

CORPORATE AFFAIRS AND AUDIT COMMITTEE

Report title	Internal Audit Plan 2018/19
Chief Executive or Director	Strategic Director of Finance, Governance and Support
Date	29 May 2018
Purpose of the report	The purpose of the report is to seek Members' final views on the priorities for the Internal Audit 2018/19 programme of work.
Summary of the report	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. Public Sector Internal Audit Standards and the Council's audit charter require the Chief Internal Auditor to compile an indicative audit plan at the start of each financial year. Standard 2020 requires that internal audit plans are communicated to senior management and the 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.
If this is a confidential report, which category of exemption(s) from the Schedule 12a of the Local Government Act 1972 applies?	Not applicable.
Decision(s) asked for	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 confirm that the Plan covers the areas where they require assurance in 2018/19.
Impact of decision(s)	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.
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What is the purpose of this report?

1. The purpose of the report is to seek Members' final comments on the priorities for the Internal Audit 2018/19 programme of work.

Why is this report necessary?

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. Each year the Corporate Affairs and Audit Committee 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.
4. It is important that the Corporate Affairs and Audit Committee drives 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. The draft Plan was presented to this Committee at its meeting on 22 March 2018. Members suggested one additional area for audit review and that related to the political impartiality of senior officers.
5. **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. Where applicable, **Appendix 1** demonstrates the links between the planned audits and the Council's Strategic Plan and how the assurance work will be aimed at supporting the Mayor's Vision 'Fairer, Safer, Stronger' and the Council priorities of Physical Regeneration, Social Regeneration and delivering its Business Imperatives. Links are also made with the Council's strategic risk register where applicable. **Appendix 1** includes a summary of the Plan and the detailed list of individual assignments.
6. Consultation has been ongoing with LMT, all DMTs, external audit and the S151 Officer and all comments collated and considered. As resources do not allow for

all suggestions to be included in the Plan, a RAG rating has been applied to the suggestions with all reds and ambers transferred into the final version of the Plan. The summary and detailed Plan, as set out in **Appendix 1**, lists the audits and the planned number of days in total and for each assignment. Progress against the Plan will, 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 independent assurance to the Council's senior officers, elected members and members of the public that the key risks faced by the Council, to the achievement of the Mayor's Vision, 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 strategic priority and risk to the Council, corporate governance themes and material financial systems.
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 is on the strategic or directorate risk registers or it relates to a key priority in the Council's Strategic Plan;
 - It is an area for further development as outlined in the peer review follow up report;
 - 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;
 - Audit work has been deferred from a previous year and is still considered to be of sufficient risk to require a 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. Hot topics for internal auditors for 2018 have been identified nationally via in depth interviews with chief audit executives across six European countries (including UK) and across a range of sectors. Some of the hot topics have been on the Council's radar/audit plan or risk register for some time thereby demonstrating that previous audit plans have had a relevant focus. The key areas of focus will be on the following 'hot topics':

- Cyber Security;
- Compliance with General Data Protection Regulations;
- Investment in new IT Technologies;
- Impact of political risks and events;
- Vendor risk and third party assurance (outsourcing);
- Corporate culture (maintaining employee trust, public confidence and reputation);
- Workforce Planning (maintaining key skill sets).

11. Any internal audit plan needs to continue to retain some flexibility so that it can respond to management requests, changes in priorities and new or emerging risks. Therefore the plan is designed to be responsive in nature and all efforts will be made to maximise coverage to provide the most effective service possible that focuses on those key issues facing the organisation throughout the year. As always, the Plan includes contingency time to be allocated to events as they emerge during the year e.g. suspected frauds and special investigations.

What decision(s) are being asked for?

12. 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 2018/19.

Why is this being recommended?

13. The Audit and Assurance Manager is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.

14. 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.

Other potential decisions and why these have not been recommended

15. The final version of the plan is presented for Members to have the chance to suggest alternative or additional areas for internal audit review.

Impact(s) of recommended decision(s)

16. 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.

Legal

17. The work of TVAAS is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). The Audit and Assurance Manager is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
18. Internal audit is a statutory requirement in a local authority. The Council has delegated the delivery of this responsibility to the Strategic Director for Finance, Governance & Support.

Financial

19. The number of days is based on the estimated productive days per member of the Team taking into account known and estimated absences and commitments. Redcar & Cleveland Borough 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 applied to the actual days worked. The overall annual budget for internal audit is circa £180K.

The Mayor's Vision for Middlesbrough

20. Internal Audit assists management in delivering the Mayor's Vision by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.

Policy Framework

21. The Corporate Affairs and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements. 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.

Wards

22. There are no specific financial or ward implications arising from the Internal Audit Plan 2018/19 Consultation report.

Equality and Diversity

23. There are no direct implications from this report on equality and diversity although aspects of the proposed internal audit work may involve a review of issues affecting equality and diversity.

Risk

24. Internal audit and assurance work is aimed at providing assurance that the key risks faced by the Council are being managed effectively and that appropriate safeguards are in place for public funds and assets.

Actions to be taken to implement the decision(s)

25. Any requests for additional assurance or clarification by Members of the Committee will be considered for inclusion in the Internal Audit Plan 2018/19.

Appendices

26. Appendix 1 – 2018/19 Internal Audit Plan

Background papers

27. No background papers other than published works were used in the preparation of this report.

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