

# AUDIT COMMITTEE

17 May 2016



## Internal Audit Plan, Strategy and Charter 2016/2017

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### Report of the Chief Internal Auditor and Corporate Fraud Manager

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#### Purpose of the Report

1. To submit the proposed Annual Internal Audit Plan for 2016/2017, the Internal Audit Strategy and the Audit Charter which are attached as Appendices 2, 3 and 4, for approval.

#### Background

2. The Public Sector Internal Audit Standards (PSIAS), that came into effect from April 2013, define internal audit 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.”
3. The agreed terms of reference for the internal audit service to fulfil this objective are detailed in the Internal Audit Charter.
4. The Internal Audit Strategy which has informed the development of the 2016/2017 audit plan has been reviewed and is provided in Appendix 2.

#### Preparation of 2016 / 2017 Audit Plan

5. Members will recall receiving the Emergent Internal Audit Plan at its meeting on 29 February 2016. As discussed in that paper, the plan has had further refinement and discussion has taken place with Corporate Management Team prior to presenting the final version to this Committee.
6. In consultation with Service Groupings’ Senior Management Teams, Heads of Service and Corporate Directors, the Internal Audit plan has been reviewed and revised to reflect changes in structures, changes in key service activities and management’s preference for the timing of reviews.
7. The Audit Plan has been prepared for the twelve months from 1 April 2016 to 31 March 2017.

8. The proposed Audit Plan for 2016/2017, attached at Appendix 3, is for endorsement by Corporate Management Team and includes provision for:
  - Work started in 2015/2016 which was not complete by 31 March 2016.
  - Work that was approved in the 2015/2016 audit plan but has been deferred and carried forward into 2016/2017 as previously agreed.
  - Planned assurance work scheduled from the 5 year strategic audit plan.
  - Annual due diligence on key systems and compliance with key corporate policies.
  - Service requests identified through the consultation process with senior management.
  - Grant certification work.
  - Work by the Corporate Fraud Team to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.
  - Corporate provision for reactive advice and consultancy work and new emerging risks, including any reactive fraud investigations and irregularities.
  - Corporate provision for planning, quality assurance and reporting.
  - Follow up of agreed audit recommendations.
  
9. The detailed scope of audit reviews included in the plan are not yet finalised, however an initial outline scope of each audit has been prepared. These will be further developed as part of the planning and preparation stage of each individual assignment in accordance with the agreed audit strategy. This ensures that audit resources assigned to individual reviews are focused upon operational risks, controls and the assurance environment expected to be in place at the time reviews are actually carried out. This is particularly important due to the extent of change management across the Council.
  
10. Operational risks are those that arise directly from the core activities of delivering services and include:
  - Financial Management Risks
  - Project Risks
  - Performance Management Risks
  - Partnership Risks
  - Human Resources Risks
  - IT and Information Governance Risks
  - Procurement and Contract Risks
  - Legal Risks
  - Service Specific Risks

11. In evaluating the management of these risks, Internal Audit aims to help the achievement of corporate priorities and objectives by providing assurance on:
  - The adequacy of risk identification, assessment and mitigation – including the adequacy and effectiveness of the strategic risk management process.
  - The adequacy and application of controls to mitigate identified risk.
  - The adequacy and extent of compliance with the Council’s corporate governance framework.
  - The extent of compliance with relevant legislation.
  - The extent to which the Council’s assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money .
  - The quality and integrity of financial and other management information utilised within the Council.
  
12. In accordance with the Internal Audit Strategy, in consultation with the Head of Service and nominated service manager or key contact, the Service will prepare an agreed Terms of Reference prior to the start of each planned audit and where applicable a Control Risk Assessment (CRA) so as to:
  - Inform the scope for audit
  - Identify and agree key service/system operational objectives
  - Assess and agree key risks
  - Identify and agree expected / existing key controls
  - Identify other key sources of assurance and what assurance they provide that risks are effectively managed
  - Identify key stakeholders/contacts and circulation list for report
  - Provide a mechanism for ongoing self-assessment post audit
  
13. The Service will make all reasonable endeavours to schedule audit work within the timing preference expressed by services, but inevitably this may not always be possible due to the practicalities of scheduling work across all service groupings to match estimated audit resources available.
  
14. Given the continuous extent of the transformation and change agenda with which the Council is faced at this time, it is particularly important that the annual audit plan is flexible and allows for the service to be pro-active in supporting management in the consideration of control issues relating to new or emerging risks. As such a contingency provision is included to respond to new and emerging risks and changes to the strategic audit plan to reflect changes in service priorities and / or risks.
  
