



Northumberland County Council

## AUDIT COMMITTEE

DATE: 23 JANUARY 2019

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### PREPARATION OF THE STRATEGIC AUDIT PLAN – 2019/20

#### Report of the Chief Internal Auditor

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##### **Purpose of report**

The purpose of this report is to outline the approach to preparing the 2019/20 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 2019/20 Strategic Audit Plan.

Audit Committee are also invited to highlight any areas for consideration by the Chief Internal Auditor, for inclusion in the 2019/20 Strategic Audit Plan.

##### **Link to Corporate Plan**

The work of Internal Audit and the Audit Committee contributes to the achievement of all priorities in the Council's Corporate Plan 2018-21.

##### **Key issues**

The approach to preparing the next Strategic Audit Plan (2019/20) 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.*"<sup>1</sup>

<sup>1</sup> Public Sector Internal Audit Standards, CIPFA/IIA, 2017

## **Background**

- 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”*<sup>1</sup>. 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 Authority 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 Authority 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 Authority. This is key to Internal Audit achieving its objectives as an independent assurance function for the Authority 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 (2019/20), 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 Authority’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.”
- 6 The Authority’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 Authority’s operations.
- 7 The Public Sector Internal Audit Standards (PSIAS) introduced in 2013 and revised in 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 2019. 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.
- 9 Preparation of the Strategic Audit Plan is now underway and involves:
- (a) Developing Internal Audit's intelligence base on the breadth of the Authority'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 Authority's risk management 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 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 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 authorities 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.
- 11 Once this process is finalised, the Strategic Audit Plan presented to the Audit Committee for approval in March 2019 will set out Internal Audit's planned 2019/20 coverage. This will include detail on all key areas of Internal Audit provision, and the objectives which each assignment will deliver.

### **Implications**

<b>Policy</b>	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.
<b>Finance and value for money</b>	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.
<b>Legal</b>	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 and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources.

<b>Procurement</b>	None
<b>Human Resources</b>	None
<b>Property</b>	None
<b>Equalities</b> (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	None
<b>Risk Assessment</b>	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.
<b>Crime &amp; Disorder</b>	There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.
<b>Customer Considerations</b>	The Strategic Audit Plan is prepared following consultation with customers of our Service including the Audit Committee, Chief Executive, Executive Directors, Directors, Heads of Service and the external auditor.
<b>Carbon reduction</b>	None
<b>Wards</b>	All

### **Consultation**

The Strategic Audit Plan 2019/20 will be prepared following consultation with the following:

- Audit Committee;
- Chief Executive;
- Executive Directors;
- Service Directors;
- Heads of Service; and
- The external auditor.

### **Background papers:**

- Public Sector Internal Audit Standards (PSIAS), Chartered Institute of Public Finance and Accountancy / Institute of Internal Auditors, 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 Regulations 2015, April 2015;
- NCC Constitution, November 2017; 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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