

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT PLAN 2017-18

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To consider and approve the internal audit plan for 2017/18.

2. BACKGROUND INFORMATION

- 2.1 The Accounts and Audit Regulations 2015 requires the Council to ensure there are sound systems of internal control and to undertake effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. Internal audit must take into account Public Sector Internal Auditing Standards (PSIAS) and guidance.
- 2.2 The PSIAS requires that an Internal Audit Plan is agreed by the Audit Committee annually. The audit plan must be risk-based and take into account the organisation's risk management framework and reflect changes in the organisation's business, risks, operations, programs, systems and controls. The plan also confirms the resources available and required to support a reliable year-end Audit opinion.
- 2.3 The North Lincolnshire Audit Charter, approved by the Audit Committee in January 2017 defines the internal audit activity's purpose, authority and responsibility and defines the scope of internal audit activities. Appendix 2 provides a detailed commentary about the methodology and delivery from the Head of Audit and Assurance.

3. OPTIONS FOR CONSIDERATION

Option 1

- 3.1 To consider whether the Internal Audit plan (as shown on Appendix 3) will provide sufficient assurance in 2017/18.
- 3.2 To approve the Internal Audit plan for 2017/18 (subject to further detail being confirmed with the new leadership team)

4. ANALYSIS OF OPTIONS

- 4.1 The audit plan meets the requirements of the Public Sector Internal Audit Standards (PSIAS), outlined in Appendix 1 and the North Lincolnshire Internal Audit Charter.
- 4.2 The Head of Internal Audit and Assurance is satisfied that he has sufficient resources for the delivery of the plan and that it will provide a reliable year-end annual audit opinion on the council's control environment.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 The plan will be delivered from existing resources within the council's internal audit service which is provided through the Shared Service. The resource allocation is based upon assumptions about the design and operation of systems and processes; the co-operation of council staff with the audit process and estimated vacancy and absence rates. The resource allocation will be reviewed periodically to take account any changes in assumptions and the extent of emerging risks.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 6.1 An Integrated Impact Assessment is not required.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

- 7.1 The plan is subject to discussion with members of the Council's Leadership team and their comments were incorporated wherever possible.
- 7.2 There are no conflicts of interests to declare in relation to the plan as a whole. At the beginning of each year audit team members, in line with the audit of code of conduct are required to declare any close relationships which could impact on the delivery of particular audit assignment. If relevant such assignments are provided to other members of the team.

8. RECOMMENDATIONS

- 8.1 That the Audit Committee:
 - (a) Considers whether the Internal Audit plan for 2017/18 will provide the Committee with sufficient level of assurance to fulfil its role; and
 - (b) Approves the Internal Audit plan for 2017/18.

DIRECTOR GOVERNANCE AND PARTNERSHIPS

Civic Centre
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB

Author: Peter Hanmer
Date: March 2017

Background Papers used in the preparation of this report:

Public Sector Internal Audit Standards
The Accounts and Audit Regulations 2015
The Audit Charter- January 2017

Appendix 1

Confirmation of compliance with Public Sector Internal Auditing Standards (PSIAS requirements)

PSIAS Requirement	How we demonstrate compliance
The Head of Internal Audit (HOIA) must establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals. (PSIAS 2010)	The plan is based, where possible on the Council's strategic risk register, and those services with the greatest impact on the achievement of strategic objectives are given greatest priority.
The risk-based plan must take into account the requirement to produce an annual Internal Audit opinion and the assurance framework. (PSIAS 2010 public sector requirement)	The Audit plan has been designed to ensure that there is sufficient evidence to provide a reliable year end opinion in relation to risk, governance and internal control. It also includes work to support assurances for the Annual Governance Statement.
The plan must incorporate or be linked to a high-level statement of how the Internal Audit service will be delivered, developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities. (PSIAS 2010 public sector requirement)	The North Lincolnshire Audit Charter lays out the key objectives of internal audit, the methodology used to develop the plan (paragraphs 2 to 6 in Appendix 2), and its links to organisational objectives and priorities (such as linking each assignment to a strategic outcome)
The risk-based plan must explain how Internal Audit's resource requirements have been assessed. (PSIAS 2030 public sector requirement)	Included in the Audit plan. There is sufficient resource available to deliver the Audit plan and provide sufficient evidence to support the annual opinion, subject to the risks identified.
The plan must be based on a documented risk assessment, undertaken at least annually and include input of Senior Management and the board. (PSIAS 2010.A1)	The plan is based on an assessment methodology laid out in Appendix 2 of the plan, and includes input from Senior Management.