15. Service requests are actively encouraged and will be considered in relation to the risk and the type of audit work required e.g. control design and / or compliance assurance, grant certification work, advice and consultancy etc. and whether or not the service has the necessary skills and resources to undertake the work requested.
  
16. It would be the preference for Internal Audit to be involved in any changes to systems to advise on the appropriate controls before they are implemented rather than potentially auditing a system in retrospect that then requires any improvements.

17. Any proposals to amend approved plans will be discussed and agreed with Corporate Directors and any significant changes will be reported to the Audit Committee for approval.

### **Delivery of the 2016 / 2017 Audit Plan**

18. The productive audit days required to deliver the proposed audit plan, which includes provision for a contingency provision for any new and emerging risks, has been estimated to be 4,748 days.
19. The audit days available to deliver the Council's Internal Audit Plan for 2016/17, based on actual staff in post is illustrated in the following table:

Audit Days required to complete and close audit reports relating to 2015/16	422
<b><u>Audit Plan 2016/2017</u></b>	
Assistant Chief Executive (ACE)	70
Children and Adult Services (CAS)	302
Neighbourhood Services (NS)	313
Regeneration and Economic Development (RED)	148
Resources (RES)	689
Durham Police and Crime Commissioner / Durham Constabulary	159
Durham and Darlington Fire and Rescue Authority	71
Durham County Council Pension Fund	45
Peterlee Town Council	23
Durham City Charter	6
Durham City Crematorium	19
Mountsett Crematorium – Joint committee	19
Schools (Service Level Agreements)	333
Productive Time – not directly allocable to services e.g. Audit Planning, Quality Assurance Reviews, Performance Management, Fraud Investigation (Pro-active and Reactive), Service Improvement and Follow Up of Recommendations etc.	2,129
<b>TOTAL DAYS REQUIRED</b>	<b>4,748</b>

20. Monitoring of the plan will continue during the year through quarterly progress reporting to provide feedback on delivery and to discuss any new or emerging risks.

### **Audit Charter**

21. The Audit Charter was last approved by the Audit Committee in June 2015. The Charter is required to be reviewed annually therefore it is attached at Appendix 4. There have been no changes to the charter.

## **Recommendations**

22. It is recommended that members:

- Approve the Internal Audit Strategy in Appendix 2.
- Approve the proposed Internal Audit Plan for 2016/2017, as detailed in Appendix 3.
- Approve the Audit Charter in Appendix 4

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## **Appendix 1: Implications**

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### **Finance**

No direct implications as a result of this report.

### **Staffing**

None

### **Risk**

None

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

None

### **Accommodation**

None

### **Crime and disorder**

None.

### **Human rights**

None

### **Consultation**

All Corporate Directors and Heads of Service have been consulted.

### **Procurement**

None

### **Disability Issues**

None

### **Legal Implications**

Compliance with the Accounts and Audit Regulations 2011 and Public Sector Internal Audit Standards (PSIAS)

## DURHAM COUNTY COUNCIL



### Internal Audit Strategy

#### 1. Introduction

- 1.1 The Internal Audit Strategy for 2016/2017 focuses on the delivery of the assurance opinion and the Internal Audit plan to support this opinion. This strategy reflects Internal Audit's contribution to the Council's 'Altogether' agenda and fully supports the Council's ambitions as set out in the Sustainable Community Strategy. The Internal Audit Strategy incorporates best practice from Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Audit (CIIA).
- 1.2 The requirement for an Internal Audit function for local authorities is within section 151 of the Local Government Act 1972 and authority has been delegated to the Corporate Director, Resources to fulfil this function. Regulation 6 of the Accounts and Audit Regulations 2011 requires that "a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control".
- 1.3 The mission for of the Internal Audit service is to provide value for all of our stakeholders. There are three ways that we achieve this by providing:
  - Assurance
  - Objectivity; and
  - Insight
- 1.4 The assurance is provided through three elements:
  - Governance
  - Internal Control; and
  - Risk Management
- 1.5 The Terms of Reference of Internal Audit are contained within the Audit Charter. The measures in place to deliver these are set out below.

