

AUDIT COMMITTEE

16 MARCH 2017

REPORT OF AUDIT AND GOVERNANCE MANAGER

A.3 INTERNAL AUDIT CHARTER AND INTERNAL AUDIT PLAN 2017/18

(Report prepared by Steve Blake)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek the approval of the Audit Committee for an updated Internal Audit Charter.

To seek the approval of the Audit Committee for the Internal Audit Plan for 2017/18.

EXECUTIVE SUMMARY

- An updated Internal Audit Charter has been produced reflecting legislative and other changes required.
- A high level statement of how the Internal Audit Service will be delivered and developed has been produced that meets the requirements set out in the Public Sector Internal Audit Standards.
- The Internal Audit Plan for 2017/18 has been produced, taking into account the requirements set by the standards, and is considered to provide sufficient coverage to enable the Audit and Governance Manager to provide in due course an opinion on the control environment of the Council.
- The plan can be delivered within the resources and budget available.
- The plan will be kept under review, and amended as necessary to reflect changing circumstances, and to provide a flexible approach to service delivery.

RECOMMENDATION(S)

- (a) That the updated Internal Audit Charter be approved.**
- (b) That the Internal Audit Plan for 2017/18 be considered and approved.**
- (c) That the existing arrangements for updating the plan during the year, where necessary to reflect changing Authority activity and operational needs and to provide flexibility of service delivery, be continued, with significant amendments reported to this committee as part of the periodic Internal Audit reporting arrangements**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Provision of adequate and effective internal audit helps demonstrate the Council's commitment to corporate governance matters.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The proposed 2017/18 Internal Audit Plan can be resourced from the 2017/18 budget.

Risk

Review of the functions of the Council by Internal Audit assists in identifying exposure to risk, and its mitigation.

LEGAL

The Council has a statutory responsibility to undertake an effective internal audit.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

Internal Audit activity assists the Council in maintaining a control environment that mitigates the opportunity for crime.

During the course of internal audit work issues regarding equality and diversity, and health inequalities may be identified and included in internal audit reports.

There is no specific effect on any particular ward.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The Public Sector Internal Audit Standards require that the Audit and Governance Manager: -

1. Periodically reviews the Internal Audit Charter and presents it for approval.
2. Provides a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.
3. Establishes a risk based Internal Audit Plan, at least annually, to determine the priorities of the Internal Audit function, consistent with the Council's goals.
4. Has in place a mechanism to review and adjust the plan, as necessary, in response to changes to the Council's business, risks, operations, programmes, systems and controls.
5. Produces a plan that takes into account the need to produce an annual Internal Audit opinion.
6. Considers the input of senior management and the Audit Committee in producing the plan.
7. Assesses the Internal Audit resource requirements.

CURRENT POSITION

Internal Audit Charter

The Public Sector Internal Audit Standards require that the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, and that the charter be periodically reviewed and presented for approval.

The Charter was last reviewed and reported to the Committee in March 2016.

Changes made to the Public Sector Internal Audit Standards since then necessitate some changes to be made to the Charter and the opportunity has been taken to review and update other content as necessary.

The Standards require the Charter to be a formal document that: -

- Defines the Internal Audit activity's mission, purpose, authority and responsibility
- Establishes the Internal Audit activity's position within the organisation including the nature of the "Chief Audit Executive's" (Audit and Governance Manager's) functional reporting relationship with the Board (Audit Committee)
- Authorises access to records, personnel and physical properties relevant to the performance of engagements
- Defines the scope of Internal Audit activities
- Defines the terms "Board" and "Senior Management" for the purpose of Internal Audit activity
- Covers the arrangements for appropriate resourcing
- Defines the role of Internal Audit regarding fraud-related work
- Includes arrangements for avoiding conflicts of interest if Internal Audit undertakes any non-audit activities.

The proposed Charter is included at Appendix A, with the revised content in red text. This document has been produced taking into account the requirements of the standards, and requires formal approval.

Further changes are due to be made to the Public Sector Internal Audit Standards in 2017, but have yet to be published. Any revision to the Charter required will be brought to a future meeting of the Committee.

Statement Regarding Delivery and Development of the Internal Audit Service

The Internal Audit Charter, above, defines the mission, purpose, authority and responsibility of the Internal Audit function.

The Internal Audit function will strive to continue to develop and deliver a service that operates within the requirements of the Public Sector Internal Audit Standards. The function continues to develop its processes and procedures to demonstrate compliance and best practice in the work that it undertakes.

The Internal Audit function will continue to deliver a service that takes account of and follows the requirements as set out in the Charter, and : -

- Discharges the Council's statutory responsibilities with regard to internal audit
- Provides a service compliant with the requirements of the standards
- Contributes to the Council's governance, risk and assurance arrangements
- Enables the Audit and Governance Manager to provide an annual opinion on the

- overall adequacy and effectiveness of the Council's control environment
- Delivers a quality service.

To aid effective delivery of the service an up to date specialist audit software package will be maintained.