Head of Audit and Assurance: Statement on Planning, Methodology and Delivery

Compilation of the Audit plan

Risk Based Approach

- 1 We have developed planning processes to ensure as far as possible that Audit resources are prioritised to where the need is greatest, and where potentially Audit could provide most value. In compiling the plan we have ensured that the requirements laid down in the standards have been met.
- 2 At the heart of the approach to Internal Audit is the “3 lines of defence of model” where:
 - the first line of defence is the control environment operated by managers in individual services;
 - the second line of defence includes the oversight functions such as Finance, HR, Procurement, Legal Services, “Client management” who provide advice, direction and support to individual services; and
 - the third line of defence, such as Internal Audit, External Audit and other external assurance providers which offer independent challenge to business functions.

The more developed the first and second lines of defence are then the greater the reliance can be based on the assurances obtained by services rather than direct Internal Audit work.

- 3 The plan is divided into a number of components to reflect the various inter-related elements for which the audit team provide assurance:
 - strategic and operational risks relating to the delivery of the Council’s strategic outcomes;
 - the key financial systems to support the S151 Officer’s statement provided as part of the Annual Statement of Accounts in relation to the reliability of the systems supporting the accounts;
 - other key areas which support the Council’s control environment (e.g. human resources. ICT, procurement);
 - providing assurance on the control environment within maintained schools; and
 - work such as providing advice and support, the mandatory certification of external grants claims, and audit team member’s contribution to the Council’s approach to counter fraud.

- 4 In relation to strategic and operational risks we not only review the risk register as a key source of intelligence, but we also carry out a detailed assessment of the Council's activities which takes into account their impact on the control environment and the extent to which there is a risk of control failure or there was relatively little cumulative knowledge about the design and operation of the system/ service. A summary of the outline scoring structure for assessing the impact of a control failure is shown below. Those with the highest combined score are prioritised for inclusion in the Audit plan, and we have identified a long list of priorities. The new council management structure is formally implemented from 1 April 2017, therefore the detail of the plan will be informed as part of the formulation of the Director's Assurance Statements. The audit details will be presented at the next Audit Committee.
- 5 In relation to financial system, human resources, ICT and procurement we have made assumptions about the level of resource required to provide a reliable year end opinion. We have assumed that the continued integration of process between the two Councils will lead to economies of scale in relation to our audit reviews, whilst in relation to the financial and human resources systems many are likely to be subject to considerable change in 2017/18 and hence there may not be benefit in doing detailed work in these areas. Should these assumptions prove to be incorrect (such as the systems and process not being as integrated as we anticipated) then more resources may be required in these areas.
- 6 We also use our expertise of control, risk, governance and VfM to support change programmes, major commissioning and procurement exercises and the implementation of new systems. Indeed this is an area where we will continue to enhance the role of Internal Audit in the future as providing support at an early stage can prevent control weaknesses arising from the outset. Supporting the development of the new financial system and development of the Council's commercial approach have already been identified as areas in which audit will provide assistance in an advisory capacity.
- 7 The days assigned to particular areas of the plan are indicative. During the set up stage for each assignment the Audit team will work with relevant Directors and Managers to identify key risks and the controls in place to mitigate those risks, at which point we will determine a time budget to ensure that the level of Audit work is proportionate. As well as testing the controls in place we will aim to add value by identifying notable practice, where possible, and where appropriate use techniques such as facilitated workshops and analytical review. We will focus on identifying VfM opportunities with services, and if applicable identify controls that may not significantly add value.

Resources available to deliver the Audit plan

- 8 The standards require the Chief Audit Executive to be satisfied that he or she has sufficient resources available to deliver the plan and be able to provide an opinion on the control environment and discharge their other responsibilities. In addition, under the CIPFA statement “The Role of the Head of Internal Audit” the Head of Internal Audit must “lead and direct an Internal Audit service that is resourced to be fit for purpose”.
- 9 Based on the risks identified we can confirm that:
 - There are sufficient resources available to deliver the Audit plan as laid out in Appendix 3 –we have been prudent in estimating the level of resources available for 2017/18 due to work carried forward for completion of the 2016/17 audit plan and the likelihood of not having a full staff complement during 2017/18. We have set a plan of 1250 days compared to 1317 in 2016/17, but on our audit planning exercise, we are satisfied that this should be sufficient to provide us with the necessary evidence to provide a reliable opinion on the control environment. Should this prove to be overly prudent we will be able to carry out additional audit work in those areas identified as important but not essential, or alternatively be used for providing assurance on risks and issues which emerge during the year.
 - Sufficient work has been planned to effectively discharge Internal Audit’s responsibilities - as explained above, an assessment has been carried out on all areas that can impact on the control environment, strategic objectives, and governance of the Council, and we will ensure that assurance will be provided on those areas with the greatest impact.

