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**Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager**

**Electoral division(s) affected:**

Countywide.

**Purpose of the Report**

- 1 This report provides the Committee with details of the emergent Internal Audit Plan for 2019/2020 (attached as Appendix 2).
- 2 The purpose of this report is to update and engage Members of the Audit Committee in the development of the 2019/2020 Internal Audit Plan.

**Executive Summary**

- 3 This report sets out the first formal iteration of the Internal Audit Plan for 2019/2020 and describes:
  - (a) The basis of the plan.
  - (b) The approach taken to develop the plan.
  - (c) The key characteristics which include:
    - The scale and pace of change
    - The structure of the plan
    - The content of the plan
    - The scale of the plan
- 4 As described this is the first formal iteration of the Internal Audit Plan for 2019/2020 with the final version to be approved by the Audit Committee at its meeting 31 May 2019 and will be monitored throughout the year.

**Recommendation**

- 5 Members are requested to comment on the proposed direction and process for the development of the emergent Internal Audit Plan attached at Appendix 2, which will be brought back for formal approval on 31 May 2019.

## **Background**

- 6 From April 2013, CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS set out the standards for Internal Audit and have been adopted by the service in Durham.
- 7 The principles in the PSIAS are consistent with the previous CIPFA Code for Internal Audit that applied across Local Government. They include the need for 'risk based plans' to be developed for Internal Audit and for plans to receive input from management. This process also includes the development of an emergent Internal Audit Plan designed to invite comment from management and the Audit Committee.

## **Basis for the Plan**

- 8 The PSIAS (section 2000) states that the 'Chief Audit Executive' must 'establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisations goals'. They refer to the need for the plan to reflect the assurance framework, risk management arrangements and input from management. These principles have been applied in the development of the 2019/2020 Internal Audit plan as follows:

### **A. Annual Internal Audit Opinion (PSIAS 2010)**

- The Chief Internal Auditor and Corporate Fraud Manager forms an annual assurance opinion based on the annual programme of audit work as well as assurance obtained by other means. The current audit approach contains five main types of audit. It is not considered cost effective or necessary to obtain coverage of all strategies, business units and risks so these are reviewed on a risk basis each year.
- In addition to audit the Chief Internal Auditor and Corporate Fraud Manager considers any issues identified through fraud and corruption or developing systems work insofar as they impact on the effective operation of governance, risk management or internal control within the Council.
- The service provides advice and consultancy to all services and partnerships where appropriate. This is an increasing area of focus given the amount of change ongoing across the Council and our partners. Time is also allocated to support developing systems and a range of emerging projects, ensuring early engagement and audit support across the Council.

- The Chief Internal Auditor and Corporate Fraud Manager also seeks to place reliance on assurance mechanisms within the Council as well as the findings of other auditors and inspectors in reaching an annual opinion.
- The plan is flexible and is reviewed and adjusted throughout the year, as necessary, in response to changes in policies, systems, processes, risks and controls across the Council.

#### B. Based on a Risk Assessment (PSIAS 2010.A1)

- The Internal Audit Section works closely with the Council's Risk Management and Governance Team. The Audit and Fraud Managers liaise formally and informally with the Risk and Governance Manager and Auditors work with the Risk and Governance section to share intelligence, information and issues of concern. Internal Audit also regularly engages with Corporate Directors and Heads of Service, as well as colleagues across Human Resources, Legal, Performance, Finance and ICT, to ensure that known and emerging unregistered risks are considered in annual audit planning.
- Audit planning considers key risks and the focus of audit work is tailored accordingly to ensure that local and national issues and risks are addressed.
- The Chief Internal Auditor and Corporate Fraud Manager ensures a culture of risk awareness is maintained within the service so that all members of the team are aware of local, regional and national risks in the performance of their duties.
- Through regular liaison and the sharing of Internal Audit Plans with colleagues across the North East and County Chief Auditors Network, Internal Audit ensures that it is aware of emerging risks in other Council's and considers these as part of the audit planning.

#### C. Informed by Expectations (PSIAS 2010.A2)

- The Internal Audit Service is aligned to service and service grouping structures, ensuring teams engage positively with Corporate Directors and their teams.
- The annual plan is based on consultation and discussion with management teams and key officers to ensure it is focused on key risks, core systems and areas where Internal Audit can effectively contribute to the effectiveness and efficiency of governance, risk management and control processes.

- An emergent plan is produced to help ensure early engagement with Members represented on the Council's Audit Committee.