The Internal Audit resources available are considered sufficient to be able to deliver an Internal Audit plan that meets the above requirements. The Internal Audit function will be primarily provided by an in house team. Budgetary provision exists to enable some specialist external resource to be procured to cover any gaps in the in house team's skillset, if it proves necessary to do so to provide the internal audit coverage required. The Internal Audit function will continue to review, refine and develop its techniques to improve its efficiency, to improve coverage wherever possible.

The Internal Audit function will operate independently of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial, objective and effective professional judgements and recommendations. Appropriate arrangements are in place to identify and record any conflicts of interests that occur, and to prevent such conflicts from impairing independence.

The function will seek to identify and address, in the work it undertakes, significant and emerging national and local risks. To achieve this aim the Internal Audit function will: -

- Continue to adopt a flexible approach with regard to audit planning, both in terms of having appropriate mechanisms in place to review and update the plan throughout the year as necessary, and at the individual audit level with regard to the objectives and scope of each audit undertaken.
- Maintain alignment of the Internal Audit plan and the content of audits with the Council's Corporate Risk Register and organisational objectives and priorities.
- Take account of emerging risks and exposures to the Council, identified both externally and internally.

Liaison will be undertaken with the Council's external auditors to ensure that they are able to place reliance on the work of Internal Audit, where appropriate. Where other sources of assurance are available, including external audit, the Audit and Governance Manager will consider the placing of reliance upon those other sources where it is appropriate to do so. In such cases the level of coverage undertaken by the Internal Audit function may be varied to reflect this.

Internal Audit Plan 2017/18

The plan has been produced taking into account the requirements as set out in the Public Sector Internal Audit Standards, and the Internal Audit Charter.

The introduction of new Internal Audit software during 2015/16 required production of a new Internal Audit Universe to take account of design features of the software. That universe has been subject to change in 2016/17 to reflect changes to the organisational structure of the Council and emerging risks and will continue to evolve during 2017/18 as the Council and the risks it is exposed to continue to change.

It is not feasible, or necessary, to undertake audit of all activities, or risks, in any one financial year and a documented risk assessment process is in place to determine where prioritisation should be given within the Audit Universe. A risk assessment has been undertaken to create the proposed plan, factoring in exposure to risk as identified in the Council's Corporate and Departmental Risk Registers, and issues that have emerged

during 2016/17. Additionally consideration has been given to the Council's corporate priorities and objectives.

Discussions have been held with Management Team members individually and collectively, and their senior managers, and their input has been taken into account in the plan presented to the Committee. The Committee now has the opportunity to input into the plan.

Internal Audit Resource Requirements

Detail regarding the proposed budget for the Internal Audit function was reported, for comment, to the Committee's January meeting. The budget at that time was considered sufficient to deliver the level of service required. That budget has since been approved without amendment.

The establishment for the Internal Audit function remains at 4.6 fte. However not all of this resource is available for Internal Audit as the Audit and Governance Manager has some non-audit duties. Whilst there is some budget available that can be used to procure a contractor to provide a limited amount of additional coverage, it should be noted that the Internal Audit function is required to be externally reviewed before January 2018, which will require use of some of the available budget. At the current time quotations are in the process of being sought for the external review, and until this process has been completed the level of commitment of the available budget is unknown. However no immediate need for the use of external resource has been identified in the draft plan, but if such a requirement becomes apparent during the year, then a virement from other budgets may prove necessary if insufficient funding remains within the Internal Audit cost centre.

The level of Internal Audit coverage needed has previously been determined as being of the order of 630 days a year. Whilst the Internal Audit Universe continues to evolve, the changes to the universe identified to date are not considered to have materially changed the universe size and the perceived resource requirements. At the current time the existing level is considered to remain appropriate to provide a sufficient level of coverage and to enable the Audit and Governance Manager to be able to provide in due course the required assurances.

After taking account of planned and unplanned absence, training and development, audit planning and reporting, the need for an external assessment, administrative time, system development and contingencies, the resources available have been calculated as being able to provide the level of coverage required.

Internal Audit Plan Detail

The plan provides an outline of the work currently proposed to be undertaken during the 2017/18 financial year. In order to provide a proactive and flexible approach the plan should be considered indicative of the work currently intended. The Internal Audit Plan needs to be flexible to ensure that Internal Audit resources are directed where they are most needed, and add as much value as possible to the organisation.

The plan will be kept under review during the year, in consultation with the Council's senior management, and taking account of changes to the Council's priorities, operations and risk. Changes to the plan will be brought to the attention of the Committee for approval.

The plan has been produced with an indicative resource requirement for each audit programmed. In order to allow for flexibility, the time assessed as required to undertake each assignment will be determined and agreed by the Audit and Governance Manager with the relevant Corporate Director / Head of Department at the time each audit is

scoped. This will enable the scope to be tailored to ensure that the work to be undertaken is appropriate to need at the time, adds value and provides the level of assurance required.

As referred to above, the Internal Audit Plan is not intended to provide coverage, in any one year, of the entire Audit Universe. If resources become available as a result of plan changes during the year, then priority will be given to audits with the highest ranking that were not included in the plan, that are considered to be due.

