

**STANDARDS AND AUDIT COMMITTEE - 8 MARCH 2018**

**INTERNAL AUDIT STRATEGY AND PROPOSED 2018/19 PLAN**

**Executive Summary**

This report sets out the Internal Audit Strategy and proposed Annual Plan for 2018/19, which details how the Council will meet its statutory requirements for Internal Audit.

The report explains that the overall level of audit coverage has been developed by applying a risk based approach. The Audit Plan continues to focus upon areas of highest risk and the overall coverage is sufficient to provide Members, management and other external bodies with an independent assurance on the adequacy of the Council's risk management, governance and internal control framework.

**Recommendations**

The Committee is requested to:

**RESOLVE That** the Internal Audit Strategy and the indicative Audit Plan for 2018/19 be approved.

**The Committee has authority to determine the above recommendations.**

**Background Papers:**

None.

**Reporting Person:**

James Graham, Head of Internal Audit  
Ext. 3236, E Mail: James.Graham@mazars.co.uk

**Contact Person:**

Leigh Clarke, Finance Director  
Ext. 3277, E Mail: Leigh.Clarke@woking.gov.uk

James Graham, Head of Internal Audit  
Ext. 3236, E Mail: James.Graham@mazars.gov.uk

**Date Published:**

28 February 2018

### 1.0 Introduction

- 1.1 This report establishes the Internal Audit Strategy and proposed Annual Plan for 2018/19, which details how the Council will meet its statutory requirements for Internal Audit.

### 2.0 Background

- 2.1 The fundamental role of Internal Audit is to provide senior management and members with an independent assurance on the adequacy, effectiveness and efficiency of the system of internal control and report major weaknesses together with recommendations for improvement. The role is fulfilled by carrying out appropriate audit work in accordance with the Annual Plan as approved by the Chief Finance Officer and the Standards and Audit Committee. As Internal Audit is a major source of assurance that the Council is effectively managing its risks, a key rationale for the development of the Internal Audit Plan was the Council's own Strategic Risk Register and risks detailed within the 2018/19 Service Plans.

- 2.2 The Council's Internal Audit Service is delivered in accordance with a regulatory framework comprising:

- The Local Government Finance Act 1972 which requires councils to 'make arrangements for the proper administration of their financial affairs'.
- The Accounts and Audit Regulations 2015. These require that all local authorities must 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- The Public Sector Internal Auditing Standards 2013 (PSIAS). These standards set out what is meant by appropriate internal audit practices. These are mandatory standards and have replaced the former CIPFA Code of Practice for Internal Audit in Local Government 2006.

- 2.3 The Internal Audit Strategy is a high level statement which outlines how the Internal Audit Service will be delivered to meet the requirements as set out above. The PSIAS no longer make specific reference to a strategy document, but they require that the information that it contains be communicated to the Audit Committee, to support discussion about audit planning and resources.

### 3.0 Internal Audit Strategy

- 3.1 This strategy recognises that it is management's responsibility to establish and maintain a sound system of internal control and ensure that risks are properly managed. The overall aim of internal audit work is to establish areas requiring improvement and recommend solutions that will enable the Council to achieve its objectives.

- 3.2 The audit strategy and planning process reflects that the audit environment is constantly changing, requiring continuous review and re-evaluation to ensure that emerging risks are identified and assessed and included as appropriate in the audit plan. Specifically, recognising the unprecedented challenges facing Public Sector finances, the strategy must have in built flexibility to consider:

- Greatest risks to achievement of the Council's objectives
- New areas of activity;
- Issues of local significance and importance;
- Changing issues and priorities;
- Changes to models for service delivery and partnership working; and

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- The impact of changes on existing control structures.

3.3 The purpose of the audit strategy is to establish an approach that will enable internal audit to be responsive to change and managed in a way which will facilitate:

- An understanding of assurance needs to enable the provision to Members and management of an overall opinion each year on the Council's risk management, control and governance framework, to support the preparation of the Annual Governance Statement;
- Audit of the Council's risk management, control and governance systems through an approach which assesses risks to Council objectives and prioritises audits accordingly;
- The identification of audit resources required to deliver an audit service which meets the PSIAS and achieves the required level of audit coverage to enable an opinion to be given on the Council's control environment;
- The identification of other sources of assurance from other assurance providers which can be relied upon to inform the focus of internal audit activity;
- Co-operation and working protocols with the external auditors (currently KPMG and then Moore Stephens from the 2018/19 financial year) and any other relevant review bodies to ensure that assurance functions work effectively together; and,
- Identification of responsibilities for providing assurance where services are delivered in partnership.

3.4 Based on the budget available for internal audit work, the strategy and audit work make provision for:

- Sufficient coverage of all major financial systems to provide the necessary audit assurance;
- New systems and emerging high risk areas;
- Cross cutting reviews for a selection of corporate themes which link to the corporate risk register;
- Support for corporate governance, with particular focus on governance issues identified in the Council's annual governance statement, ensuring that proposed actions are taken;
- Monitoring the implementation of high risk audit recommendations;
- An element for contingency to enable the audit service to provide ad hoc advice and to respond to management requests for support.

3.5 The internal audit plan is prepared on the basis of a risk assessment combined with an understanding of other sources of assurance which are then compared to the audit resources available. Given the level of audit resources available, it is vital that audit work is planned and focused to ensure an efficient and effective use of resources directed at those areas of greatest risk to the Council.

3.6 The Internal Audit function is primarily outsourced to Mazars, with the Head of Internal Audit role being undertaken as a secondment from Mazars. Spelthorne District Council provide some support for Computer audit work.

