

AUDIT COMMITTEE

DATE: 24 JANUARY 2018

PREPARATION OF THE STRATEGIC AUDIT PLAN – 2018/19

Report of the Chief Internal Auditor

Purpose of report

The purpose of this report is to outline the approach to preparing the 2018/19 Strategic Audit Plan, for consideration and endorsement by the Audit Committee. The report also ensures the Audit Committee, as a key stakeholder of Internal Audit's work, is engaged at an early stage in the planning process.

Recommendations

It is recommended that:

Audit Committee consider and endorse the approach to preparation of the 2018/19 Strategic Audit Plan.

Audit Committee are also invited to highlight any areas for consideration by the Chief Internal Auditor, for inclusion in the 2018/19 Strategic Audit Plan.

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the achievement of the Council's Corporate Plan. The draft Plan 2017-2021 is due to be finalised and agreed by Full Council in February 2018. Our work will support the Council in delivering and fulfilling its vision and values.

Key themes of the draft Corporate Plan include:

- Ensuring services are customer focused;
- Supporting communities and staff to embrace change and innovation;
- Involving communities and staff in decisions which affect them;
- Supporting communities to feel safe; and
- Creating a healthy and positive working environment.

Internal Audit will also contribute to the five operating principles set out in the draft Corporate Plan as; *financial prudence; being resourceful; listening to and considering views; empowering; and collaborating where it is in the interests of Northumberland to do so.*

Key issues

The approach to preparing the next Strategic Audit Plan (2018/19) has been designed to ensure that all legislative responsibilities and professional standards are fully complied with and that a plan of work is agreed for the coming year which will help ensure that internal auditing can fulfil its prescribed definition as “*an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations.*”¹

Background

The Internal Audit team has a key role in helping the Council towards achievement of its objectives by exploring areas of potential efficiency and matters of probity and internal control. Preparation of a Strategic Audit Plan ensures that Internal Audit resources are deployed in areas that will provide optimum benefit and value to the Council. The Council’s Finance and Contract Rules recognise that Internal Audit must be independent in its planning and operation, and that Internal Audit shall have an unrestricted range of coverage of the Council’s operations. The Public Sector Internal Audit Standards (PSIAS) reaffirm the importance of robust, independent and objective internal audit arrangements. These establish the professional standards which Internal Audit must apply when planning the use of its resources, including; undertaking a documented risk assessment; input from senior management and Audit Committee (as the ‘board’); ensuring plans are consistent with the organisation’s goals; and communicating plans to senior management and Audit Committee.

The Strategic Audit Plan is scheduled to be presented to the Audit Committee in March 2018. When considering the Strategic Audit Plan in March, the Committee will wish to be assured the requirements of the Council’s Finance and Contract Rules and PSIAS have been met. The approach to ensuring this is the case is summarised below, and set out in full at **Appendix 1, ‘Preparation of the Strategic Audit Plan – 2018/19’**.

Preparation of the Strategic Audit Plan is now underway, and involves:

- Further developing Internal Audit’s intelligence base of the Council’s functions;
- Enhancing Internal Audit’s intelligence base from risk information and knowledge regarding similar functions delivered by our partner organisation within the shared Internal Audit and Risk Management service, North Tyneside Council;
- Consulting with the Chief Executive, Executive Directors, Service Directors, Heads of Service, and Cabinet and Audit Committee Members upon this preparatory work, and their aspirations for Internal Audit work and coverage in the coming year;
- Utilising the Council’s risk framework, combined with an assessment of audit risks, to ensure the Strategic Audit Plan targets resource at key areas of audit assurance;
- Developing a narrative to express the outcomes which each Internal Audit assignment in the Strategic Audit Plan will deliver, and the objectives which each audit will meet; and
- Ensuring that each proposed audit assignment will help assess and support a priority or priorities as set out in the Council’s Corporate Plan.

It is proposed the Strategic Audit Plan that will be presented to the Audit Committee for approval in March 2018 will include detail on all key areas of Internal Audit provision, grouped under the following key themes:

¹ Public Sector Internal Audit Standards, CIPFA/IIA, 2017

- Advice and Programme Assurance (which includes; Internal Audit involvement as new systems and projects are introduced, advice and guidance, responding to emerging issues, and follow up of previous Internal Audit recommendations); and
- Value Added Function reviews (these include; value for money studies, information and communications technology audits, the audit of fundamental financial systems, specific service and establishment based audits, and certification of grant claims). These are grouped as 'Corporate and Cross Cutting' reviews (those which affect all parts of the Council's operations) or specific 'Directorate Audit and Assurance' reviews.

