
INTERNAL AUDIT PLAN 2016/17

1 PURPOSE OF REPORT

- 1.1 To present the proposed 2016/17 audit plan to the Audit Committee for consideration and approval.

2 INTRODUCTION

- 2.1 The Accounts and Audit Regulations 2015 (section 5) require the Council to undertake an effective programme of internal auditing to evaluate the effectiveness of its risk management, control and governance processes, taking into account relevant public sector internal auditing standards or guidance.
- 2.2 The Accounts and Audit Regulations 2015 make it a requirement for Internal Audit to take into account the UK Public Sector Internal Audit Standards (PSIAS) in delivering the service.
- 2.3 The PSIAS in turn require Internal Audit to produce a risk-based audit plan that:-
- Provides the Chief Audit Executive sufficient evidence to provide an annual audit opinion of the Council's framework of governance, risk management and internal control based on the outcome of the plan's work;
 - Uses existing sources of assurance where possible;
 - Demonstrates how the internal audit work is linked to the Council's objectives and significant risks and therefore provide relevant assurance.
- 2.4 The audit plan (appendix 1) meets the requirements set out in paragraph 2.2.
- 2.5 The PSIAS also require the Audit Committee to approve, but not direct, the audit plan. This means the Audit Committee can and should challenge whether the plan is sufficient and adequately focused, particularly given the plan's purpose to provide:-
- The Chief Audit Executive with sufficient evidence to provide an annual audit opinion for 2016/17 on the Council's framework of governance, risk management and internal control; and
 - The Audit Committee, as part of those charged with governance, with a key source of assurance to be considered when it decides whether to recommend the Annual Governance Statement for signing by the Chief Executive and Leader of the Council.
- 2.6 This report allows the Audit Committee to fulfil its requirements to approve the audit plan.

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- 2.7 The PSIAS further require the audit plan to be linked to or be incorporated into an Audit Charter and Strategy setting out how the Internal Audit team will work to deliver the audit plan. The Audit Charter and Strategy were last reported to the Audit Committee in December 2015.
- 2.8 This report does not include an updated Audit Charter or Strategy.
- 2.9 Areas for improvement in the team's working practices were highlighted by the self-assessment against the PSIAS (which were last reported to the Audit Committee in December 2015) and by the peer review provided to the Audit Committee on 24 March 2016. Following these reviews, it was agreed to undertake a wider review of possible delivery models of Internal Audit. This is planned to be completed by September 2016. After September there will be therefore greater clarity about the team's required ways of working at which time the Charter and Strategy will be reviewed and refreshed as needed.
- 2.10 It is intended to report an updated Audit Charter and Strategy in December 2016.

3 THE 2016/17 AUDIT PLAN

- 3.1 The audit plan was developed following meetings with Assistant Directors and a number of other staff with cross-cutting roles to discuss their services' key objectives and risks. The feedback from these meetings informed a wider risk assessment that prioritises the Council's activities for audit coverage considering the following factors:-
- Finance – significance of income or expenditure and the potential risk of keeping within associated budgets
 - Public – potential for service user or general public dissatisfaction
 - Operational – whether the activity is part of the Council's key "business as usual" and or linked to corporate priorities or corporate risks
 - Legal – whether the activity is statutory and or a regulated service
 - People – whether there are health and safety and safeguarding risks
 - Property – the potential for the Council's property to be damaged, lost, stolen or its use not maximised
 - Inherent risk – whether the activity is inherently complex, involves third parties to deliver or has a high potential risk of fraud
 - Current assurance – whether there is recent Internal Audit assurance, or assurances from reliable third parties, and the level of that assurance.

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- 3.2 The audit plan is structured in relation to the Council's corporate risks demonstrating the assurance the Audit Committee will receive in regard to these risks.
- 3.3 The audit work is also linked to the Council's priorities from its 2016 – 2020 Business Plan, again demonstrating the assurance the Audit Committee will receive in regard to these.
- 3.4 The audit plan also includes a number of other activities that, whilst not audits, are chargeable to the audit plan as they are integral to its delivery. These activities include audit planning, reporting to the Audit Committee and other audit management tasks such as reviewing the Audit Charter and Strategy.
- 3.5 The audit plan does not include any contingency time. If any unplanned work arises during the year which is deemed necessary to undertake instead of planned work, this work, and its impact on the overall delivery of the audit plan, will be clearly reported to the Audit Committee.

