

Internal Audit Plan 2017-18

To: Corporate Governance & Finance Committee

Date: 3rd April 2017

From: Chief Internal Auditor, LGSS

[R244]

1. ISSUE

- 1.1. This report provides the Corporate Governance & Finance Committee with an outline of the risk based Internal Audit Plan as attached at Appendix 1.

2. RECOMMENDATION

- 2.1. The Committee is asked to review and approve the proposed Internal Audit plan for 2017/18.

3. BACKGROUND/OPTIONS

- 3.1. Internal audit prepares a risk based annual plan of work which is linked to the Councils objectives and priorities.
- 3.2. The proposed plan for 2017/18 includes work which is completed on an annual basis, plus work which reflects local and national areas of risk.
- 3.3. Internal Audit has budgeted to provide 200 days of audit and assurance work in 2017/18. A two year plan has been prepared to illustrate how assurance can be provided over the longer term.
- 3.4. The report, below, illustrates how the plan is calculated. The plan is included as Appendix 1.
- 3.5. The plan should not be a static document, and can be amended as streams of work are assessed as higher or lower priorities over time. Therefore Internal Audit regularly reports to the Corporate Management Team to:
- feedback on the results of audits completed; and
 - revisit the plan and consider any changes that the Corporate Management Team would like to see.

4. ARGUMENTS/CONCLUSIONS

- 4.1. The attached internal audit plan provides appropriate coverage for the Council.

5. FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

- 5.1. There are no additional financial implications arising from this report. An Equality Impact Assessment is not required.

6. APPENDICES

- 6.1. Appendix 1 – Internal Audit Plan 2017/18

<u>Background Documents</u>	<u>Location</u>	<u>Contact Officer</u>
None	LGSS, Room 207 The Grange Ely	Duncan Wilkinson, Chief Internal Auditor duncan.wilkinson@milton-keynes.gov.uk Neil Hunter Deputy Head of Internal Audit neil.hunter@cambridgeshire.gov.uk Jonathan Tully Principal Audit Manager jonathan.tully@cambridgeshire.gov.uk Trevor Bowd Principal Auditor trevor.bowd@eastcambs.gov.uk

1. THE INTERNAL AUDIT PLAN

1.1 BACKGROUND

CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) in April 2013. The PSIAS set out the standard for internal audit across the public sector.

The principles in the PSIAS are consistent with the previous CIPFA code of practice for internal audit which applied across local government. They include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the 'Board'; for the purposes of the key duties laid out in the PSIAS, the Corporate Governance and Finance Committee is effectively the 'Board' for the Council.

Under the Local Government Act, the Council's Section 151 officer is responsible for ensuring that there are arrangements in place for the proper administration of the Authority's financial affairs. The work of Internal Audit is therefore directly relevant to these responsibilities.

1.2 AUDIT PLANNING

PSIAS Performance Standard 2010 – *Planning* states that:

"The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."

The standards refer to the need for the risk-based plan to consider the organisation's risk management framework, and to take into account the requirement to produce an annual internal audit opinion and the assurance framework.

Within the Council, the Chief Audit Executive is the Chief Internal Auditor, for the purposes of the PSIAS. Performance Standard 2450 – *Overall Opinions* states that:

"The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."

The risk-based plan therefore needs to include an appropriate and comprehensive range of work which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by the Corporate Governance and Finance Committee. The Chief Internal Auditor will ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the internal audit plan.

1.2 THE PLANNING PROCESS

The plan is based on assurance blocks that each provides an opinion over key elements of the control environment, targeted towards in-year risks, rather than a more traditional cyclical approach examining each system over a number of years. For each assurance block, the most appropriate level of coverage necessary to provide an effective annual assurance opinion and added value to the organisation has been developed.

The audit plan is intended to remain dynamic in nature and will be reviewed and re-aligned on a regular basis to take account of new, emerging and changing risks and priorities. Resources will then be re-prioritised towards the areas of highest risk. The audit plan will be reported to Corporate Governance and Finance Committee regularly, and should be reviewed and robustly challenged by the Corporate Management Team, the S151 Officer and the Corporate Governance and Finance Committee.

In order to develop the audit plan, there must be a sound understanding of the risks facing the Council. The Internal Audit risk assessment of the authority is updated during the year and used to form the basis of the Internal Audit plan, alongside the Corporate Risk Register. Internal Audit has also engaged with members of senior management to ensure that known and emerging risks are considered in annual audit planning.