Implications

Policy	Effective internal audit is an essential part of the County Council's corporate governance arrangements. The Internal Audit service supports the Chief Finance Officer in discharging the requirements of section 151 Local Government Act 1972, which requires that local authorities 'make arrangements for the proper administration of their financial affairs'. Internal Audit examines the Council's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. Based on an assessment of risk the Strategic Audit Plan sets out the planned areas in which this coverage will be focused.
Finance and value for money	The audit of the Council's activities, as set out in the Strategic Audit Plan, promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste, and inefficiencies.
Legal	The Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards. The Public Sector Internal Audit Standards establishes the professional standards Internal Audit must apply when planning the use of its resources.
Procurement	None
Human Resources	A robust Strategic Audit Plan provides clarity for officers within the Internal Audit Service on the key outcomes which each audit assignment is intended to deliver.
Property	None
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	None
Risk Assessment	The Strategic Audit Plan is prepared using a risk-based approach, thus ensuring that coverage is focused on those areas of Council activity where Internal Audit resource will deliver most benefit and assist most effectively in the management of risk.
Crime & Disorder	Section 17 of the Crime and Disorder Act 1998 has been considered, and no implications have been identified. The Strategic Audit Plan includes planned coverage on counter fraud assurance work.
Customer	The Strategic Audit Plan is prepared following consultation with

Considerations	customers of our Service including the Audit Committee, Chief Executive, Executive Directors, Directors, Heads of Service and Cabinet Members.
Carbon reduction	None
Wards	All

Consultation

The Strategic Audit Plan 2018/19 will be prepared following consultation with the following:

- Cabinet Members;
- Audit Committee;
- Chief Executive;
- Executive Directors;
- Service Directors; and
- Heads of Service.

Background papers:

- Public Sector Internal Audit Standards (PSIAS), Chartered Institute of Public Finance and Accountancy, revised April 2017;
- Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2013;
- The Accounts and Audit (England) Regulations 2015, April 2015;
- NCC Constitution, October 2014; and
- NCC Finance and Contract Rules, December 2011.

Report sign off.

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

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NORTHUMBERLAND

Northumberland County Council

Preparation of the Strategic Audit Plan – 2018/19

Introduction

- 1 Internal Auditing *“is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”*¹. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 2 The Internal Audit team has a key role in helping the Council to achieve its objectives. We are an independent resource available to assist the organisation to explore areas of potential efficiency, and matters of probity and internal control. We seek to use our business intelligence and knowledge of the Council to make sensible, informed recommendations for improvement, and thus contribute to the effective running of the organisation.
- 3 Internal Audit provides assurance to the organisation that controls, established to manage risks to the achievement of the Council’s objectives are operating effectively. This has a positive impact on the risk environment, informing management whether the action they are taking to control and manage risks are working as they should.
- 4 Preparation of a Strategic Audit Plan ensures that Internal Audit resources are deployed in areas that will provide optimum benefit and value to the Council. This is key to Internal Audit achieving its objectives as an independent assurance function for the Council and to provide an independent and objective opinion on the adequacy and effectiveness of the framework of governance, risk management and control.
- 5 This report outlines the approach to preparing the next Strategic Audit Plan (2018/19), for consideration and endorsement by the Audit Committee. This approach has been designed to ensure that all legislative responsibilities and professional standards are fully complied with, and that a plan of work is agreed for the coming year which will meet the Council’s key assurance requirements, stakeholder aspirations and help ensure internal auditing fulfils its prescribed definition of “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations.”

