Internal Audit Plan 2018/2019 – Supporting Information

1.   Introduction/Background

1.1   The purpose of this report is to set out a risk based plan of work for Internal Audit (IA) 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.

1.2   The work of IA is regulated by the Public Sector Internal Audit Standards (PSIAS) which set out the following:-

(1)   Definition of Internal Auditing;

(2)   Code of Ethics;

(3)   International Standards for the professional practice of internal auditing (including interpretations and glossary).

1.3   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 Audit Manager on the internal control framework;

(4)   Methods of providing and resourcing the service.

1.4   The PSIAS provide the following definition of IA:

"*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*"

2.   Supporting Information

2.1   The objectives for IA are set out in West Berkshire Council's Internal Audit Charter. This year there has been a significant re-write of the document to ensure that it fully complies with the requirements of the PSIAS. One of the key changes is the production of quarterly monitoring reports rather than half yearly. The revised Charter is attached at Appendix C.

2.2   The main outcomes from the work of IA 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 Corporate Board and the Governance and Ethics Committee on the outcomes of IA work.

2.3   The work programme for IA for the period 2018-2021 is attached at Appendix Di. The plan analyses the different areas of Council activity that IA have assessed as needing to be audited. The Plan is broken down by Corporate Audits, then by Head of Service. The information for each audit covers:-

(1)   The key risks involved in that area;

(2)   The level of risk associated with the subject, as assessed by IA;

(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;

Appendix Dii shows indicative timings of the audits for 2018/19 to assist with planning the audit process.

2.4   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 i.e. 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. These are 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.

2.5   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;

    (2)   Complexity/scale of system and processes / volume and value of transactions;

    (3)   Fraud and corruption – e.g. the risk of fraud or corruption occurring;

    (4)   Inherent risk – e.g. degree of change/instability/confidentiality of information;

    (5)   IA knowledge of the control environment based on previous audit work.

2.6   The work of IA forms the basis of the opinion given by the Audit Manager on the Council's internal control framework. The work of IA is regulated by the PSIAS, these set out the standards and methods that should be applied in carrying out audit work. At an operational level there is an Audit Manual which sets out in detail how work is to be undertaken, recorded and managed. In addition, an Audit Reporting Protocol is published to all Heads of Service setting out the communication process for each audit. A copy of this is at Appendix E.

2.7   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, where appropriate, 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 supervised/reviewed at key stages of the process, this is to ensure the scoping is appropriate and to check the accuracy, completeness and quality of the work undertaken (as per the Audit Manual standards);

    (4)   The External Auditor relies on the work of IA, and will raise any concerns in their annual audit letter, to date no concerns have been raised.

    (5)   An external review of the IA team has been arranged to take place in May 2018 in accordance with the requirements of the PSIAS.

2.8   The work produced by IA is designed to identify and provide remedial action for weaknesses in the internal control framework. Weaknesses that are identified are categorised according to their severity (fundamental, significant, moderate and minor).

2.9   Taken together, the above provides a sound basis for the Audit Manager to provide an annual opinion of the internal control framework of the Council.

2.10   The Audit Team consists of four staff; the Audit Manager, two senior auditors and one auditor post.

2.11   The risk categorisation is used to determine a reasonable baseline for the frequency of coverage. The reduction of the team over the last few years to four members of staff has resulted in a longer timeframe between audit reviews. The current frequencies used are:-

Risk Level	Frequency (years)
High	5
Medium	7
Low	10
Schools	6

2.12   As this change in frequency has only occurred over the last couple of years, there is still a high proportion of audits that have recent coverage, this however will not be the case going forward. The level of risk increases where there is a lack of coverage, as the previous audit opinion may no longer be relevant where there are changes to key personnel or processes. Also, the possible 'deterrent factor' can be lost where there is infrequent or no coverage.

3.   Options for Consideration

3.1   None, the Public Sector Internal Audit Standards (PSIAS) require the Council's Audit Plan and Internal Audit Charter to be approved by the Governance and Ethics Committee.

4.   Proposals

4.1   That the Governance and Ethics Committee approve the planned work programme for IA, together with the content of the revised Internal Audit Charter.

5.   Conclusion

5.1   This report sets out the proposed work for IA over the next three years. In order for an informed decision to be made regarding the work programme, this report sets out the role of IA together with supporting information as to how the plan is compiled.

Background Papers:
None.

Subject to Call-In:
Yes: ☒   No: ☐

Strategic Aims and Priorities Supported:
The proposals will help achieve the following Council Strategy aim:
☒   **MEC –   Become an even more effective Council**

The proposals contained in this report will help to achieve the following Council Strategy priority:
☒   **MEC1 – Become an even more effective Council**

Officer details:
Name: Julie Gillhespey
Job Title: Audit Manager
Tel No: 01635 519455
E-mail Address: julie.gillhespey@westberks.gov.uk