followed up. Audits with a satisfactory opinion may be followed up if, in the opinion of internal audit or management, the weaknesses identified by the audit warrant a follow up.
 - (3) The frequency and depth of audits of schools will be reduced. Over recent years the Finance Service – Schools Accountancy Team - have delivered very effective training and support to schools, that is paid for by schools, and that will compensate for the reduced audit coverage.
- 5.5 The Public Sector Internal Audit Standards provide the following definition of Internal Audit:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

- 5.6 Translated into plain English, Internal Audit is there to help Services deliver the Council Strategy by identifying and helping to mitigate weaknesses in service delivery systems and procedures, whilst staying within the statutory framework that governs local authorities.
- 5.7 The objectives for Internal Audit are set out in the Audit Charter which forms an appendix to the Terms of Reference of the Governance and Ethics Committee. The full charter is attached at appendix A.
- 5.8 The main outcomes from the work of Internal Audit are:
- (1) Audit reports produced at the conclusion of each audit, for the relevant Head of Service and Director.
 - (2) Monitoring reports on progress with implementation of agreed audit recommendations.
 - (3) An annual assurance report and an interim update report for Management Board and Governance and Ethics Committee on the outcomes of Internal Audit work.
- 5.9 The work programme for Internal Audit for the period 2016-19 is attached at appendix B. The plan analyses the different areas of Council activity that Internal Audit feel require auditing. The Plan is laid out by, Corporate Audits, then by Head of Service and for each audit covers:
- (1) The key risks that the audit will cover
 - (2) The level of risk associated with the subject, as assessed by Internal Audit
 - (3) The complexity of the audit.
 - (4) The type of audit
 - (5) An initial estimate of the number of days that will be required to complete the audit, and the year in which the audit is planned
- 5.10 The process of putting the plan together is extensive in terms of the documents and people who are consulted. The following identifies the key drivers:
- (1) The views of stakeholders, Heads of Service, Corporate Board, Operations Board are key to identifying priorities for the team.
 - (2) The Council Strategy is reviewed to ensure that audit resources are used to support the delivery of Council objectives.

- (3) The Council's risk registers, particularly the Strategic Risk Register. This is used to highlight areas where assurance is required for controls that are in place to significantly reduce levels of risk to the Council.
- (4) Results of previous audit inspection and scrutiny work, by internal teams and external agencies, is considered.
- (5) Plans are made available to the Council's external auditor to ensure that there is no unnecessary duplication of effort.

5.11 The work programme is based on levels of risk. The risk registers are used to inform the level of risk where appropriate and this is supplemented by an audit view of risk. This takes account of:

- (1) Results of risk self assessments (Strategic and Operational Risk Registers);
- (2) Complexity/scale of system and processes / volume and value of transactions;
- (3) Fraud and corruption - eg the risk of fraud or corruption occurring;
- (4) Inherent risk - eg degree of change/instability/confidentiality of information;
- (5) Internal Audit knowledge of the control environment based on previous audit work.

5.12 The work of Internal Audit forms the basis of the opinion given by the Chief Internal Auditor on the Council's internal control framework. The work of Internal Audit is regulated by the Public Sector Internal Audit Standards. This sets out the standards and methods that should be applied in doing the work. At an operational level Internal Audit have a procedure manual that explains in detail how work is delivered. In addition an Audit Protocol is published to all Heads of Service setting out how the service operates. A copy of this is at Appendix C

5.13 There are a number of key elements to the process that ensure the output from audit is fit for purpose.

- (1) Consultation takes place at various stages of each audit with the service under review (Terms of reference, rough and formal draft and final reports and action plans are all discussed and agreed with the service under review)
- (2) Audits are followed up to ensure that agreed actions are implemented. (Method and approach to follow up work varies depending on the nature of the issues identified in the original audit)
- (3) All audit work is reviewed before being released. (The review process is ongoing during the course of each audit)
- (4) The External Auditor relies on the work of Internal Audit, and will raise any concerns in their annual audit letter, to date no concerns have been raised.

- 5.14 The work produced by Internal Audit is designed to identify and remedy weaknesses in the internal control framework. Weaknesses that are identified are categorised according to their severity (fundamental, significant, moderate and minor).
- 5.15 Taken together, the above provides a sound basis for the Chief Internal Auditor to provide an annual opinion of the internal control framework of the Council.
- 5.16 The Chief Internal Auditor now has the support of 4 FTE's. The service is provided entirely through in house provision.

6. Conclusion

- 6.1 The work of internal audit is designed to provide the Council with assurance on the state of the Council's internal control framework. The work is also designed to highlight and remedy weaknesses identified in the Council's service delivery systems.

7. Appendices

- 7.1 Appendix A – Internal Audit Charter
- 7.2 Appendix B – Internal Audit Plan
- 7.3 Appendix C – Internal Audit reporting protocol