



## **2. PURPOSE**

The purpose of the Internal Audit Strategy and Plan is to document the Internal Audit team's approach to:

- Provide independent and objective assurance to Councillors and senior management on the effectiveness of the Council's internal control framework.
- Ensure that the Council's key risks to meeting its objectives are considered when determining and allocating the use of internal audit resources.
- Add value and support to senior management in providing effective control, whilst identifying opportunities for improving value for money.
- Deliver an Internal Audit Service that is compliant with the requirements of the Public Sector Internal Audit Standards.

## **3. INTERNAL AUDIT MISSION AND CORE PRINCIPLES**

In 2015 the Global Institute of Internal Auditors made some new additions to the International Professional Practices Framework (IPPF) which included for the first time a mission statement and ten core principles. These have been adopted by this Shared Internal Audit Service, contained within the Internal Audit Charter and listed below.

*Mission: To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.*

*Core principles:*

1. *Demonstrates integrity.*
2. *Demonstrates competence and due professional care.*
3. *Is objective and free from undue influence (independent).*
4. *Aligns with the strategies, objectives, and risks of the organisation.*
5. *Is appropriately positioned and adequately resourced.*
6. *Demonstrates quality and continuous improvement.*
7. *Communicates effectively.*
8. *Provides risk-based assurance.*
9. *Is insightful, proactive, and future-focused.*
10. *Promotes organisational improvement.*

## **4. THE INTERNAL AUDIT APPROACH**

While Internal Audit provides assurance through completing a programme of planned work the service is also flexible and responsive to changing and emerging issues. Some audit work is delivered on an advisory basis, contributing advice on risk and controls, for example attendance at project meetings or undertaking a specific investigation of a newly identified issue. The organisations approach is very much one of seeking the advice of the internal audit team at early stages of any major project to

enable helpful and constructive advice to be provided and to influence the final outcome.

The purpose, authority and responsibility of Internal Audit are formally defined in the Internal Audit Charter, which was approved at the November 2017 Audit and Standards Committee.

## **5. KEY DELIVERABLES**

The key deliverables for the Internal Audit service during 2018/19 are:

- *Delivery of the Plan* - the Internal Audit Manager will ensure there is sufficient audit coverage provided by the approved audit plan to support an annual internal audit opinion and report, which feeds into the Council's Annual Governance Statement.
- *Integrated approach to assurance* – Providing ongoing assurance to management on the integrity, effectiveness and operation of the Council's internal control, governance and risk management processes. Working with other assurance providers including External Audit to prevent duplication of work.
- *Management commitment* - Ensure agreed management responses to audit recommendations made are implemented thereby improving the overall control framework.
- *Continually develop our approach* – To develop, improve and deliver a quality assurance and improvement programme for the service, including working closely with the Audit and Standards Committee.
- *Business insight* - working more closely with Officers, Councillors and services to establish greater relevance to what matter most to the Council by contemplating current and future key risks and challenges.

## **6. PROTOCOL FOR AUDIT REVIEWS**

We will conduct each review in line with our standard audit methodology which is aligned to the Public Sector Internal Audit Standards.

For each audit a Lead Auditee will be identified who will be involved in scoping to ensure the audit is appropriately focused on key risks areas, providing assurance and maximising added value. Terms of reference will be produced for each audit to ensure the scope, objectives and approach are agreed with the appropriate Head of Service.

Following fieldwork a draft Internal Audit report will be issued for discussion with the appropriate levels of management which is normally set out in the terms of reference.

Final reports will be issued after the agreement of draft reports and will contain completed management action plans identifying those responsible for their implementation and appropriate timescales.

Agreed actions or recommendations will be followed up through the Internal Audit tracker process. All high priority recommendations and any passing their original implementation date are reported to the Audit and Standards Committee.

## 7. QUALITY ASSURANCE AND PERFORMANCE MANAGEMENT

The Internal Audit Quality Assurance and Improvement Programme ensures the work of the Internal Audit function conforms with the Public Sector Internal Audit Standards (PSIAS), operates in an efficient and effective manner and is adding value and continually improving Internal Audit activity. This is achieved through internal and external assessment, monitoring, and reporting on performance.

