

Audit Committee

29 February 2016



Emergent Internal Audit Plan 2016/2017

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. This report provides the Committee with details of the emergent Internal Audit Plan for 2016/2017 (attached as Appendix A).
2. The purpose of this report is to update and engage Members of the Audit Committee in the development of the 2016/2017 Internal Audit Plan.

Background

3. 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.
4. 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

5. 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 2015/2016 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. This is a key area where development work is planned for 2015/2016 to formalise assurance mapping across the Council.
- 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 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.

Annual Planning

6. The approach to audit planning in the Council for 2016/2017 has been based largely, but not exclusively, on the following:
 - Review of the Strategic Risk Register
 - Review of all Service Groupings Service Plans and savings proposals
 - Review of the Community Strategy and other key strategy documents
 - Cumulative audit knowledge and experience.
 - Findings and outcomes from audit and investigation work in 2015/2016 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.
7. 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

8. The Council continues to go through a period of continuous change as a result of the financial settlement. There has been a significant reduction in the workforce and this will 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 2016/2017 and must be reflected in the Internal Audit Plan.
9. 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 2016/2017 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 Audit Committee throughout the year.

10. 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. 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 pro-active 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.
11. 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.
12. 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 2016/2017 and beyond.
13. 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 2015/2016 Internal Audit Plan.

Plan Structure

14. There are five different types of audit activity in the plan.
 - Assurance Review
 - Advice and Consultancy
 - Key System
 - Grant Certification
 - Investigation
15. 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

16. In summary, there is a high level of focus proposed 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.

17. There is time allocated to developing systems and supporting service groupings with new initiatives and any changes in service delivery.
18. The need for continued investment of time in anti-fraud, irregularity and probity work continues.
19. The emergent plan has been compiled to reflect the Corporate Management Team and Service Grouping structure in the Council as follows:
 - Assistant Chief Executive (ACE)
 - Children and Adult Services (CAS)
 - Neighbourhood Services (NS)
 - Regeneration and Economic Development (RED)
 - Resources (RES)
20. The emergent plan is based on the current service plans for the Council for 2016/17 which we acknowledge will be subject to ongoing change throughout the year. To help ensure that the plan is flexible and the service is able to respond to 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

21. The annual internal audit plan needs to be deliverable within available resources. The Internal Audit Team has an approved establishment of 20 employees equivalent to 18.42 FTE. The Corporate Fraud Team which consists of 6 employees (5.5 FTE) will deliver a range of proactive and reactive counter fraud work across the year.
22. 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 4,748 days. 319 days of this relate to work for external clients. The detail of this allocation is shown on the table over the page.

Estimated Gross Days Available (23.92) FTE	6,218
Non – Productive Time (Annual Leave, Sickness, Office Duties etc.)	1,470
Productive Time – not allocable to services, e.g. Audit Planning, Supporting Audit Committee, Quality Assurance, Fraud Investigation and Contingency	2,387
Audit days required to complete and close audit reports relating to 2015/2016	260
Productive Days 2016 / 2017	
Assistant Chief Executive (ACE)	70
Children and Adult Services (CAS)	302
Neighbourhood Services (NS)	291
Regeneration and Economic Development (RED)	141
Resources	648
Durham Police and Crime Commissioner / Durham Constabulary	159
Durham and Darlington Fire & Rescue Authority	71
Pension Fund	45
Durham City Charter	6
Durham Joint Crematorium	19
Mountsett Joint Crematorium	19
Schools (Service Level Agreements and Private School Funds)	330
TOTAL GROSS DAYS REQUIRED	6,218

Emergent Plan Content

23. Within this framework an emergent work programme of potential work has been developed. This is based on an assessment of risk.
24. 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.

Recommendations

25. Members are requested to comment on the proposed direction and process for the development of the emergent Internal Audit Plan attached at Appendix A which will be brought back for approval on 17 May 2016.