#### 2. Strategy Statements

- 2.1 We aim to deliver work of the highest quality, to the appropriate audience and at the most appropriate time. There are overarching strategies to support the delivery of all of our services, these include:

- 2.2 We support and promote the Council's vision, ambitions, values and objectives in all of the work Internal Audit carries out. It is our strategy to ensure that the delivery of our service is influenced by and positively contributes to these developments together with the growing need for wider ranging assurances in all aspects of the Council's operations. We will also continue to consider and review the impact of organisational change on the Council's governance, internal controls and risks.
- 2.3 We will plan, organise and control the delivery of our service in line with professional standards (Public Sector Internal Audit Standards). We work to add value through providing reliable, objective assurance and insight on the effectiveness and efficiency of governance, risk management and internal control processes. We continually aim to challenge and inspire colleagues to improve.
- 2.4 We will create and communicate high quality information about the effective operation of managements control over risks and we will use our combined experience and knowledge to provide helpful and practical insight and recommendations, we know we can be a catalyst for improving the council's effectiveness and efficiency based on analysis and assessments of data and business processes. The internal audit team has a comprehensive set of procedures and templates that are regularly reviewed and approved to ensure a consistent approach to our work. All audit work is reviewed to ensure it is evidenced based, independent, technically compliant, risk based, timely, has impact and is practical. We employ quality controls, quality monitoring and quality reviews of our work.
- 2.5 We identify the audit resources with the appropriate skill set to deliver the audit service, which meets the required professional standards. We are committed to integrity, accountability and high levels of customer care. We provide assistance with training and continuous professional development. The Council and the Internal Audit team subscribe to a number of professional support forums. The Chief Internal Auditor and Corporate Fraud Manager is a member of the County Chief Internal Auditor Network (CCAN), the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Groups both North East and North West and the North East Heads of Internal Audit Group in order to utilise the peer support that these groups provide. We also have in place a Quality Assurance Improvement Plan (QAIP) as required by PSIAS.
- 2.6 We will strive to raise the profile of Internal Audit in a positive way at all times. The ways that we do this includes:
- Professional advice and support to Members, Corporate Directors, Heads of Service and all employees.
  - Delivery of our principal service including high quality audit reports (drafts and final) and Committee reports.
  - Issuing Client Satisfaction Questionnaires for all work that we undertake whilst analysing and understanding the responses and acting on the messages conveyed to us.
  - Maintaining good client relations and to this end:
    - Attend all Service Grouping management teams on at least a quarterly basis.



- Provide time within the Internal Audit Plan for advice and consultancy with respect to internal controls for all of our clients.
  - Detailed Terms of Reference are prepared for each audit based on close liaison with clients.
  - Provide all Corporate Directors with quarterly and annual reports on the activity within their Service Groupings.
  - Providing a training module on internal control, risk management and fraud awareness through the 'Durham Managers' programme.
- 2.7 We aim to support good value for money in all that we do. Our work is designed to help in the promotion of continuous performance and internal control improvement through the issue of reports containing relevant and valued recommendations and action plans. We support effective financial management, help prevent fraud and corruption and undertake investigations where it is felt appropriate to do so. The service also participates in benchmarking to measure our performance and value for money against peer organisations.
- 2.8 We plan, record and monitor the time spent on all audit activities to manage our staffing resources efficiently and economically.

### **3. Delivery of the Service**

- 3.1 The Chief Internal Auditor and Corporate Fraud Manager is responsible for the Internal Audit Service and delivering of the Audit Plan in accordance with the Terms of Reference detailed in the Audit Charter.
- 3.2 The Internal Audit Service will be delivered on the basis of a five year risk based Strategic Audit Plan which is approved annually by the Audit Committee and is based on risks identified by the Chief Internal Auditor and Corporate Fraud Manager in consultation with Service Groupings. The Chief Internal Auditor and Corporate Fraud Manager maintains a continuous review of the risks and issues affecting the Council and thus the Audit Plan using the following:
- Review of Council's priorities and objectives;
  - Continuous assessment of risk identified by the strategic risk register and senior managers;
  - Issues arising from changes in legislation;
  - The implications of external inspection reports.
- 3.3 The Audit Plan must balance the needs to:
- Provide assurance on the effectiveness of internal controls operating within the Council
  - Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
  - Allow for the Internal Audit Service to offer advice and guidance on control issues to the Council's managers
  - Investigate all suspected or detected frauds or irregularities.
  - Provide time to allow Internal Audit to carry out appropriate unplanned work requested by managers.

3.4 The Chief Internal Auditor and Corporate Fraud Manager will assess their resource requirements and draw up the Audit Plan. The staffing structure of Internal Audit comprises a mix of professional, accounting technician and trainee posts with a mix of specialisms to reflect the varied workload of the service. These resources will be met internally within the Council supplemented by appropriately qualified external resources to meet any temporary short falls.

#### **4. Review of the Strategy**

4.1 The strategy will be reviewed annually by the Audit Committee alongside the Annual Internal Audit Plan.