

COMMITTEE REPORT

CORPORATE AFFAIRS AND AUDIT

4 February 2016

Internal Audit – Audit Plan 2016/17 Consultation

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PURPOSE OF REPORT

1. This report represents the first consultation with Members of the Corporate Affairs and Audit Committee on the content of the 2016/17 Audit Plan for Middlesbrough Council. The purpose of the report is to seek Members' views on the priorities for the Audit and Assurance Team for the 2016/17 programme of work.
2. The Audit Plan, and its consideration by the Corporate Affairs and Audit Committee, is a key element in the annual governance cycle of the Council. Internal audit standards and the Council's audit charter require the Audit and Assurance Manager to compile an indicative audit plan at the start of each financial year. The Plan 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). PSIAS 2020 states that the internal audit activity plans should be submitted to the Corporate Affairs and Audit Committee for review and approval. In coming to a view on the risks and priorities facing the Council, the opinions of Members of the Governance Committee are taken into account.

BACKGROUND

3. 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.
4. Each year the Corporate Affairs and Audit Committee must agree an Annual Governance Statement, giving assurance that proper governance of operations has been in place throughout the year. Part of that assurance is gained from the work of TVAAS (Audit and Assurance Team) which acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the

control environment as a contribution to the proper, economic, efficient and effective use of resources.

5. The Council's internal audit service is provided by TVAAS, 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.
6. It is important that the Corporate Affairs and Audit Committee is consulted on the scope of the annual internal audit plan in advance of its formal approval so that Members of the Committee are confident that there is adequate audit coverage to be able to give that assurance. The detailed audit plan for 2016/17 will be provided to Members at the meeting of this Committee in June. **Appendix 1** provides a summary of the key ways in which the Plan aims to provide assurance and some possible audit assignments that have already been identified based on consultation to date. Consultation is ongoing and has or will be 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 external auditor. Once the consultation exercise has been fully completed, a more detailed and final version of the plan will be brought back to this Committee for formal approval. Progress against the Plan will then, as always, be reported to Members by the Audit and Assurance Manager throughout the financial year.
7. Committee Members are encouraged to make their own suggestions as to any areas where they require assurance. Many of the audits will involve sample testing and discussion with officers across all directorates of the Council in order to be able to provide assurance at a corporate level. However, a number of audits will be specific to one directorate.
8. 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 budget for internal audit is considerably lower than it was prior to the implementation of the shared service. It is therefore more important than ever 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 will be allocated to providing assurance on corporate governance themes (e.g. project management, information governance, performance management); material financial systems (e.g. Accounts Receivable and Payable) and key risk or priority areas specific to directorates such as safeguarding. The detailed Plan will include the exact number of planned audit days in total for the year and per assignment.
9. The reduced internal audit resource means that the Plan needs to focus on the material systems and the corporate risks to the Council. It is anticipated that close liaison with the Leadership Management Team, elected Members, external audit

and service managers will produce audits that will add value to the Council's operations and will address the management of key risks. Each assignment will be included in the Plan for one of more of the following reasons:

- It is on the corporate or directorate risk registers or it relates to a key priority in the Council's Plan.
 - It is a national risk or issue or there has been a major change in legislation.
 - The area has been subject to considerable change or restructure.
 - It has been specifically requested by a Member, director or head of service.
 - Previous audit work has identified the area as a known concern 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. These audits tend to cover systems where the volume and value of transactions processed are significant and where, the impact would be considerable if controls were to fail.
 - The proposed audit area is linked to the Change Programme, Middlesbrough 2020, Governance Improvement Plan or other area for development highlighted during the peer review.
10. Any internal audit plan needs to be a flexible document so that it can respond to management requests, changes in priorities and new or emerging risks. The Plan will be written to allow some time to be allocated to events as they emerge during the year e.g. frauds and special investigations. The reduced internal audit budget will mean however that the contingency allocation will not be 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.
11. 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.
12. Internal Audit, along with other assurance processes of the Council, have a statutory obligation under the Accounts and Audit (Amendment) (England) Regulations 2015 to provide assurance from the work they undertake in respect to the internal control systems operating within the Council.

FINANCIAL CONSIDERATIONS

13. 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

14. There are no specific financial or ward implications arising from the Internal Audit Plan 2016/17.

RECOMMENDATIONS

15. It is recommended that Members of the Corporate Affairs and Audit Committee note and comment on the planned audit areas as set out in **Appendix 1** and identify areas where they require assurance in 2016/17.

REASONS

16. PSIAS 2020 states that the internal audit activity plans should be submitted to the Corporate Affairs and Audit Committee for review and approval. In coming to a view on the risks and priorities facing the Council, the opinions of Members of the Committee are taken into account.
17. By operating to an agreed programme of audits, the work of TVAAS is aimed at assisting the Council in meeting its priorities and managing its risks. It identifies areas for improvement resulting in remedial action being taken where required. 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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