4 RISK IMPLICATIONS

- 4.1 Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that weaknesses in the Council's governance, risk management and internal control framework may not be promptly identified and remedied. Failure to do so may mean the Council does not achieve its vision and objectives.
- 4.2 Should there be insufficient resources to substantially complete the 2016/17 audit plan, there is a risk the Chief Audit Executive will not be able to provide an annual opinion for 2016/17.

5 RESOURCE IMPLICATIONS

- 5.1 The self-assessment against the PSIAS identified the Internal Audit team's resources were insufficient as there was not:-
- A nominated Chief Audit Executive with relevant qualifications and experience in post; and
 - Management capacity to ensure all audit work was reviewed to demonstrate an adequate quality assurance and improvement programme.
- 5.2 The peer review also identified the Internal Audit team did not have, or access, required specialist IT audit or counter fraud skills.
- 5.3 The current level of resources (of in-house staff and access to external specialist IT and counter fraud resources) did not enable sufficient coverage in 2015/16 to enable the Chief Audit Executive to provide an opinion on the Council's framework of governance, risk management and internal control.

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- 5.4 The Chief Audit Executive and counter fraud resource issues are being addressed in part in the short term through the provision of staff from Essex County Council under a Memorandum of Understanding in place until 23 September 2016.
- 5.5 Before September 2016, a clear decision needs to be taken on the future operating model of the Internal Audit and Counter Fraud services and the resources needed to deliver that model. The operating model and resources need to enable compliance with the PSIAS and provide sufficient coverage to inform the Chief Audit Executive's 2016/17 annual opinion.
- 5.6 A report on the future operating model and resourcing will be presented to the Audit Committee in September 2016.
- 5.7 The 2016/17 audit plan presented for approval in this report is what is deemed the minimum coverage necessary to provide the basis for the Chief Audit Executive's annual opinion.
- 5.8 Work is on-going to identify and secure additional resources. However, at the time of writing, resources are not in place to deliver the proposed 2016/17 audit plan in regard to:-

- **The Chief Audit Executive role post-September 2016.** This means there will not be sufficient capacity to review approximately half of the in-house staff's work, as required by the PSIAS, as well as undertake other required tasks of that role including audit planning for 2017/18 and annual reporting on 2016/17.

It is estimated that a further 40 days are required based on approximately 1.5 days per week until the end of the financial year to complete all 2016/17 based work. The cost of such resources will vary depending on who delivers them.

- **Counter fraud resources post-September 2016.** This means there will be insufficient capacity to deliver a proactive programme of anti-fraud work and investigate any reported irregularities. Investigations undertaken by in-house staff will also potentially reduce the extent the audit plan is delivered. As the plan is the minimum level of coverage deemed necessary to provide an annual opinion, any uncompleted work could impact on the Chief Audit Executive's ability to provide an annual opinion.

It is estimated an additional five days will be required to deliver an appropriate programme of counter fraud work and a further three days as a prudent initial allocation for undertaking any required investigations. Again, the cost of such resources will vary depending on who delivers them.

- **IT resources.** This means there will be insufficient capacity to deliver a robust programme of audits to enable an appropriately informed

assurance on the Council's IT-related risks, which are a key part of the required assurance informing the Chief Audit Executive's annual opinion.

Until an appropriate IT risk assessment of the Council's current possible emergent risks is completed, it is not possible with any certainty to estimate the number of IT audit days needed.

However, informal benchmarking suggests approximately 20 to 30 audit days per year is the norm. However, this number may or may not apply to the Council given the manner in which its IT services are delivered (e.g. through a third party contractor and the siting of key infrastructure off site).

- 5.9 The Audit Committee will be briefed verbally on the latest position on the proposed delivery model and resourcing at its June meeting.