The plan is considered to be in effect a rolling programme of work, rather than being specific to one year, and audits scheduled, but incomplete at the end of any financial year roll forwards and are completed in the new financial year.

The currently agreed process for plan amendments is for approval to be sought from the Audit Committee, except in urgent instances when Chairman's approval will be sought. The Audit Committee will be made aware of material changes as part of the regular Internal Audit reporting arrangements. It is proposed that these arrangements continue to allow sufficient flexibility to enable amendments to be made as and when required and without delay.

Outline of Plan

	2017/18 Plan (Days)	Comments
Assurance Work		
Key Systems	141	Considered compulsory
Emerging Key Projects	20	Provision for emerging projects such as Jaywick, Garden Communities.
Other Systems	217	
Computer Audit	34	
Action Tracking / Follow Up	24	Ongoing work to ensure that issues identified during audits are addressed
Carry Forward of Work in Progress at 31 st March 2017	75	For completion of 2016/17 audits
Total Assurance Work	511	
Other Work		
Proactive Anti-Fraud Audits and Initiatives	30	Emerging fraud risks and potential exposures
Ad Hoc	89	Consultancy and Advice, Requested and Unplanned Audits, Investigations
Total Other Work	119	
Total Days	630	

A more detailed breakdown of the plan is included at Appendix B.

The Committee's attention is drawn to the following: -

- An enhanced level of coverage for Procurement continues to be applied within the plan, to enable additional work to be undertaken to review the processes in operation departmentally with a view to reducing the volume of issues of non-compliance with the Council's Procurement and Financial Procedure Rules.
- The level of assurance that it has been possible to provide on some key systems

audits undertaken in 2015/16 and 2016/17 has made it possible to reduce the level of coverage planned in 2017/18, and where indicated it is currently intended that a light touch approach will be undertaken. In the result of any emerging issues identifying that additional coverage for any of these audits is necessary then the plan can be adjusted as appropriate at the time.

- An allowance of time continues to be included to enable Internal Audit work to be undertaken as appropriate on the emerging key projects of the Council. These are projects that currently do not individually appear in the Internal Audit Universe in their own right either pending formal decisions being made, or where the project has not yet reached sufficient maturity. However such projects pose potential emerging significant risks to the Council and as such there is a role for Internal Audit at appropriate stages in each project's development. Such projects will ultimately be included within the Audit Universe, for the remaining duration of the project or while the Council continues to have an ongoing interest, and be risk assessed in their own right to establish the timing and content of audit coverage required. Whilst the number of days identified in the plan is low, plan adjustments will be made if the audit need during the year proves to be greater.
- Audits previously deferred, or now requiring deferral, in 2016/17 have been included in the 2017/18 plan. The additional audits subject to deferral are Walton – on – the – Naze Lifestyles as a consequence of its recent temporary closure and Coast Protection where an audit of the Holland - on - Sea final account remains outstanding, and effectively these now roll forwards into the new year.
- CIPFA during 2016 published “**Fighting Fraud and Corruption Locally**”, a counter fraud and corruption strategy for local government. It is designed to enable local authorities to develop and maintain a culture in which fraud and corruption are understood to be unacceptable. Audits have been included in the 2017/18 plan to examine the Council's arrangements regarding Corporate Counter Fraud arrangements, and Members and staff making disclosures relating to gifts, hospitality and business.

In addition the plan includes a provision for proactive anti-fraud audit. This provision may be used in conjunction with assurance audits scheduled embedding additional content in those audits to cover emerging or known fraud risks, for one off exercises, and for researching exposure and promoting awareness of specific or generic risks to relevant members of staff or the organisation as a whole.

- In considering the Internal Audit Universe, risk exposure and audit scheduling, consideration has been given to alignment of the Annual Audit Plan with the Corporate and Departmental Risk Registers. Due to the nature of activities and risks, it is not necessary to cover all risks in the Corporate Risk Register every year. Corporate risks from the December 2016 risk register have been included in the plan with the exception of: -

2c Community Leadership Projects / 2h Essex Family Solutions

Current audit risk assessment doesn't give this risk sufficient priority to reach the plan at this time.

4a Loss of Key Staff / 4b Lack of Capacity to Deliver Core Services

There is an element of coverage of these risks embedded in most audits, but no specific audit planned.

7a Local Plan

The audit was included in the 2016/17 plan, but currently hasn't commenced and is expected to roll forward into the 2017/18 at the year end.

9a Ineffective Emergency Planning / 9b Ineffective Business Continuity Planning

Audit undertaken 2015/16 with an outcome of Adequate Assurance.

As referred to above mechanisms exist to allow amendment to the plan and if any issues arise regarding the risks in the current Corporate Risk Register, or new risks emerge including any identified by the Council's external auditors, then plan adjustments will be considered.

The level and range of coverage is considered sufficient for the Audit and Governance Manager to be able to provide an annual opinion on the Council's assurance framework.

BACKGROUND PAPERS FOR THE DECISION

Audit Plan Working Papers

APPENDICES

Appendix A - Internal Audit Charter
Appendix B - Internal Audit Plan 2017/18