1.3 THE ANNUAL PLAN

The Internal Audit Plan for the next year must be sufficiently flexible to enable assurance to be obtained over current risk areas, as well as emerging risks, and those risks which are yet to be identified. This is particularly relevant as we move into 2017/18, with the Council continuing to evolve in the face of ongoing financial challenges.

Inevitably, the potential for risks is increased during periods of change. For instance, reductions or high levels of turnover in the workforce provide an opportunity for controls to break down – as well as an opportunity to consider new and more efficient ways of organising people, systems and processes, without adversely impacting internal control. To reflect this risk, an audit plan can contain an allocation of time for advice and guidance. Reviews of the key financial systems and pro-active anti-fraud and compliance audits will provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error.

The audit plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding and making every penny count. The planned audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation.

Maintaining an audit plan which is dynamic, challenging and prioritised based on the organisation's risks is not a new concept; however, in the current environment it is ever more critical if Internal Audit is to help the Council to respond effectively to the scale of change required in 2017/18 and beyond.

1.4 HOW ASSURANCE CAN BE GIVEN

As detailed above, the plan is split into both assurance blocks and directorate areas for ease of understanding as well as to demonstrate how assurance on the organisation's control environment can be given. There are a number of key assurance blocks, including:

1.4.1 Key Financial Systems

This is the traditional area of internal audit work, required by external audit, and very much focuses on providing the Section 151 officer assurance that "the Council has made arrangements for the proper administration of its financial affairs." These systems are agreed in advance with External Audit and are used as the basis by which External Audit are able to place reliance on Internal Audit work. These are generally the systems that have the highest financial risk. In addition there are three revenue and benefit system reviews delivered via the Anglia Revenues Partnership, which are reviewed and quality assured by LGSS, as part of the annual plan. The review of the key financial systems, and the revenue and benefit systems, give an opinion as to the effectiveness of financial management procedures and the governance arrangements to ensure the integrity of accounts.

1.4.2 Compliance

Compliance work is fundamental as it provides assurance across all service areas and therefore supports the Chief Internal Auditor opinion on the control environment. The proposed coverage for compliance is underpinned by an assessment of the Council's framework of controls (informed by policies and procedures) and includes those core areas where a high level of compliance is necessary for the organisation to carry out its functions properly. The work involves compliance checks across the organisation to provide assurance on whether the critical controls within the key policies and procedures are being routinely complied with in practice. This work will continue to challenge the existing controls to ensure that they are modern, effective and proportionate.

1.4.3 Making Every Penny Count

This assurance block incorporates the on-going work on initiatives to promote the value of *making every penny count* across the organisation. Although each audit we undertake should have value for money at its core, the team will be suggesting areas where this work can be expanded.

1.4.4 Commissioning and Contracts

Within this assurance block, work will include reviews of capital and current contracts. The first stage will be to agree the higher risk contracts for review and will incorporate open-book assurance where required to ensure that these are operating in accordance with the terms of the contracts. Work to examine the commissioning process as a whole is also included in this assurance block.

1.4.5 Anti-Fraud and Corruption

This is a potentially high-risk area across the public sector. Work can include both reactive and pro-active elements, along with initiatives to raise awareness of the council's anti-fraud and corruption culture and to report on the arrangements in place. In accordance with the Council's agreed savings for LGSS no reactive time is allocated for this work in the plan, but instead it has been agreed that any such work will be taken on a risk and reward basis with pieces of work agreed on an individual basis and expected to cover costs by savings generated.

1.4.6 ICT and Information Governance

The ICT assurance block includes reviews of key ICT risk areas, such as major ICT failure and ICT strategy. It also includes review of general computer controls to provide assurance that systems are correctly processing information accurately and on a timely basis. The assurance block also incorporates time for supporting reviews of key risk areas around information governance and information security.

1.5 PLAN SUMMARY AND RESOURCES

In summary, the audit plan maintains a focus on risk-based and compliance audits as well as providing assurance on key financial systems. This reflects the need to focus on the management of emerging risks and to ensure the continued operation of key controls within the Council's governance arrangements, systems and processes.