In November 2016 the internal audit function underwent an External Quality Assessment (EQA), which, in line with the PSIAS, must be conducted every five years by a qualified, independent assessor from outside the Council. The EQA, which covered all three Councils in the shared service, confirmed the Internal Audit service complies with the Public Sector Internal Audit Standards. Internal review at the end of 2017/18 confirms the service remains compliant.

To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, performance targets have been established based on best professional practice.

The following service performance targets will be reported on in 2018/19:

Aspect of Service	Performance Indicator	Target
Audit Plan	<ul style="list-style-type: none"> <li>Achievement of the annual Plan.</li> </ul>	<ul style="list-style-type: none"> <li>Sufficient internal audit work in order that the Internal Audit Manager can give their annual opinion.</li> </ul>
Internal Audit processes	<ul style="list-style-type: none"> <li>Issue of draft report after closing meeting.</li> <li>Issue of final report after agreement with client to draft.</li> </ul>	<ul style="list-style-type: none"> <li>10 working days</li> <li>5 working days</li> </ul>
Effective management engagement	<ul style="list-style-type: none"> <li>Management responses within 10 working days of draft report.</li> <li>Implementation of agreed audit recommendations.</li> </ul>	<ul style="list-style-type: none"> <li>10 working days</li> <li>Within agreed timescales</li> </ul>

Aspect of Service	Performance Indicator	Target
Continuing Professional Education (CPE)	<ul style="list-style-type: none"> <li>Auditors maintain and improve their knowledge, skills and other competencies through directed and self directed activities.</li> </ul>	<ul style="list-style-type: none"> <li>40 hours of CPE activity per auditor</li> </ul>

## 8. DEVELOPING THE INTERNAL AUDIT PLAN

The methodology for developing the Internal Audit Plan is focused on the quantification of the risks associated with the Council's objectives in consultation with key Officers. This process also takes into account:

- The accumulated knowledge and experience of the Internal Audit service, including the results of previous reviews.
- A review of audit themes against the Corporate Risk Register and Council priorities.
- The work of other assurance providers both internally and externally.
- The external environment including economic climate, government initiatives such as welfare reform and changes in funding.
- Harmonisation of audit themes with Borough of Broxbourne Council and Epping Forest District Council to enable benchmarking and sharing of good practice.

It is imperative there is good alignment between the Internal Audit Plan and the risks facing each Council. If this is achieved, Internal Audit's work will help inform each Council's risk management framework, enabling greater recognition of key mitigating controls and other sources of assurances available. Where possible the risks identified in the Audit Plan (Appendix A) have been taken directly from the Council's Risk Register.

The Internal Audit Plan is indicative and changes may need to be made as the risk profile and priorities of the Council change. This will be achieved by ongoing review and amendment in consultation with relevant officers. Any significant changes will be presented to the Audit and Standards Committee for consideration and approval.

It is important for Internal Audit to plan ahead and allocate resources over the medium term but still maintain a flexible approach. This is achieved by documenting known risks over a three year period so that the three year plan includes an indication of proposed audit work for years two and three, based on current known risks should circumstances remain unchanged. However, as new risks emerge audit resources will be refocused accordingly over the medium term.

The sections of the Internal Audit Plan include:

- **Corporate Framework** – key risk areas including those defined in the Council’s strategic risk register.
- **Strategic themes** – including cross cutting issues some of which will be incorporated within operational audits or will be undertaken through consultative work.
- **Service areas** – operational audits determined on a risk assessment and/or business priorities.

## 9. PRIORITY AREAS FOR 2018/19

Having regard for the current risk profile of the Council the following have been identified as priority areas for Internal Audit work for 2018/19. These may not be audits in themselves, but cross cutting themes that will be fundamental to the scope of Internal Audit work undertaken.