## **Audit Planning**

- 9 The approach to audit planning in the Council for 2019/2020 has been based largely, but not exclusively, on the following:
- Review of the Strategic Risk Register
  - Review of the assurance map compiled during the year taking into account the work of other assurance providers.
  - Cumulative audit knowledge and experience.
  - Findings and outcomes from audit and investigation work in 2018/2019 and earlier years.
  - Engagement with Heads of Service and their management teams.
  - Engagement with audit colleagues across the North East and County Chief Auditor Network.
  - Engagement with the Risk, Insurance and Governance teams within the Audit and Risk Management Division.
- 10 On this basis, an emergent plan of areas for audit coverage has been developed. Areas have been considered on a risk basis and a plan for consultation has been produced. This has initially been presented to Corporate Directorate management teams for comment, to ensure that the risks identified are consistent with their understanding and assessment.

## **Key Characteristics of the Annual Plan**

### **Scale and Pace of Change**

- 11 Austerity continues to be top of the agenda for local government. 2018/2019 has seen the first financially failing Councils, some issuing section 114 notice, others providing only statutory services and auditors issuing warnings on the financial management of others. With a £16bn reduction of government funding to councils this decade and Public Sector Executive warning of a £8bn funding black hole by 2025.
- 12 In order to manage austerity, to meet changing and increasing demand pressures and to keep pace with demographic and technological changes, local government continues to undergo fundamental change.

- 13 The National Audit Office 'Financial sustainability of local authorities 2018' report quantifies and details taken by local authorities, which have included a reduction of non-statutory and discretionary services, greater income generation and a greater use of reserves. Furthermore, the report identifies there has also been a desire to better leverage savings or efficiencies through greater or better use of technology.
- 14 The national context is important to consider whilst assessing the local issues as Durham County Council continues to go through a period of continuous change. Since the beginning of austerity in 2010 there has been a significant reduction in the workforce and this may continue for the foreseeable future. Changes are taking place in the design, commissioning and delivery of services, with ongoing activity to deliver savings across all areas of the Council. The implementation of changes and public service reform, with a reduced workforce whilst delivering business as usual and achieving key priorities remains a key challenge for the Council during 2019/2020 and must be reflected in the Internal Audit Plan.
- 15 Internal audit planning therefore must take into account the above changes, while also considering that:
- Austerity is a driver for change – where there is change, there is risk.
  - With workforce cuts and re-organisations, there is a risk of dissatisfied staff and a loss of experience.
  - Cutting costs can also lead to cutting of control; and
  - The organisation needs to be more inventive, which needs to be taken into account when conducting audits.
- 16 The Internal Audit Plan must continue to be sufficiently flexible to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified. This is particularly relevant for 2019/2020 as changes are agreed with more detailed work ongoing to confirm how these will be delivered. As such there are areas where Internal Audit work cannot be fully defined at this stage but where allocation of resource are required to help support good governance, risk management and control. Whilst Internal Audit adds value and provides assurance in these areas, the detailed areas for focus are the subject of ongoing discussions with the business. Rather than define specific audits and then change them, the plan includes allocations of work which will be applied to specific aspects of audit activity throughout the year. There will be similar allocations in other areas with details of

specific audit activities reported to Corporate Directors, Heads of Service and the Audit Committee throughout the year.

- 17 Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The reduction in workforce for example provides opportunity for breakdown in control as well as an opportunity to consider new, more efficient ways of organising people, systems and processes without impacting adversely on internal control. The PSIAS have recently been amended to reflect more the need for a modern, professional Internal Audit Service to actively engage with the organisation and be seen to add value. To reflect this risk the audit plan will continue to allocate time for advice and consultancy and developing systems support to officers to support and challenge them in the establishment and development of their systems of governance, risk management and internal control. We will also deliver work on the core financial systems and a number of proactive counter fraud, irregularity and probity audits to provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error.
- 18 The continued pace of change across the Council requires assurance that is prioritised and timely. The Internal Audit Plan must provide for this assurance, to enable remedial actions or controls to be implemented on a timely basis. Based on experience and feedback from Service Grouping Management Teams there is a continued need for shorter, more focused and practical audits in areas of emerging risk.
- 19 The characteristics of the plan: flexible, supportive, challenging, prioritised and timely are not new however, it remains critical that these principals are maintained if Internal Audit is to help the Council to continue to respond effectively to the scale of change during 2019/2020 and beyond.
- 20 Based on the above the Chief Internal Auditor and Corporate Fraud Manager considers that assurance is best obtained through a combination of different audits and other sources of assurance. This is not an uncommon approach but it has been tailored to reflect the specific needs of the Council. It is consistent with the approach taken in the development and delivery of the 2018/2019 Internal Audit Plan. With the greater need to add value it is the intention for the service to increase its advice and consultancy work whilst still balancing the need for assurance.