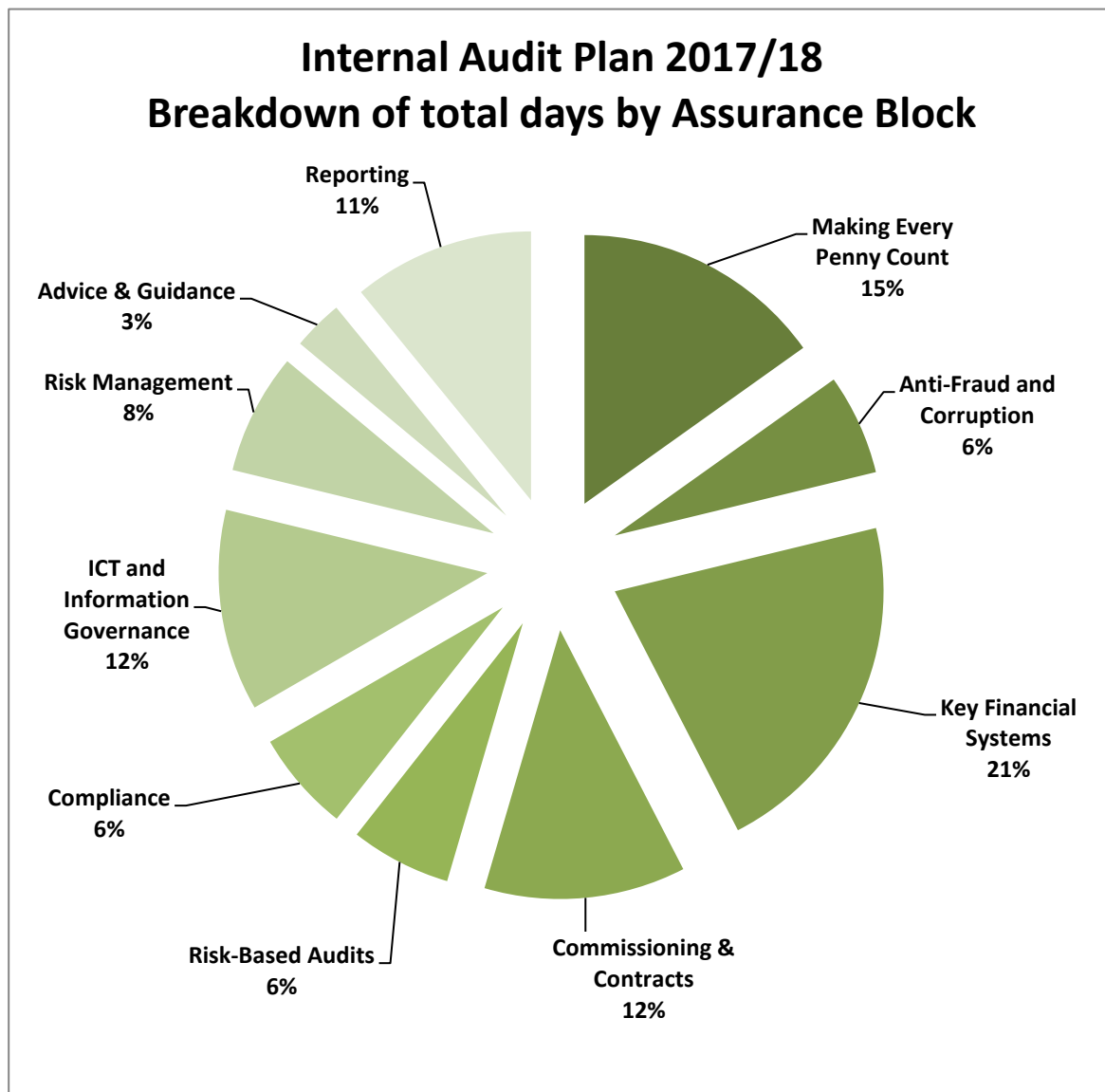
The audit plan has been agreed as 200 days. Reviews of all the Council's risks, controls and systems would exceed 200 days. Therefore ongoing risk assessment of this work will be completed to ensure that resources are targeted to the highest-priority areas.

Full details of the plan are appended to this report for information.

