

MIDDLESBROUGH COUNCIL

COMMITTEE REPORT

CORPORATE AFFAIRS AND AUDIT

30 June 2014

Internal Audit – Final Annual Internal Audit Plan 2014/15

Helen Fowler – Audit and Assurance Manager

PURPOSE OF REPORT

1. This report seeks the approval of the Corporate Affairs and Audit Committee to the final 2014/15 Internal Audit Plan for Middlesbrough Council. The Internal Audit Plan, and its consideration by the Corporate Affairs and Audit Committee, is a key element in the annual governance cycle of the Council. It provides a means by which Tees Valley Audit & Assurance Services (TVAAS) can demonstrate that they are delivering an effective internal audit service which meets the requirements of the Public Sector Internal Audit Standards (PSIAS). The audit plan is based upon a number of factors and is designed to provide the Corporate Affairs and Audit Committee with assurance that the Council's framework of internal control is adequate and effective and thereby supports the Committee's review of the Annual Governance Statement.

BACKGROUND

2. Internal Auditing is 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 Council's internal audit service is provided by a shared service arrangement with Redcar and Cleveland Council. A shared service agreement has been documented between the two councils and includes a number of performance measures. This is the fourth annual plan produced under the shared service arrangements.
4. The plan was presented to members of the Audit and Governance Committee in draft format in March 2014 so that Members were able to contribute to the consultation process by commenting upon the areas selected for review and the overall scope of the plan. The Plan has been agreed by the Corporate Executive Management Team following consultation with the Assistant Director Finance and

Investment (S151 Officer) and with directorate management teams. The only changes that have been made to the Plan are formatting revisions to reflect the organisational changes that have occurred within the Council since the draft version was first presented to the Audit and Governance Committee. Progress against the plan will be reported to Members of this Committee by the Audit and Assurance Manager throughout the financial year.

5. The work carried out by TVAAS is aimed at providing assurance to the Council's senior officers, elected members and members of the public that the key risks faced by the Council are being managed effectively and that appropriate safeguards are in place for public funds and assets. It contains audits to ensure that sufficient work is undertaken to enable the production of an opinion as to the adequacy and effectiveness of the Council's governance, risk and internal control arrangements. Due to the cost savings that the Council must make across all of its services, the number of audit days for 2014/15 has been reduced by 25%. It is more crucial than ever that this reduced resource is focussed on the areas of highest priority and risk to the Council and therefore the largest proportion of audit days are allocated to providing assurance on corporate themes (e.g. Risk Management and Contract Management), material financial systems (e.g. Accounts Receivable and Payable) and key areas specific to directorates such as safeguarding.
6. The annual internal audit plan for 2014/15 is detailed in **Appendix 1**. It sets out how internal audit resources will be deployed between a number of assurance categories including corporate assurance, change programme support, internal control compliance reviews, counter fraud and financial systems. The work of internal audit needs to support the Council in meeting its financial challenges therefore, as last year; the draft audit plan includes a category of work that is specifically linked to supporting the Change Programme.
7. Each assignment is included in the Plan for one of more of the following reasons:
 - It is on the corporate or departmental risk registers or it relates to a key priority in the Council's Plan.
 - It has been specifically requested by a director or head of service at a directorate management team meeting.
 - Previous audit work has identified the area as a known weakness requiring further review.
 - It is a material financial system to the Council and therefore internal audit assurance is required on an annual basis both for the purposes of external audit and the annual governance statement.
 - The proposed audit area is linked to the Change Programme, service reviews or planned savings.
8. For each assignment, the Plan also includes detail as to what the audit is likely to cover but this is only a very brief indication at this stage. The exact scope for each

piece of work will be agreed with the relevant head of service or director at the planning stage of each audit.

9. Any audit plan needs to be a flexible document so that it can respond to management requests, changes in priorities and new or emerging risks. It is anticipated that close liaison with the Corporate Executive Management Team, heads of service, risk management and performance management teams, external audit and departmental managers will produce audits that will add value to the Council's operations and will address the management of key risks. The reduced number of audit days does mean that the usual contingency allocation has been significantly reduced therefore should additional audit requirements arise unexpectedly during the year (e.g. in response to allegations of fraud or new and emerging risks), consideration will have to be given as to which planned audits are of a lesser priority and therefore can be replaced. Alternatively, the Council has the option of purchasing additional audit days during the year if that is considered to be appropriate.
10. As the Council's internal audit service is provided by a shared service arrangement, a service agreement has been documented between the two councils and includes a number of performance measures. Progress against these performance measures (and a number of additional measures added by the Audit and Assurance Manager) will be provided to this Committee throughout the financial year.
11. Internal Audit, along with other assurance processes of the Council, have a statutory obligation under the Accounts and Audit (Amendment) (England) Regulations 2011 to provide assurance from the work they undertake in respect to the internal control systems operating within the Council.

FINANCIAL CONSIDERATIONS

12. Redcar & Cleveland Council charges Middlesbrough Council for the provision of an internal audit service. Charges are based on a daily charge rate linked to the actual work carried out and the grade of staff involved in the audit work.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

13. There are no specific financial or ward implications arising from the Internal Audit Plan 2014/15.

RECOMMENDATIONS

14. That Members are asked to approve the internal audit plan for 2014/15 and/or suggest additional/alternative areas for inclusion.

REASONS

15. Public Sector Internal Auditing Standard 2020 recommends that the internal audit plan should be communicated to the Corporate Affairs and Audit Committee for their review and approval.

16. The Plan acts as a means of demonstrating that an effective planning process has been undertaken and that internal audit resources will be used effectively. Internal audit standards and the Council's internal audit charter require the compilation of a proposed audit plan prior to the commencement of each financial year. The Plan must be based on key risks and priorities facing the Council and should take into account the views of Members of the Corporate Affairs and Audit Committee.

BACKGROUND PAPERS

- Public Sector Internal Audit Standards
- Corporate and directorate risk registers
- CIPFA Guide to Audit Committees in Local Government

AUTHOR

Helen Fowler – Audit and Assurance Manager
Telephone: 01642 771165 or 01642 729821

Address: PO Box 99A, Town Hall, Middlesbrough. TS1 2QQ
Website: <http://www.middlesbrough.gov.uk>