

REPORT TO: **AUDIT & STANDARDS COMMITTEE**

DATE: **8 MARCH 2017**

TITLE: **INTERNAL AUDIT STRATEGY AND PLAN
2017/18**

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RECOMMENDED that:

- A** The Committee approves the Audit Strategy and Plan for 2017/18.

INTRODUCTION

1. The internal audit function provides independent and objective assurance and consulting services to the Council. This Internal Audit Strategy summarises the key principles for the Internal Audit team for the period 2017/18, with some longer term aims. The Strategy supports the Audit Plan which sets out the work of the internal audit service for the year.
2. Internal audit supports and contributes to the achievement of the Council's 2017-2020 corporate priorities and guiding principles*. These have been taken into account whilst developing the Internal Audit Strategy and Plan.
 - (i) More and better housing.
 - (ii) Regeneration and a thriving economy.
 - (iii) Wellbeing and social inclusion.
 - (iv) A clean and green environment.
 - (v) Successful children and young people.
 - (vi) Being the Community Leader *.
 - (vii) Sound resource management*.

PURPOSE

3. The purpose of the Internal Audit Strategy and Plan is to document the internal audit team's approach to:
 - (i) Provide independent and objective assurance to Councillors and senior management on the effectiveness of the Council's internal control framework.

- (ii) Ensure the recognition of the key risks the Council faces in meeting its objectives when determining and allocating the use of internal audit resources.
- (iii) Add value and support to senior management in providing effective control, whilst identifying opportunities for improving value for money.
- (iv) Deliver an internal audit service that is compliant with the requirements of the Public Sector Internal Audit Standards.

INTERNAL AUDIT MISSION AND CORE PRINCIPLES

4. 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 and ten core principles. These have been adopted by this Shared Internal Audit Service and are listed below.

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

Core principles:

- (i) Demonstrates integrity.
- (ii) Demonstrates competence and due professional care.
- (iii) Is objective and free from undue influence (independent).
- (iv) Aligns with the strategies, objectives, and risks of the organisation.
- (v) Is appropriately positioned and adequately resourced.
- (vi) Demonstrates quality and continuous improvement.
- (vii) Communicates effectively.
- (viii) Provides risk-based assurance.
- (ix) Is insightful, proactive, and future-focused.
- (x) Promotes organisational improvement.

THE INTERNAL AUDIT APPROACH

5. 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 a consultancy basis, contributing advice on risk and controls. For example, ex-officio attendance at project meetings or undertaking a specific investigation of a newly identified issue.

6. The purpose, authority and responsibility of internal audit are formally defined in the Internal Audit Charter, which was approved at the March 2016 Audit and Standards Committee.

KEY DELIVERABLES

7. The key deliverables for the internal audit service during 2017/18 are:

- (i) Delivery of the Plan - the Internal Audit Manager will ensure there is sufficient audit coverage in order to provide an annual internal audit opinion and report, which feeds into the Council's Annual Governance Statement.
- (ii) 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.
- (iii) Management commitment - Ensure agreed management responses to audit recommendations made are implemented thereby improving the overall control framework.
- (iv) 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.
- (v) Business insight - Working more closely with services to establish greater relevance to what matter most to the Council by contemplating current and future key risks and challenges.

PROTOCOL FOR AUDIT REVIEWS

8. We will conduct each review in line with our standard audit methodology which is aligned to the Public Sector Internal Audit Standards.
9. 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.
10. 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.

11. Final reports will be issued after the agreement of draft reports and will contain completed management actions plans identifying those responsible for their implementation and appropriate timescales.
12. 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.

QUALITY ASSURANCE AND PERFORMANCE MANAGEMENT

13. 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.
14. 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.
15. 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 and cover the following aspects:
16. The following service performance targets will be reported on in 2017/18:

Aspect of Service	Performance Indicator	Target
Audit Plan	<ul style="list-style-type: none"> • Achievement of the annual Plan 	<ul style="list-style-type: none"> • 95% minimum
Internal Audit processes	<ul style="list-style-type: none"> • Issue of draft report after closing meeting • Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> • 10 working days • 5 working days
Effective management engagement	<ul style="list-style-type: none"> • Management responses within 10 working days of draft report • Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> • 10 working days • Within agreed timescales

DEVELOPING THE INTERNAL AUDIT PLAN

17. 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:

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

18. The recent External Quality Assessment identified a need for better alignment between the Internal Audit Plan and the risks facing each Council. Through this 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.