¹ Public Sector Internal Audit Standards, CIPFA/IIA, 2017

Legislative and Professional Standards

- 6 The Council's Finance and Contract Rules recognise that Internal Audit must be independent in its planning and operation, and have an unrestricted range of coverage of the Council's operations.
- 7 The Public Sector Internal Audit Standards (PSIAS) introduced in 2013, revised 2017, and the specific Local Government Application Note on the Standards, build upon the good practice set out in previous professional regulations, including audit planning requirements, and have the force of law. The PSIAS set out the professional standards which Internal Audit must apply when planning the use of its resources. It states that:
 - (a) The Chief Internal Auditor (Chief Audit Executive) must establish risk-based plans to determine the priorities of internal audit activity, consistent with the organisation's goals;
 - (b) The plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and Audit Committee (the 'board') must be considered in this process. The Chief Internal Auditor must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions;
 - (c) The Chief Internal Auditor should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan;
 - (d) The Chief Internal Auditor must communicate plans and resource requirements, including significant interim changes, to senior management and Audit Committee for review and approval. The Chief Internal Auditor must also communicate the impact of any resource limitations; and
 - (e) The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.
- 8 The Strategic Audit Plan is scheduled to be presented to the Audit Committee in March 2018. When considering the Strategic Audit Plan in March, the Committee will wish to be assured that the requirements of the Council's Finance and Contract Rules and PSIAS have been met. The approach to ensure this is the case is set out below.

Preparing the 2018/19 Strategic Audit Plan

- 9 Preparation of the Strategic Audit Plan is now underway and involves:
 - (a) Developing Internal Audit's intelligence base on the breadth of the Council's functions from published plans, strategies, reports, available risk information and knowledge gained from previous audit work;
 - (b) Enhancing Internal Audit's intelligence base from risk information and knowledge regarding similar functions delivered by our partner organisation within the shared Internal Audit and Risk Management service, North Tyneside Council;
 - (c) Consulting with the Chief Executive, Executive Directors, Service Directors, Heads of Service, and Cabinet and Audit Committee Members upon this preparatory work, and their aspirations for Internal Audit work and coverage in the coming year. This consultation allows us to identify the areas where stakeholders consider Internal Audit can provide the greatest assistance and benefit;
 - (d) Utilising the Council's risk framework, combined with an assessment of audit risks, to prioritise audit coverage and ensure the Strategic Audit Plan includes all key

areas of audit assurance, with resources targeted at those areas of highest priority;

- (e) Developing a narrative to express the outcomes which each Internal Audit assignment in the Strategic Audit Plan will deliver, and the objectives which each audit will meet; and
- (f) Ensuring that each proposed audit assignment will help assess and support a priority or priorities as set out in the Council's Corporate Plan.

10 Within this process, consideration is being made towards including value for money studies. It is proposed a number of study areas will be selected for inclusion in the Strategic Audit Plan. Suggestions for potential study areas are:

- (a) At an overall level, how does the Council judge whether it is achieving value for money in the delivery of services? This would involve a review of our approach to value for money and a more detailed examination of what we use to judge costs. A review of benchmarking clubs could be undertaken to assess, for example, the accuracy of the data they produce and upon which we are relying in informing decisions;
- (b) Are new service delivery models achieving value for money? For example, individual service commissions could be reviewed to determine if they are meeting their value for money targets; and
- (c) In addition, there may be individual corporate areas of spend that would benefit from review in relation to value for money, such as postal services.

11 Throughout preparation of the Strategic Audit Plan, whilst respecting requirements for ethical walls, consideration is given towards optimising the leverage of shared learning between the two partner authorities within the shared Internal Audit and Risk Management service. Principally this includes:

- An evaluation of the overall Internal Audit intelligence base;
- A comparison of new and emerging risks facing the councils and their services and the aspirations of consultees for Internal Audit work and coverage for the forthcoming year; and
- Developing the objectives of audit assignments that incorporate opportunities for shared learning where beneficial and appropriate.

12 Once this process is finalised, the Strategic Audit Plan presented to the Audit Committee for approval in March 2018 will set out Internal Audit's planned 2018/19 coverage. This will include detail on all key areas of Internal Audit provision, grouped under the following key themes:

Advice and Programme Assurance:

- Programme / Project Assurance (which aims to allow Internal Audit involvement on a timely basis as new systems and projects are introduced);
- Advice and Guidance (responding to ad-hoc queries and requests for advice);
- Contingencies (in order that Internal Audit may respond to emerging issues throughout the year, as these arise); and
- Follow up of previous Internal Audit recommendations (to provide assurance that actions agreed with management are being carried out).

Value Added Function:

The audits are grouped as 'Corporate and Cross Cutting' reviews (those which affect all parts of the Council's operations) or specific 'Directorate Audit and Assurance' reviews.

This area of activity includes:

- Value for money studies;
- The audit of collaborative working arrangements;
- Information and communications technology audits;
- The audit of fundamental financial systems;
- Specific service and establishment based audits;
- Certification of grant claims; and
- Audits of 'cross-cutting' themes which affect all parts of the Council's operations.