- *Information Governance and Management:* The General Data Protection Regulations (GDPR) come into force on 25 May 2018. Internal Audit will work with the Council’s Data Protection Officer helping to ensure compliance is achieved and maintained.
- *Risk Management* – Internal Audit has a key role in promoting effective risk management and through its work continues to assist the Head of Finance in ensuring a robust risk management framework exists across the Council. The Audit Plan is driven by the risks of the Council. Within each individual audit Internal Audit will seek compliance with good risk management practices and the adequacy of controls put in place by management to mitigate risks in their service areas.
- *Fraud* – Internal Audit continues to support the Council’s anti-fraud and corruption policy and is pivotal in ensuring a joined up approach is in place.
- *Value for Money (VfM)* – A focus on VfM is reflected in Internal Audit’s work mainly as a cross cutting theme within operational audits. These will incorporate how the Council makes the best use of resources and assets, the balance of cost and performance and meeting the needs of our residents; and providing challenge on whether services could be provided in a different way.
- *Audit Planning, Strategy and Audit and Standards Committee Support* – Internal Audit continue to work with the Audit and Standards Committee in developing its role in relation to best practice and to contribute to effective corporate governance of the Council.

At the operational level the key priorities of Internal Audit work in 2018/19 include:

- *Harlow Trading Services (HTS)* – During year two of trading, Internal Audit will continue to actively seek assurances on the adequacy of internal control, governance and the management of risks regarding HTS from the Council's perspective.
- *InPhase* – Internal Audit continues to assist the development of the Council's service planning, performance and risk management system, InPhase, ensuring services are using the system to full advantage.
- *Analytical review* – During 2018/19 Internal Audit will develop its use of the data interrogation software, IDEA, and use this to undertake a range of short, focussed pieces of work on data sets, for example payroll, inventories and spend analysis.
- *Key Financial Systems* – the effectiveness of controls and management of risks with the core financial systems and processes remains a key element of Internal Audit work. As systems remain stable audits are now scheduled on a four year rather than three year cyclical basis.

## **10. RESOURCES**

2017/18 was the first year of the formal shared service between Broxbourne, Epping Forest and Harlow Councils, with Broxbourne being the host authority and employer of the shared internal audit staff. A Shared Services Board was created and is meeting regularly to oversee the implementation and delivery of the Internal Audit function, assess quality and performance, manage risks and consider major changes to the service. The Board is comprised of key senior officers from Harlow, Broxbourne and Epping Forest Councils.

The Internal Audit function consists of six staff members (5.8 full time equivalent (fte) officers) - the Internal Audit Manager (1.0 f.t.e), three Senior Auditors (2.8 f.t.e) and two Auditors (2.0 f.t.e). Due to an internal promotion one of the Auditor posts has been vacant. In order to make good use of the government's Apprenticeship Levy and to help develop auditors of the future the vacant post will be filled by an Apprentice during 2018/19, with a view to take them on permanently should they prove capable in the role. In the meantime, external providers of Internal Audit are being used to cover the vacancy.

## **11. AUDIT PLAN**

The Audit Plan as detailed in Appendix A requires 399 days as summarised in the table below:

Thematic Area	Audit days 2018/189
Corporate framework including governance, assurance framework, fraud, value for money and risk management	75
Information and performance management	25
Projects, Joint Working and Partnerships	15
Financial audits	30
IT Audits	20
Cross cutting/themed audits	40
Operational Audits	89
Follow Ups	25
Audit Committee Support	25
Advice and other engagement with the business	40
Contingency (including investigations)	15
<b>TOTAL</b>	<b>399</b>

## IMPLICATIONS

### Place (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Place**

### Finance (includes ICT)

Failure to achieve the audit plan may lead to a lack of assurance that internal controls are effective and risks properly managed.

Author: **Simon Freeman, Head of Finance**

### Housing

None specific.

Author: **Andrew Murray, Head of Housing**

### Community Wellbeing (includes Regeneration, Equalities and Social Inclusion)

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

### Governance (includes HR)

The responsibilities, duties and obligations of Internal Audit are set out in the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (2016) against which internal audit activity should be measured and determined.

Author: **Amanda Julian, Legal Services Manager**

## **BACKGROUND PAPERS**

Public Sector Internal Audit Standards

Internal Audit Charter

Internal Audit resource plan and risk assessment

## **Glossary of terms/abbreviations used**

f.t.e – full time equivalent