

MIDDLESBROUGH COUNCIL

COMMITTEE REPORT

CORPORATE AFFAIRS AND AUDIT

5 March 2015

Internal Audit – Draft Annual Internal Audit Plan

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PURPOSE OF REPORT

1. This report seeks the comments of the Audit & Governance Committee to the draft 2015/16 Internal Audit Plan for Middlesbrough Council. The Internal Audit Plan, and its consideration by 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 fifth annual plan produced under the shared service arrangements.
4. The plan is presented to members of this Committee in draft format so that Members are able to contribute to the consultation process by commenting upon the areas selected for review and the overall scope of the plan. Consultation is ongoing and already has been made with the Chief Executive, the directors and their management teams of Economic Development and Communities and Wellbeing, Care and Learning. Consultation has also been made with the Chief Financial Officer and the current external auditor. Once the consultation exercise

has been fully completed, a final version of the plan, incorporating any revisions considered appropriate, will be brought back to the next meeting of this Committee for formal approval. Progress against the Plan will then be reported to Members 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 overall audit budget will be reduced by a further 12.5%. However, because of the different focus and mix of audits proposed for 2015/16, it is possible to meet this reduction whilst also delivering (based on the current draft) a small increase on the number of days to be included in the Plan (1065 compared to 994 in 2014/15). It is vital that the internal audit resource is focussed on the areas of highest priority and risk to the Council and therefore the highest proportion of audit days are allocated to providing assurance on corporate themes (e.g. risk management and performance management), material financial systems (e.g. Accounts Receivable and Payable) and key areas specific to directorates such as safeguarding.
6. The proposed annual internal audit plan for 2015/16 is detailed in **Appendix 1**. It sets out how internal audit resources will be deployed between a number of assurance categories including corporate assurance, internal control compliance reviews, counter fraud and financial systems. The work of internal audit needs to support the Council in delivery quality services whilst also meeting its financial challenges. The reduction in internal audit budget available however means that the level of assurance that can be provided by TVAAS to the Council in the number of days available is decreasing.
7. The reduced internal audit resource means that the Plan needs to focus on the material systems and risks to the Council. Each assignment will therefore be 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 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 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 internal audit budget does mean that the contingency allocation is not very high therefore should additional audit requirements arise unexpectedly during the year (e.g. in response to allegations of fraud or new and emerging risks), consideration would have to be given as to which planned audits were of a lesser priority and therefore could be replaced. Alternatively, the Council may consider an option of purchasing additional days if it requires.
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 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 2015/16.

RECOMMENDATIONS

14. That Members are asked to comment on the proposed internal audit plan for 2015/16 and suggest additional/alternative areas for inclusion.

REASONS

15. Public Sector Internal Auditing Standards recommend that the Corporate Affairs and Audit Committee are consulted when compiling the Audit Plan.
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

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