6 LEGAL IMPLICATIONS

- 6.1 The Accounts and Audit Regulations 2015 (section 5) require the Council to undertake an effective programme of internal auditing to evaluate the effectiveness of its risk management, control and governance processes, taking into account relevant public sector internal auditing standards or guidance.

7 RECOMMENDATION

- 7.1 It is proposed that the Committee **RESOLVES**
- (1) That the proposed 2016/17 audit plan be approved.
 - (2) That the current progress in assessing future options for delivering the Internal Audit and Counter Fraud service, in particular obtaining the required resources to deliver the proposed 2016/17 audit plan in full be noted.



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Background Papers:-

- The Accounts and Audit Regulations 2015

- UK Public Sector Internal Audit Standards

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If you would like this report in large print, Braille or another language please contact 01702 318111.

Internal Audit work needed in 2016/17 to provide an annual opinion

Activity to be audited	Objective of work	Business Plan priority	Timing of the work
Corporate risk: The Council could fail to provide consistent Value for Money (VFM) across all services or obtain VFM in its procurement			
Procurement	To assess whether the requirements of Contract Procedure Rules are complied with for a sample of purchased good and services across a range of values and service areas.	Become financially self-sufficient	TBC
Contract Management	To assess whether the council's key contracts are well managed to ensure compliance and achieve required outcomes. Where possible, this work will identify and assess the extent existing sources of assurance activity can be relied on.	Become financially self-sufficient	TBC
Disabled Facilities Grants	To assess whether grants are being awarded in line with established criteria and adaptive works are being effectively delivered.	Take early intervention Maximise assets	June to Sept
Information Technology	To develop the IT audit approach including identifying and risk assessing key IT-related risks (e.g. security) <i>Due to the specialist nature of the work, it is proposed this work will be delivered by external IT audit resource. This resource is yet to be obtained – see covering report section 5.</i>	Maximise assets	TBC
Information Technology	To undertake a programme of assurance reviews of key risk areas. <i>Due to the specialist nature of the work, it is proposed this work will be delivered by external IT audit resource. This resource is yet to be obtained – see covering report section 5.</i>	Maximise assets	TBC

Internal Audit work needed in 2016/17 to provide an annual opinion

Activity to be audited	Objective of work	Business Plan priority	Timing of the work
Information Technology	<p>To assess whether there is a robust IT strategy articulating how the council will effectively use technology to engage with residents and deliver services.</p> <p><i>Due to the specialist nature of the work, it is proposed this work will be delivered by external IT audit resource. This resource is yet to be obtained – see covering report section 5.</i></p>	<p>Maximise assets</p> <p>Enable communities</p>	TBC
Corporate risk: Failure to ensure good governance of the Council's activities and delivery of its priorities			
Programme Office	To assess whether there are robust processes in place to develop and agree Business Plan-related projects and then monitor their overall delivery.	Become financially self-sufficient	TBC
Key financial systems	<p>To assess whether the key controls in the key financial systems are adequately designed and effectively applied.</p> <p><i>This is a reduced programme compared to 2015/16. Assurance will be "rolled over" from 2015/16 where possible. Testing will focus only on key controls relating to significant income or expenditure streams.</i></p>	Maximise assets	TBC
Health and Safety	<p>To assess whether the improvement actions from the peer review are effectively implemented.</p> <p>Where possible, this work will identify and assess the extent existing sources of assurance activity can be relied on.</p>	All priorities	TBC

Internal Audit work needed in 2016/17 to provide an annual opinion

Activity to be audited	Objective of work	Business Plan priority	Timing of the work
Counter Fraud	<p>To identify and agree upon the most effective means of:</p> <ul style="list-style-type: none"> • delivering proactive counter fraud work; and • receiving and dealing with fraud referrals <p><i>This work will be delivered by Essex County Council</i></p>	Maximise assets	July to Sept. 2016
Counter Fraud	<p>To deliver a programme of proactive counter fraud work and where necessary investigate any fraud referrals.</p> <p><i>Due to the specialist nature of this work, it is proposed this work is delivered by specialist counter fraud resources.</i></p> <p>Note this resource is yet to be obtained – see covering report section 5.</p>	Maximise assets	Oct. 2016 to March 2017
Counter Fraud	<p>To provide oversight of, and reports to Audit Committee on, whether accountable officers for National Fraud Initiative data matches are taking appropriate and prompt action.</p> <p><i>This work is an oversight role only to ensure the Chief Audit Executive is aware of the extent and nature of matches should it indicate any significant control issues and to gain assurance any issues arising are being dealt with.</i></p>		
Performance and risk management	<p>To assess whether there are robust frameworks to manage and report on performance and risk.</p> <p>Where possible, this work will identify and assess the extent existing sources of assurance</p>	Maximise assets	TBC

