

AUDIT COMMITTEE

22 MARCH 2018

REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

A.2 INTERNAL AUDIT CHARTER AND INTERNAL AUDIT PLAN 2018/19

(Report prepared by Craig Clawson)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek the approval of the Audit Committee for the Internal Audit Plan for 2018/19.

EXECUTIVE SUMMARY

- The 2018/19 Audit Plan has been developed using a risk based approach, taking account of the Councils Corporate Objectives, Corporate Risks, Departmental Risks and Emerging Risks.
- It is proposed to deliver an Annual Audit Plan using the current resource establishment with the introduction of new audit techniques such as *Continuous Auditing, Assurance Mapping, Root Cause Analysis / Data Analytics, Lean Auditing, Self-Assessments and Consultancy / Advisory Services* as well as the introduction of a new apprentice.
- The plan will be kept under review during the year, in consultation with the Council's Management Team, 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.
- Update on the Internal Audit Charter.

RECOMMENDATION(S)

- (a) That the Internal Audit Plan for 2018/19 be considered and approved; and**
- (b) 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 Chief Audit Executive to: -

1. Periodically review the Internal Audit Charter and present it for approval.
2. Provide 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.

DEVELOPMENT OF THE AUDIT PLAN

The plan has been produced taking into account the requirements as set out in the Public Sector Internal Audit Standards, the current Internal Audit Charter and with a vision of using different audit techniques and reporting styles.

The 2018/19 Audit Plan has been developed using a risk based approach, taking account of the Councils Corporate Objectives, Corporate Risks, Departmental Risks and Emerging Risks. A Risk Assessment process has also been undertaken on all auditable areas (Audit Universe) of the Council to enable the Acting Audit and Governance Manager to prioritise audits to be able to provide reasonable assurance to the Audit Committee and provide an opinion on the effectiveness of governance, risk management and internal control processes within the organisation.

Discussions have been held with Management Team members individually and collectively. The feedback from Management Team has been taken into account and incorporated within the plan presented to the Committee. The Committee now has the opportunity to input into the draft plan provided.

Recommendations made by the External Quality Assessor have also been considered during the development of the Annual Audit Plan. Further detail of those recommendations can be reviewed within the Internal Audit Plan Periodic Report.

INTERNAL AUDIT RESOURCE REQUIREMENTS

The establishment for the Internal Audit function is currently 3.6 fte, which has been in place since the Audit and Governance Manager retired in October 2017. Rather than replace the Audit and Governance Post on a like for like basis, it is proposed to continue with the existing level of resources supported by an apprenticeship post. The proposed plan has therefore been developed on this basis which reduces the number of audit days from 630 to 570. However it is important to highlight that this should not impact on robustness of the Council's internal audit and assurance processes for the following reasons;

- New audit techniques are to be used across all audits within the audit plan to help modernise the teams approach to audits and reduce the time it takes to complete the audits
- The apprentice post will take on many of the administration activities within the team and therefore maximise the available audit days for all members of the team

The Internal Audit Team is currently in a state of change looking at all current processes and procedures in place. The team is made up of very experienced auditors who are embracing new ways of working and believe that the proposed plan can be delivered and still provide a reasonable level of assurance on the effectiveness of governance arrangements, risk management and internal control processes as required.

The proposed plan provides an opportunity to modernise the Internal Audit Team as well as potentially provide some savings to the Council from the reduced establishment, whilst also providing flexibility in the event that additional resource may be required throughout the year due to unforeseen circumstances.

Based on the above approach proposed it is important to repeat that the Council is not looking to make savings at the expense of reducing the robustness of the Council's

internal audit and assurance processes. The team is looking to adopt alternative audit techniques to become a more proactive and approachable support service, while continuing to deliver independent and objective assurance; which could lead to potential savings in the future. The effectiveness of the new approach proposed will be kept under on-going review and will be reported to the Committee during the year.

INTERNAL AUDIT PLAN DETAIL

The plan provides an outline of the work currently proposed to be undertaken during the 2018/19 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 Management Team, 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 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 days allocated to individual audits within the plan are only indicative based on historical data and knowledge of the auditable area. When the audits are initiated with the relevant Directors / Heads of Service, the number of days required may change depending on the scope of the review.

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.

A detailed breakdown of the Audit Plan is included in Appendix A.

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

- **The comments section** of the plan provides additional detail on the audit techniques to be used to deliver the reviews, a brief summary of what is included within the audit and in some instances why it is included in the plan
- **Key emerging projects** – there are a number of projects in progress or due to start in 2018/19. It is unknown at this stage the level of capacity needed from Internal Audit to support the Council in delivering and/or providing independent advice on the projects. Time has been allocated to support the Council and further detail will be provided to the Audit Committee when the level of involvement becomes clear
- **Development** – Some days have been allocated within the plan to ensure that there is enough time available for the Audit Team to incorporate all of the new processes, procedures, techniques and reporting arrangements into all areas of their work. The 2018/19 financial year will see a new style of reporting from Internal Audit which will include good practice as well as exception reporting, time has been made available to allow both the Internal Audit Team and Service Areas to adapt.

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 Acting Audit and Governance Manager to be able to provide an annual opinion on the Council's assurance framework.

INTERNAL AUDIT CHARTER

In previous years an updated Audit Charter has been presented to the March meeting of the Committee for approval.

The Audit Charter includes legislative and regulatory requirements, governance arrangements between the Audit Committee, Management and Internal Audit. Roles and responsibilities and processes and procedures undertaken Internal Audit and the Audit Committee.

As the Internal Audit Team develops the new approach in delivering the internal audit plan, many of the processes and procedures may be subject to change. It is therefore proposed to presents and updated Internal Audit Charter to the Committee later in the year. However, the existing Charter remains in place which sets out the core principles defining the purpose, authority and responsibility of the Internal Audit Function which therefore remain relevant until such time as a revised charter is agreed.

BACKGROUND PAPERS FOR THE DECISION

Audit Plan Working Papers

APPENDICES

Appendix A - Internal Audit Plan 2018/19