

# Audit Committee

28 March 2019



<b>Title</b>	Internal Audit Annual Plan 2019/20		
<b>Purpose of the report</b>	To note		
<b>Report Author</b>	Internal Audit Manager, Punita Talwar		
<b>Cabinet Member</b>	Councillor Howard Williams	<b>Confidential</b>	No
<b>Corporate Priority</b>	Financial Sustainability		
<b>Recommendations</b>	Not Applicable		
<b>Reason for Recommendation</b>	Not Applicable		

## 1. Key issues

- 1.1 This report sets out the work planned by Internal Audit during 2019/20 in order to fulfil its statutory and professional requirements.
- 1.2 Accounts and Audit Regulations 2015 require local authorities '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 or guidance'.
- 1.3 Internal Audit is defined as "*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.*" (Public Sector Internal Audit Standards).
- 1.4 The importance of preserving some independence in the audit planning process needs to be recognised and it seems prudent that Managers are periodically reminded of this requirement. Any actions that may undermine the independence of internal audit will ultimately reduce the value of independent assurance to the authority.
- 1.5 Internal Audit findings form the basis of the annual audit opinion on the adequacy of the authority's control environment which feeds into and underpins the Annual Governance Statement (considered by External Audit). In order for the Internal Audit Manager to provide an independent evidence based annual audit opinion, **there needs to be a sufficient quantity and**

***breadth of audits undertaken to ensure reasonable coverage of auditable areas on which to form an effective opinion.*** This is therefore an important factor for consideration in the Audit Planning process.

- 1.6 The audit plan reported to Management Team on 11<sup>th</sup> March 2019 reflected the Audit Needs Assessment as ascertained from the audit planning process. This highlighted that the time required to deliver the audit plan (based on assessed audit need) including all other corporate tasks with which the Internal Audit Manager is tasked to undertake (highlighted at Appendix 1) exceeds the current Internal Audit resource available of 1.75 FTE's supplemented with some contracted resource. The estimated shortfall of 135 days was reported to Management Team for consideration. Given that the scope for approving additional audit resources during 2019/20 may be limited particularly as the current internal audit planning process timetable (January to March) does not align with the budget growth bid cycle (October to November), Management Team have requested a revised list of proposed audits giving consideration to delivery of planned audits within existing capacity/resourcing levels. The audits have been listed in priority order which may be subject to periodical review to allow for flexibility in addressing changing priorities. This exercise has been completed and a copy of the revised Internal Audit Annual Plan Summary (2019/20) based on the 'prioritised audit need' is attached at Appendix 1. This also refers to corporate roles and responsibilities (non-audit work) which the Internal Audit Manager has involvement in.
- 1.7 Group Heads and Managers have been consulted as to the most beneficial time to undertake these audits during the 2019/20 financial year in order for the service and authority to gain maximum value from the audit process. Where responses have been received this has been recorded at Appendix 1.
- 1.8 All of the audits previously assigned as 'Priority B' have been removed from the new revised prioritised list, as have some of the previous Priority 'A's. It seems sensible that these auditable areas are given further consideration during the 2020/21 audit planning process and beyond, given that they have arisen out of the audit needs assessment /planning process. The revised list of audits set out at Appendix A to this revised report can be delivered within the current resources available. In due course further consideration will be given as to the feasibility of revising the timing of the audit planning process from quarter 4 (currently) to the end of quarter 2, thereby enabling greater alignment with the budget growth bid process should any requests for additional resource be required. The delivery of the audit plan would however still need to relate to the financial year to ensure continued alignment with financial transactions and the external audit timetable.
- 1.9 Further detail regarding the audit planning process is set out below:
  - (a) All auditable areas are identified (known as the 'Audit Universe'). These include:
    - Significant risks included in the Corporate Risk Register
    - Corporate systems and processes
    - Financial and fraud risks
    - Fundamental financial systems
    - Functions operating within service areas

