

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Internal Audit Service: Internal Annual Plan

Meeting/Date: Corporate Governance Committee – 22 March 2017

Executive Portfolio: Resources: Councillor J A Gray

Report by: Internal Audit & Risk Manager

Ward(s) affected: All Wards

Executive Summary:

This report details Internal Audit's annual planning process and seeks approval for the Internal Audit Plan for the period 1 April 2017 to 31 March 2018 (2017/18 plan).

As required by the Public Sector Internal Audit Standards, the Internal Audit & Risk Manager (IARM) has to prepare an annual audit plan for Committee review and approval. The plan has to provide adequate coverage and scope across the Council's risk management, control and governance processes so as to allow the IARM to prepare their annual opinion on the overall adequacy and effectiveness of those arrangements.

The plan for 2017/18 is attached. It is based on delivering 412 days. This is 50 days lower than would be expected, due to an internal auditor being seconded to the Transformation project. Rather than advertise for a temporary 12 month replacement, a decision has been taken to ask BDO (the contracted IT auditor) to fill the vacancy. Financial restraints mean that a like for like replacement cannot be made. The IARM is of the opinion that a one-off reduction in resources would not affect the long term viability of the service or the ability to undertake sufficient work to support the annual opinion statement.

Recommendation:

It is recommended that the Committee approve the Internal Audit Plan for 2017/18.

1. WHAT IS THIS REPORT ABOUT?

- 1.1 This report is about the internal audit planning process and internal audit plan for the year commencing April 2017.

2. BACKGROUND

- 2.1 The Committee's terms of reference include approving the internal audit plan and its resourcing requirements.
- 2.2 The Accounts and Audit Regulations 2015 require that the Council '...must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance'.
- 2.3 The Public Sector Internal Audit Standards (PSIAS) require the Internal Audit & Risk Manager (IARM) to "establish risk-based plans to determine the priorities of internal audit activity, consistent with the organisations goals".

In addition the PSIAS also require that the risk based-plan must

- take into account the requirement to produce an annual internal audit opinion;
- incorporate a strategic high-level statement of how the internal audit service will be delivered and developed and how it links to the organisation objectives and priorities;
- explain how internal audit's resource requirements have been assessed; and .
- include the approach to using other sources of assurance and any work required to place reliance upon those other sources.

Further, the IARM must review and adjust the plan as necessary, in responses to changes in risks, operations, programs, systems, and controls.

3. OPTIONS CONSIDERED/ANALYSIS

Audit planning

- 3.1 The IARM maintains a strategic audit plan, listing all the risk and system areas that are considered likely to affect the Council's internal control environment. The strategic plan shows the relative importance of each risk (as identified by the risk register) and system area. To allow for more effective planning, a number of audit areas have been combined so that audits can address common risk themes across services, rather than be conducted on a service by service basis.
- 3.2 Discussions have been held with the Senior Management Team to ensure that the strategic audit plan is reflective of all issues across the Council and to allow new areas to be identified. Committee Members have also been given the opportunity to contribute to the planning process.
- 3.3 After completing the strategic plan review, the annual audit plan is prepared by considering service delivery issues, individual risks, materiality and previous audit review findings. The highest priority schemes which can be delivered with the resources available are then included in the audit plan.

Internal Audit resources

3.4 The Internal Audit establishment is currently 2.86 full time equivalents. One member of the team has recently been seconded to the Transformation Programme for one year. If the post were not filled, then internal audit resources would be insufficient to deliver an audit plan that provides sufficient coverage.

3.5 After considering the recruitment options available, the potential costs of recruitment and the likelihood that an external appointment may not be in a position to start work immediately, the IARM decided not to advertise the post. Instead, BDO (IT internal audit service provider) have been asked to undertake a number of general audits. Both the Corporate Management Team and the Head of Resources approved this approach.

At the time of writing this report, BDO have agreed in principle to deliver 140 audit days during 2017/18. The cost of this work can be funded from the current service budget and will be based on day rates set out in the BDO tender submitted in July 2016. The work will be conducted by professionally qualified staff.