Internal Audit work needed in 2016/17 to provide an annual opinion

Activity to be audited	Objective of work	Business Plan priority	Timing of the work
	activity can be relied on.		
Housing	To assess whether decisions to allocate housing are made correctly in line with established policy.	Maximise assets Early intervention	TBC
Service Assurance Statements	To test check a number of 2016/17 Service Assurance Statements to assess the extent they can be relied upon as a source of assurance for the 2016/17 Annual Governance Statement and Head of Internal Audit reports.	All priorities	TBC
Corporate Risk: We fail to deliver the objectives of the Council's Business Plan in terms of measurable outcomes			
See also: Programme Office			
See also: Performance and risk management			
Organisational Change	To work with staff throughout 2016/17 to provide constructive challenge over the governance (e.g. project management) and the design of controls into any new or changed systems and processes.	All priorities	Throughout 2016/17
Corporate Risk: There is a failure of safeguarding arrangements			
Safeguarding	To assess whether key safeguarding considerations are effectively and consistently taken into account in line in line with the local Safeguarding Policy and the Children's/ Adult safeguarding audit Action Plan.	Early intervention	TBC
Corporate Risk: There is a serious Food or Health and Safety, Environmental or other incident for which the Council is culpable			
Environment Health	To assess whether there is effective planning and delivery of statutorily	Early	TBC

Internal Audit work needed in 2016/17 to provide an annual opinion

Activity to be audited	Objective of work	Business Plan priority	Timing of the work
	required Environmental Health inspections.	intervention	
See also: Health and Safety			
<i>Council held data is lost, disclosed or misused to detriment of individuals or organisations as result of inadequate protection</i>			
Information Governance	To assess whether there is an up to date policy framework setting out how the council will manage data.	All priorities	TBC
<i>Corporate Risk: We fail to respond to, or provide, relevant services in the event of an incident or disaster</i>			
Business Continuity	To assess whether there are robust and comprehensive Business Continuity plans (including those related to key third parties) that have been tested to demonstrate their effectiveness. Where possible, this work will identify and assess the extent existing sources of assurance activity can be relied on.	All priorities	TBC
<i>We fail to innovate and develop new ways of meeting customer needs and expectations</i>			
See also: Programme Office			
See also: Organisational Change			
See also: Information Technology (strategy review)			
<i>Failure to produce and meet a balanced budget and MTFs that allow for the successful delivery of the Business Plan priorities or the Capital Programme</i>			
Budget monitoring	To assess whether there is effective monitoring of delegated budgets to ensure budgets are met and any remedial action needed and proactively taken.	Become financially self-sufficient	TBC

Internal Audit work needed in 2016/17 to provide an annual opinion

Activity to be audited	Objective of work	Business Plan priority	Timing of the work
<i>The inability to recruit, retain, develop and manage appropriately skilled staff to deliver the Council's priorities</i>			
No planned coverage			
<i>Failure to enter into and manage effective partnerships for the delivery of services and outcomes</i>			
No planned coverage			
<i>Community cohesion is impacted adversely by service changes or withdrawals</i>			
No planned coverage			
<i>Failure to engage with stakeholders to understand and communicate what the Council should be trying to achieve</i>			
No planned coverage			
<i>Other audit activity chargeable to the audit plan</i>			
Audit planning	To develop the 2017/18 audit plan		Jan. to Mar. 2017
Reporting to Audit Committee	To write and agree the required reports to Audit Committee throughout 2016/17.		Throughout 2016/17
Audit management	To undertake required management activity including quality assurance processes and to review and where necessary update the Audit Charter and Strategy.		Throughout 2016/17