19. 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 and any significant changes brought to the Audit and Standards Committee for approval.

20. It is important for internal audit to plan ahead and allocate resources over the medium term but still maintain a flexibility of 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 if circumstances remain unchanged. However, as new risks emerge audit resources over the medium term will be focused accordingly.

21. The sections of the Internal Audit Plan include:

- (i) Corporate Framework – Key risk areas including those defined in the Council's Strategic Risk Register.
- (ii) Strategic themes – Including cross cutting issues some of which will be incorporated within operational audits or will be undertaken through consultative work.
- (iii) Service areas – Operational audits determined on a risk assessment and/or business priorities.

PRIORITY AREAS FOR 2017/18

22. Having regard for the current risk profile of the Council the following have been identified as priority areas for Internal Audit work for 2017/18. These may not be audits in themselves, but cross cutting themes that will be fundamental to the scope of Internal Audit work undertaken.

- (i) Information governance and management – This includes data quality and security. Internal Audit work will seek to provide assurances over the management information used for making key decisions.
- (ii) 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 across the Council. The Audit Plan is driven by the risks of the Council. Within individual audits, 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.
- (iii) Fraud – Internal audit continues to support the Council's anti-fraud work and strategy, with a focus on producing a Council wide fraud action plan.
- (iv) 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.
- (v) Audit planning, strategy and Audit and Standards Committee support – Internal audit will 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.

23. At the operational level the key priorities of internal audit work in 2017/18 include:

- (i) HTS (Property and Environment) Ltd – Internal audit will be actively involved and seek assurances on the adequacy of internal control, governance and the management of risks of the new HTS venture from the Council's perspective.
- (ii) InPhase – Internal audit continues to contribute to the InPhase project which is the new service planning, risk management and performance management system. Internal audit will assist the Council as the system goes live to ensure services are using the system to full advantage.

- (iii) Key financial systems – The effectiveness of controls and management of risks with the core financial systems remains a core part of internal audit work. Audits have been scheduled on a three year cyclical basis so not all key financial systems will be undertaken each year.

RESOURCES

24. During 2016/17, the internal audit function operated as a formal shared service between Broxbourne and the Council with the Internal Audit Manager also overseeing the delivery of internal audit services for Epping Forest District Council (EFDC). The cost of the post of Internal Audit Manager being shared equally across the three Councils.
25. The formal shared service with Broxbourne consists of the Internal Audit Manager two Senior Auditors (1.8 f.t.e) and one Auditor (1.0 f.t.e) who are all employed by Broxbourne and the costs shared equally with the Council. In addition, external expertise was bought in to undertake IT audits at the Council. In April 2016 the post of Senior Auditor (0.5 f.t.e.) within the Council became vacant and it was agreed not to fill this post relying on the shared service between the three Councils instead.
26. The internal audit function at EFDC consists of one Senior Auditor and two Auditors (all 1.0 f.t.e) and working practices and methodology between the three Councils have been aligned.
27. It was agreed with the three Councils that for 2016/17 auditors would work across each Council regardless who employed them and this has been happening in practice. Further progress is being made towards establishing a formal shared service between the three Councils, with Broxbourne being the host authority and employer of the shared internal audit staff, from 1 April 2017. To oversee Internal Audit a Shared Services Board is being created comprising the S151 Officers from Broxbourne and Harlow and the Monitoring Officer for Epping Forest (as Internal Audit falls under their remit) to oversee the implementation and delivery of the function, assess quality and performance, manage risks and consider major changes to the service.

AUDIT PLAN

28. The Audit Plan as detailed in Appendix A requires 385 days as summarised in the table below:

Thematic Area	Audit days 2017/18
Corporate framework including governance, assurance framework, fraud, value for money and risk management	53 (14%)
Information and performance management	47 (12%)
Projects, Joint Working and Partnerships	30 (8%)

Financial audits	48 (12%)
IT Audits	12 (3%)
Cross cutting/themed audits	24 (6%)
Operational Audits	76 (20%)
Follow Ups	15 (4%)
Audit Committee Support	25 (6%)
Advice and other engagement with the business	35 (9%)
Contingency (including investigations)	20 (5%)
TOTAL	385

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: **Brian Keane, Head of Governance**

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

Appendices

Appendix A – Harlow Council Internal Audit Three Year Plan 2017/18 to 19/20