3.6 The contact for IT internal audit services allows for 70 days work to be provided during 2017/18. The full allocation of days will be used.

3.7 The allocation of internal audit resources (taking into account the days to be provided by BDO) is detailed below.

2017/18

	days	days	
Internal Audit Service resources		694	
Less Leave, sick, elections etc.	66		
Staff development & training	12		
Management	71		
Effectiveness review and Lean	11	160	Non chargeable time
		534	Chargeable time
Less Risk Management & Insurance	30		
General advice	38		
Corporate Governance Cttee	15		
Follow-up reviews	12		
4action – reporting	6		
Annual Governance Statement	6		
Contingency	15	122	
		412	Delivery of the audit plan

3.8 The Committee has previously agreed that the audit plan needs to be dynamic to reflect the changing risk and control environment. There will be the need to advance, defer, add or remove audits throughout the year. The audit plan for 2017/18 is attached. It is based on the service delivering 412 audit days.

The audit plan lists all the areas that, without any change in circumstances, require review during the year. Committee are being asked to approve the plan, but allow the IARM to amend it as he considers necessary. As in past years, the IARM will consult with both the Head of Resources and the Chairman of the Committee on any amendments that are planned. Significant changes to the plan will be reported to the Committee.

- 3.9 The internal audit plan does not contain any reviews that could be classified as a 'consultancy' review within the terms of the Internal Audit Charter. If any 'consultancy' work is undertaken then the Head of Resources and Chairman of the Committee will be informed.

Lean review

- 3.10 As part of the Council's transformation project, the Internal Audit Service has been the subject of an external Lean review. At the time of writing this report, the results of the review have not yet been agreed. One of the changes proposed is around the audit planning and audit plan process.
- 3.11 It is proposed that a more flexible planning approach is introduced. Removing from Committee the need to approve an annual plan with a more innovative, fluid planning approach. The change is intended to build upon the approach outlined in 3.8 above and ensure that internal audit reviews undertaken through the course of the year are always the most relevant, rather than be taken from a list approved once a year. The Committee will be provided with a further update on the changes proposed once the detailed procedures and supporting process have been completed.

Other sources of assurance

- 3.12 The PSIAS requires that the audit plan planning process takes into account other sources of assurance that will be available during the year. Managers have been requested to provide details of any planned reviews from which assurance could be obtained so as to avoid/minimise duplication of effort. With the exception of the statutory external audit of the accounts and the housing benefit grant claim, no other external assurances have been identified for 2017/18.

4. KEY IMPACTS HOW WILL THEY BE ADDRESSED?

- 4.1 The non-delivery of the internal audit plan may lead to a shortfall in assurance on the internal control environment and potential criticism from the external auditors.
- 4.2 Having insufficient or inexperienced auditors to deliver the audit plan is a key risk. Resources are sufficient to allow the annual plan to be delivered. Staff resources are considered when progress against the plan is reviewed by the IARM each quarter. If the IARM believes that staff resources are insufficient, then the matter will be reported to the Committee.

5. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 5.1 The audit plan will be delivered from April 2017.

6. LINK TO THE CORPORATE PLAN

- 6.1 The Internal Audit Service through the audit plan contributes to all the strategic themes and outcomes. Specifically it supports Corporate Management Team and Heads of Service by undertaking reviews that provide assurance that:
- significant risks identified in the risk register are managed effectively;
 - laws and regulations are being met,
 - business and financial processes and systems are managed

- effectively; and
- assets are safeguarded.

It also improves the performance of the Council by assessing current risks, considering emerging risks, identifying efficiency gains and process improvements.

7. CONSULTATION

- 7.1 The IARM has consulted on audit plan coverage with all members of the Senior Management Team. In addition, all members of the Committee have been given the opportunity to raise any issues that they feel need to be included in the strategic audit plan.

8. RESOURCE IMPLICATIONS

- 8.1 The service budget is sufficient to deliver the audit plan.

9 REASONS FOR THE RECOMMENDED DECISIONS

- 9.1 The Committee's terms of reference require it to approve the internal audit plan.