- Information governance and security
  - Asset acquisitions and Investments
  - Key Council projects
  - Preparedness for significant legislative changes/government led initiatives
- (b) In establishing the internal audit resource requirement and priorities for 2019/20 consideration has been given to existing sources of assurance (within the assurance framework). These include existing management controls (first line of defence), corporate review and monitoring processes (second line of defence) and independent sources of assurance such as Internal and External Audit (third line of defence). By way of example, the Root and Branch reviews being undertaken by Commissioning and Transformation fall under the second line of defence within the Council's assurance framework and Internal Audit have taken into account reviews underway so as to avoid any potential duplication. Independent assurance provided by Internal Audit to Management Team and the Audit Committee will continue to focus on the adequacy of the control environment in managing risk at all levels, supported by appropriate verification processes.
- (c) In view of the resource availability within the audit team continued reliance will need to be placed on alternative sources of assurance (other than Internal Audit) where possible. As part of the internal audit process during 2018/19 Internal Audit have continued to encourage Group Heads and Managers (representing the first line of defence) to provide assurance that controls in their functions are operating effectively, which contributes to a more efficient way of working as well as promoting Management ownership and accountability for their risks and controls. Group Heads are requested to sign off final versions of audit reports to confirm that the report is factually correct and that the controls are operating as described (reports highlight any risk implications identified from the audit review).
- (d) Audit work is prioritised and time allocated to each area which is related to factors such as risk evaluations, budgetary implications, value/volume of transactions, known system weaknesses and vulnerabilities, previous irregularities, changes in personnel, management requests for Internal Audit input and audit resource available. A revised list of proposed audits recorded in priority order is set out at Appendix 1.
- (e) Audit Needs Assessment - Group Heads and Managers have been consulted during the audit planning process to discuss emerging risks and consider review areas for inclusion in the plan. A few further areas have been proposed arising from risk evaluation, or where reasonable time may have elapsed since the last audit thereby justifying the need for a further review. Independence needs to be preserved in the audit planning process which is highlighted at paragraph 1.4 above. The Internal Audit Manager has also considered some new audit areas based on recent research conducted by the Chartered Institute of Internal Auditors into key risks facing organisations across all sectors.

These include a review of Workplace Culture (there is now an expectation for Internal Auditors to undertake this type of audit as culture has become and will continue to be a major consideration for all organisations) and Communication risk in terms of protecting organisational reputation. A proposed review of Communication Risk is incorporated on the 2019/20 plan, with a view to undertaking an audit of Workplace Culture in 2020/21.

- (f) The Annual Plan is intended to be flexible allowing for periodical review to take into account changing priorities according to perceived risks.

- 1.10 Risks and findings identified by Internal Audit during 2019/20 will be raised with senior management, and recommendations reported to the Audit Committee. Internal Audit findings form the basis of the annual audit opinion on the adequacy of the authority's control environment which feeds into and underpins the Annual Governance Statement. Significant risks are also brought to the attention of the Council's Corporate Risk Management Group and considered for inclusion in the Corporate Risk Register.

## **2. Options analysis and proposal**

- 2.1 To consider additional resource to deliver the proposed 2019/20 Audit Plan based on the original audit needs assessment reported to Management Team on 11 March 2019.

**Or**

- 2.2. Reduce the number of audits to be carried out (considering the priority levels) which would result in a reduced level of audit coverage. The consequences and implications of this are that a lower level of independent assurance can be provided to Management Team and the Audit Committee on the adequacy of the authority's control environment. Internal Audit findings form the basis of the annual audit opinion on the adequacy of the authority's control environment which feeds into and underpins the Annual Governance Statement (considered by External Audit). In order for the Internal Audit Manager to provide an independent evidence based audit opinion, there needs to be a sufficient quantity and breadth of audits undertaken to ensure reasonable coverage of auditable areas on which to form an effective opinion. This is therefore an important factor for consideration.

## **3. Financial implications**

- 3.1 There may be a requirement from time to time to bring in subject matter experts and Investigators to undertake or assist Special investigations (relating to suspected internal fraud or irregularity) as there is insufficient capacity within the Internal Audit team to undertake the whole process, particularly given that investigations are often by their nature very resource intensive. It is difficult to quantify an overall estimated cost for 2019/20. Day rates could be in the region of £400 per day. There is currently no specific budget assigned for this purpose.

## **4. Other considerations**

4.1 There are no further considerations to be taken into account.

**5. Timetable for implementation**

5.1 The Internal Audit Annual Plan sets out work to be undertaken by the Internal Audit team during the 2019/20 financial year.

**Background papers:** There are none.

**Appendices:** Appendix 1 – Internal Audit Annual Plan– 2019/20.