Internal Audit Plan 2019-2022– 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 document is reviewed and refreshed each year where appropriate. This year the amendments are a result of the recommendations made in the external assessment report. Sections 3 and 9 are new as well as point 4.1. Point 5.4 has been amended to make it clear that the Audit Manager should have direct access to both the Chair of the Audit Committee as well as the Chief Executive. The revised Charter is attached at Appendix D.

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 2019-2022 is attached at Appendix E. 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;

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.

2.7   In addition, an Audit Reporting Protocol is published to all Heads of Service setting out the communication process for each audit. There have been a few changes made to the Reporting Protocol as follows:-

(1)   removal of the requirement for consultation with the portfolio holder on the draft report. This stage typically adds a month onto our consultation stage. We occasionally receive queries regarding points of clarification, but no feedback that impacts on the content of the report. Therefore it was considered that this stage is not needed and removing it would speed up the process. This change will not impact on portfolio holder involvement as they would still be copied in on the final report, and we would be able to answer any clarification questions/meet with a portfolio holder to discuss the report if requested.

(2)   removal of the Head of Service comments/progress update in the Audit Plan update reports. Comments were requested for reports that were deemed weak or very weak. It was felt that including comments at this stage was not adding anything to the update report, as the client comments had already been included in the audit report and that a progress update would be carried out when IA undertake the formal Follow-up stage. The amended IA Reporting Protocol is at Appendix F.

(3)   amended 5.2 to make it clear that for unsatisfactory Follow-ups Heads of service will be required to provide details of remedial action, and that the Governance and Ethics may request Internal Audit to carry out a second stage Follow-up.

2.8   There are a number of key elements to the communication 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);

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(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 is required every five years to ensure the team complies with the professional practices of Internal Audit as stated in the PSIAS.

2.9 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).

2.10 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.

2.11 The Audit Team consists of four staff; the Audit Manager and three senior auditors.

2.12 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

2.13 This frequency has been used to put together the proposed three year Audit Plan. The last page of Appendix E shows the total number of planned days compared with the total number of audit days available (calculated using the number of auditors), although the planned days for next year can be met, this is not the case for the following two years, where there is a shortfall in resource available compared with the planned work. If there is no change in the number of auditors this will therefore result in the frequencies needing to be revisited and extended. As highlighted in my previous report 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 and Reporting Protocol.

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.