The proposed approximate split of time across the 2017/18 audit plan is illustrated as follows:

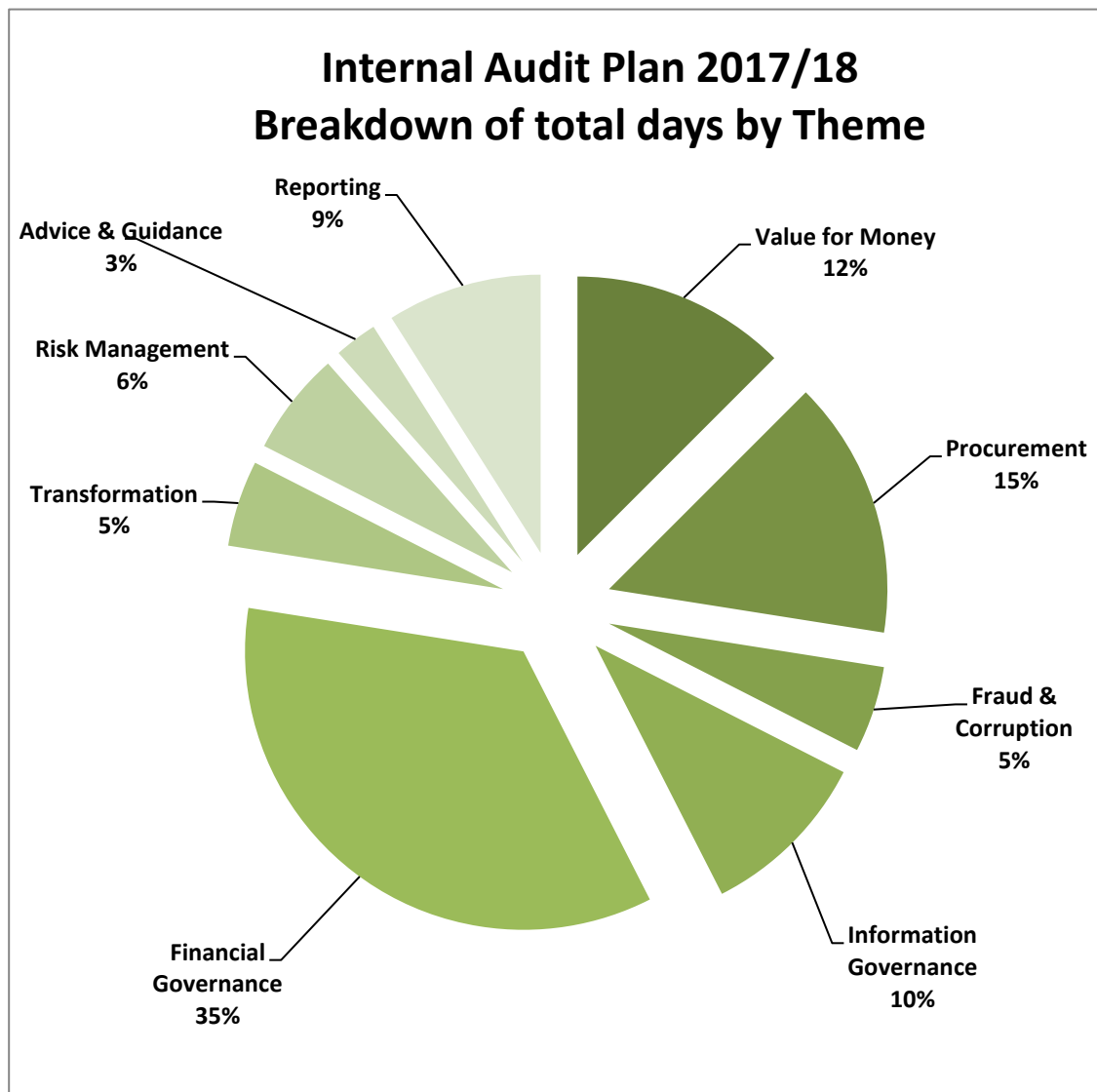
Assurance block

This illustrates the plan by areas of assurance:



Theme

This illustrates the plan by the type of review:



1.6 CONCLUSION

The 2017/18 audit plan has used a risk-based approach to prioritising internal audit work and includes sufficient coverage to ensure an evidence-based assurance opinion on the control environment can be provided at the end of the year.

The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on key risks facing the organisation throughout the year.

Progress against the plan will be monitored throughout the year and key issues reported to CMT and the Corporate Governance and Finance Committee regularly.

1.7 THE DRAFT INTERNAL AUDIT PLAN 2017/18

The Draft Internal Audit Plan is presented at Appendix 1.