## **Plan Structure**

- 21 There are five different types of audit activity in the plan.
- Assurance Review
  - Advice and Consultancy
  - Key System
  - Grant Certification
  - Investigation
- 22 This approach of using different types of audits and other work is considered the most effective way to deliver the strategy for Internal Audit.

## **Plan Content**

- 23 In summary, there is focus on risk based audits and providing assurance over key systems. This reflects the need to focus on the management of emerging risks and ensure the continued operations of controls within the Council's overall governance arrangements, its systems and its processes.
- 24 There is time allocated to developing systems and supporting service groupings with new initiatives and any changes in service delivery.
- 25 The need for continued investment of time in anti-fraud, irregularity and probity work continues.
- 26 The emergent plan has been compiled to reflect the Corporate Management Team and Service Grouping structure in the Council as follows:
- Adult and Health Services (AHS)
  - Children and Young People Service (CYPS)
  - Regeneration and Local Services (REAL)
  - Resources (RES)
  - Transformation and Partnerships (TAP)
- 27 To help ensure that the plan is flexible and the service is able to respond to any key risks in the year, the emergent plan includes a block of contingency time from which specific audits can be delivered in the year. Further details will be provided to the Audit Committee in the finalised plan in May and throughout the year.

## Scale of the Plan

- 28 The annual internal audit plan needs to be deliverable within available resources. The Internal Audit Team has an approved establishment of 18 employees, equivalent to 16.35 FTE. The Corporate Fraud Team, which consists of six employees (5.31 FTE) will deliver a range of proactive and reactive counter fraud work across the year. In addition, there are also two apprentice Corporate Fraud Investigators within the service.
- 29 As a result of this planning, the latest forecast of available resources to be allocated to the management and delivery of the audit plan is 4,741 days. 505 days of this relate to work for external clients. The detail of this allocation is shown in the table below.

<b>Estimated Gross Days Available (23.66 FTE)</b>	<b>6,127</b>
Non – Productive Time (Annual Leave, Sickness, Office Duties etc.)	1,386
Productive Time – not allocable to services, e.g. Audit and Fraud Planning, Supporting Audit Committee, Quality Assurance and Contingency	1,494
Productive Time - Fraud	917
<b>Productive Days 2019 / 2020</b>	
Audit days required to complete and close audit reports relating to 2018/19	358
Adult and Health Services (AHS)	230
Children and Young People Service (CYPS)	248
Regeneration and Local Services (REAL)	257
Resources (RES)	299
Transformation and Partnerships (TAP)	63
Schools	370
Durham Police and Crime Commissioner / Durham Constabulary	158
Durham and Darlington Fire & Rescue Authority	71
Pension Fund	45
Durham Joint Crematorium	19
Mountsett Joint Crematorium	19
Peterlee Town Council	26
Spennymoor Town Council	20
Durham City Parish Council	2
Monk Hesledon Parish Council	2
Shotton Parish Council	1.5
Horden Parish Council	15
Trimdon Parish Council	2.5
Durham City Charter	6
Association of North East Councils	20
Livin – Counter Fraud	39
Karbon Homes – Counter Fraud	20
County Durham Housing Group – Counter Fraud	39
<b>TOTAL GROSS DAYS REQUIRED</b>	<b>6,127</b>

## **Emergent Plan Content**

- 30 Within this framework an emergent work programme of potential work has been developed. This is based on an assessment of risk.
- 31 Consultation is ongoing with Corporate Directorate Management Teams and Corporate Directors. It is likely that elements of the plan will be changed as part of this overall process of engagement and reconciling proposed audit work with available resources.

## **Background papers**

- Public Sector Internal Audit Standards
- Strategic Internal Audit Plan

## **Other useful documents**

- None

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## **Appendix 1: Implications**

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### **Legal Implications**

There are no specific legal implications associated with this report. Internal Audit contribute to the effective governance of the Council and provide relevant and appropriate challenge and oversight where necessary.

### **Finance**

There are no specific financial implications associated with this report. Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

### **Consultation**

All Corporate Directors, the Director of Transformation and Partnerships and all Heads of Service.

### **Equality and Diversity / Public Sector Equality Duty**

None.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

### **Accommodation**

None.

**Risk**

The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit Committee. Where progress has not been made, further action is agreed and overseen by the Audit Committee to ensure action is taken.

**Procurement**

None.