10. LIST OF APPENDICES INCLUDED

Appendix 1 – 2017/18 Internal audit plan

BACKGROUND PAPERS

Strategic audit plan
The Council's risk register

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INTERNAL AUDIT SERVICE

Internal Audit
&
Assurance Plan
2017 - 2018

Internal Audit & Assurance Plan 2017- 2018

The Internal Audit & Assurance Plan for the period April 2017 to March 2018 has been prepared in accordance with the Public Sector Internal Audit Standards.

The Standards require that Internal Audit provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment and that the opinion should inform the annual statement of assurance on corporate governance. The plan has been developed to take account of this requirement and provides the opportunity for reviews of corporate governance, risk management and operational controls to be undertaken as well as the more traditional financial areas.

All the risks present in the risk register as at 9 February 2017 have been included within the strategic audit plan, although not all of those risks, when considering the service issues identified or alternative assurance available, are required to be audited. Reviews that have clear links to risks within the risk register will consider the effectiveness of the controls that are in place to manage the risks identified. They will also consider the manager's assurance opinion entered into the risk register.

At the time of preparing the audit plan it is envisaged that all the audits contained in the plan will be undertaken. The identification of any new risks or significant changes in residual risk scores, may require changes to the proposed plan so as to ensure that reviews are undertaken of areas identified as being of greatest risk to the achievement of Council objectives. The Head of Resources and Chairman of the Corporate Governance Committee will be informed of any changes before they are introduced.

The detailed audit plan will be prepared on a 3+9 basis – that is a detailed three month plan, supported by a rolling nine month 'fluid' plan. The nine month plan will take account of new or changed risks, new initiatives and developments and ensure that right piece of work is always the right one to be undertaken.

The annual assurance opinion that I provide will be based upon the findings of the reviews carried out.

In addition to undertaking the audits detailed in the plan, time is also available for Internal Audit to provide both specialist (e.g. on new systems or developments) as well as general advice and assistance to managers, dealing with any whistleblowing allegations received and attending quotation openings to observe managers compliance with the Code of Procurement. The outcomes from this work will also inform the annual assurance opinion.

David Harwood
Internal Audit & Risk Manager
March 2017

Internal Audit and Assurance Plan 2017-18

Vision	We want to improve the quality of life, deliver economic growth and provide value for money services for the people of Huntingdonshire	
Strategic priorities	Enabling Communities Delivering Sustainable Growth Becoming a more efficient and effective Council	
<i>Reviews</i>	Assets of community value Ethical standards One Leisure - Café One Leisure - Income Housing benefit Food safety S106 agreements Community Infrastructure Levy Countryside Services IT audits <i>IT project management</i> <i>Hornbill application</i> <i>FMS application</i>	Compliance with the Code of Procurement The use of Consultants and IR35 Payroll Maintenance of operational property The management of health & safety Internal & external communications Waste collection services Grounds maintenance & street cleaning New employees – probationary periods <i>Data protection compliance</i> <i>Network security – Patch & vulnerability management, firewall, anti-virus & malware, intrusion detection</i>
Strategic Resource Plan	Income Generation Efficiencies & Growth	
<i>Reviews</i>	Management of cash flow Commercial estate management Apprenticeship scheme Client management of shared services Commercialisation – governance framework	Financial management system Value for Money from procurement

In addition to the assurance that will be provided on the areas listed above, work will also be undertaken on the following areas:

- quarterly reviews of the significant controls within the following financial systems - main financial system, accounts payable and receivable, council tax and business rates;
- reviews of two specific contracts to ensure compliance with the Code of Procurement;
- providing help and advice to managers;
- follow-up reviews of agreed audit actions introduced;
- attendance at quotation openings,
- managing whistleblowing allegations;
- reviewing and investigating National Fraud Initiative output;
- quality assessment of audit work undertaken and file review; and
- supporting the work of the Corporate Governance Committee through the delivery of training, preparation of the annual governance statement, effectiveness reviews and annual reporting.