Reporting Arrangements

- 10 For most audits we will provide an overall opinion on the control environment of the area under review: (“substantial”, “satisfactory”, “limited”, “none”). There will be some areas where we may choose not to provide an opinion; typically this will be where new systems/ approaches are under development.

A summary of the results of Audits will be presented to the Audit Committee twice a year. In addition, the Head of Audit and Assurance will produce an Annual Report. This will summarise the outcome of all Internal Audit activity, and provide an opinion on the Council’s overall control environment.

Monitoring Arrangements

- 11 Internal Audit will report progress in achieving the annual plan (including any amendments due to emerging risks) on a regular basis to the Audit Committee. The Audit team has a number of performance indicators based on three principles of Outcome Based Accountability against which performance will be assessed:
- “what did we do?”;
 - how well did we do it?; and
 - how did we add value”.

Scoring Structure

The services/ systems identified in the Audit Universe are prioritised based on multiplying the impact on the control environment with the likelihood of a significant control failure.

Impact on the control environment

Attributes of a 5 score

Exhibits at least one of the following:

- Has a significant impact on the achievement of a stated strategic outcome ;
- Has a material impact on the Financial Statements;
- Has a material impact on the governance arrangements of the Council and impacts on the Annual Governance Statement;
- Is intended to mitigate a significant strategic risk;
- Has a significant impact on ensuring that the Council operates within applicable laws and regulations and/or prevents significant reputational risk;
- Significant inherent risk of fraud or the loss of assets;
- Significant safeguarding implications;
- Failure of the service may potentially lead to:
 1. a significant financial loss;
 2. a detrimental impact to service users; or
 3. an adverse effect on the Council's reputation.

Attributes of a 1 score

Exhibits most of the following:

- The activity does not significantly contribute to the achievement of strategic outcomes;
- The activity is relatively small in value, and would not have a material impact on the Financial Statements;
- The activity does not have a material impact on the governance arrangements of the Council;
- The activity does not have a significantly impact on the Councils strategic or operational risks;
- The activity is not significantly subject to laws and regulation and/or does
- Low inherent risk of fraud or the misappropriation of assets;
- Limited direct safeguarding implications;
- Failure of the service would not lead to:
 1. a significant financial loss;
 2. a detrimental impact to service users; or
 3. an adverse effect on the Council's reputation

**NLC audit plan 2017/18
(draft)**

	Strategic Objective	Director	Code of governance	Days	Comments
Strategic and operational risks				548	Providing assurance on key strategic and operational risks which impact on the council's control environment, its code of governance, or the delivery of its key strategic outcomes (detailed assignments to follow)
Financial systems		Governance and partnerships	Robust internal control and strong financial management	120	To provide assurance on the key fundamental systems which underpin the financial statements
Human Resources		Business Development	Robust internal control and strong financial management	20	To provide assurance on the operation of ICT which underpins the Council's control environment, including information governance
ICT		Governance and partnerships	Developing capacity	60	To provide assurance on the design and operation of human resources policies, with the exact areas to be reviewed to be determined during 17/18 based on priorities
Procurement		Governance and partnerships	Robust internal control and strong financial management	15	To provide assurance on the Council's procurement processes using a cyclical plan

	Strategic Objective	Director	Code of governance	Days	Comments
Schools		Learning, Skills & Culture	Robust internal control and strong financial management	100	To provide assurance on the control environment within maintained schools based upon cyclical visits of to schools and an overall review of financial management of maintained schools
Advisory work				70	General advice and support provided by internal audit to services
Grants - certification				20	Mandatory certification of grants including: Highways, Bus subsidies, Troubled Families
Follow up				47	Maintenance of follow up process and anticipated follow up audits not yet allocated
Fraud and investigation				125	Proactive and reactive investigations (including NFI) to support the council's overall approach to minimising fraud and financial misconduct
Audit Management				75	General support to the delivery of the audit plan including audit planning, supporting the audit committee, attendance at senior management meetings, quality assurance, updates to Directors, performance information
Contingency				50	
Total				1250	