

**COMMITTEE REPORT**

**CORPORATE AFFAIRS AND AUDIT**

**9 February 2017**

**Internal Audit – Audit Plan 2017/18 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 2017/18 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 2017/18 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 Service (TVAAS) can demonstrate that it is 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 Corporate Affairs and Audit 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 is a shared arrangement with Redcar and Cleveland Borough Council. TVAAS 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. 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. Committee Members are therefore encouraged to make their own suggestions as to any areas where they require assurance.
6. **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. It is important to note that consultation is ongoing and that the assignments included in **Appendix 1** are likely to change once all DMTs, external audit and the Chief Executive have been consulted and all comments collated and considered. A revised draft of the Plan will be agreed with the Strategic Director of Finance, Governance and Support before being re-presented to LMT and then, as a final and more detailed version, to this Committee in June 2017. The detailed Plan will include the exact number of planned audit days in total for the year and per assignment. Progress against the Plan will then, as always, be reported to Members by the Audit and Assurance Manager throughout the financial year.
7. 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. 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 whilst a number of audits will be specific to one directorate. The overall Internal Audit Plan needs to contain sufficient coverage to enable the Audit and Assurance Manager to provide an annual overall opinion as to the adequacy and effectiveness of the Council's governance, risk and internal control arrangements.
8. Due to the cost savings that the Council has had to make across all of its services, the overall budget for internal audit has reduced since the implementation of the shared service. It is vital therefore that the internal audit resource is focussed on the areas of highest priority and risk to the Council. This means that the highest proportion of audit days will be allocated to providing assurance on corporate governance themes; those areas relevant to the Council's Improvement Plan; material financial systems and key risk or priority areas specific to directorates.
9. 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 on the Plan for one of more of the following reasons:
  - It relates to key actions on the Council's Improvement Plan (CIP);

- 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.
  - It is an internal audit role or task required for compliance with Public Sector Internal Auditing Standards.
10. Any internal audit plan needs to have some flexibility so that it can respond to management requests, changes in priorities and new or emerging risks throughout the year. The final version of the Plan will allow some time to be allocated to events as they emerge during the year e.g. allegations of concerns and special investigations.
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. It is proposed that these measures will be reviewed and discussed with the Strategic Director Finance, Governance and Support, as part of this year's audit plan consultation in order to ensure that reported measures remain relevant and meaningful.
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. The budget for internal audit for 2017/18 has not been reduced from the 2016/17 budget and is just over £180K.

## **FINANCIAL, LEGAL AND WARD IMPLICATIONS**

14. There are no specific financial or ward implications arising from the Internal Audit Plan 2017/18.

## **RECOMMENDATIONS**

15. It is recommended that Members of the Corporate Affairs and Audit Committee note and comment on the proposed audit areas as set out in **Appendix 1** and identify areas where they require assurance in 2017/18.

## **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**

18. No background papers other than published works were used in writing this report.

## **AUTHOR**

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