### 4.0 Development of 2018/19 Audit Plan

4.1 The Audit Plan continues to focus upon areas of highest risk and is sufficient to provide Members and management with an independent assurance on the adequacy of the Council's internal control framework.

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- 4.2 The main factors taken into account in compiling the Audit Plan consist of:
- Materiality and significance based upon budgets and volume of transactions;
  - Historic knowledge and experience accumulated in Internal Audit, based upon the results of previous audits;
  - Changes to the control environment or legislative changes since the previous audit;
  - A review of audit themes against the Council's risk register and corporate objectives;
  - Other sources of assurance available to the Council;
  - Key governance issues identified within the Annual Governance Statement (AGS);
  - Concerns and emerging risks as identified by Chief Officers; and,
  - Horizon scanning of issues for consideration in audit plans in other local authorities.
- 4.3 The total number of audit days allocated for 2018/19 is 303, including 30 days for IT audit and 24 days for the Head of Audit role. This number is broadly comparable to the allocation for 2017/18, with the overall budget for internal audit remaining the same. The resources allocated ensure that sufficient high risk areas are audited to allow the Head of Audit to provide an effective annual opinion on the internal control environment.
- 4.4 The proposed audit plan is presented in Appendix A. Risks referred to in the plan are those on the corporate risk register. The proposed plan has been agreed by the Council's Chief Finance Officer and reviewed by the Corporate Management Group. It has also been circulated to the Council's current external auditor, KPMG, and new external auditor for 2018/19 onwards, Moore Stephens. Where possible, the plan will reflect areas where external audit require audit assurance, if necessary adjustments can be made to the plan through the use of the contingency during the year.

### 5.0 Implications

#### Financial

- 5.1 There are minimal financial implications around the implementation of internal audit recommendations. Some audit recommendations are designed to improve value for money or strengthen financial controls.

#### Human Resource/Training and Development

- 5.2 Some audit recommendations need resources to put in place.

#### Community Safety

- 5.3 There are no implications relating to Internal Audit. However one audit in the 2018/19 plan relates to Community Safety.

#### Risk Management

- 5.4 Internal Audit identifies weaknesses in the control environment. Implementation of recommendations therefore improves the control environment and hence the management of risk.

#### Sustainability

- 5.5 There are no implications arising from this report.

#### Equalities

5.6 There are no implications arising from this report.

REPORT ENDS

## Internal Audit Strategy and Proposed 2018-19 Plan

### Appendix A – Proposed 2018/19 Internal Audit Plan

	Title	Source	Scope/notes	Indicative days
<b>People</b>				
<u>1</u>	Grants to Voluntary Organisations	Service Plan and discussions with CMG	Application Assessment and Award, Payments, Outcome and Compliance Monitoring	8
<u>2</u>	Community Safety	Service Plan	Strategy and Governance, Partnership Working, Data Sharing, Management of Anti-Social Behaviour	12
<u>3</u>	Homelessness	Service Plan and discussions with CMG	Homelessness Prevention and Advice, Application, Assessment and Review, May also include compliance with Homelessness Reduction Act	10
<u>4</u>	HMO and Selective Housing Licensing	Discussions with CMG	Identification and Assessment, Application Processing, Income Collection, Enforcement	10
<u>5</u>	New Vision Homes Contract Management	Risk Register (18) and discussions with CMG	Contract Formalities and Service Specification, Contract Performance Management, Payments, Financial Management	12
<b>Place</b>				
<u>6</u>	Building Control	Service Plan	Applications, Inspections, Fee Income and Financial Management, Enforcement, Dangerous Structures	10
<u>7</u>	Emergency Planning	Horizon Scanning and Risk Register (6)	Awareness and Training, Liaison with External Parties, Resources, Contracts and Service Level Agreements, Testing and Review, Communication	10
<u>8</u>	Waste Collection	Risk Register (18), Service Plan and discussions with CMG	Contract Formalities; Scheduled Collections; Ad Hoc Collections; Contract Monitoring and Performance Management; Payments.	2
<u>9</u>	Asset Management	Service Plan and discussions with CMG	Possible areas include Management of the Councils Asset Portfolio; Facilities Management; Planned and Reactive	12

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			Maintenance and Repairs; Health and Safety; Utilities Management.	
<u>10</u>	Air Quality Monitoring and Management	Discussions with CMG	Strategy and Policy, Monitoring and Management Information, Feedback into Council Activity and Policy	8
<b>Us</b>				
<u>11</u>	Freedom of Information Requests	Service Plan, Risk Register (16) and Discussions with CMG	Scheme of Publication; Recording and Processing of Requests; Exemptions; Appeals	8
<b>Corporate</b>				
<u>12</u>	Key Financial Control Testing - AP, AR, GL, Payroll, Treasury, Ctax, NNDR	Standing item	Testing of key financial controls in each financial system and continued implementation of continuous auditing	45
<u>13</u>	Sheerwater Regeneration Governance	Discussions with CMG and Risk Register (19)	Governance Structure, Strategy and Planning, Decision Making, Programme and Project Management, Management Information and Reporting	12
<u>14</u>	Group Companies	Risk Register (3) and Discussions with CMG	Operations and key internal controls of the group companies: Delegation of Authority; Income; Purchasing; Expenses; Payroll / employment; Financial Management	14
<u>15</u>	Business Continuity	Horizon Scanning and Risk Register (15)	Plans, Awareness and Training; Business Impact Analysis; Activation and Escalation; Recovery Procedures; Testing.	10
<u>16</u>	Supplier Resilience	Horizon Scanning	Advisory work on the Council's Planning, monitoring and response to supply chain failure	6
<u>17</u>	HR	Service Plan and Risk Register (4)	To include one of: Workforce Planning and Recruitment, PRP, Settlements (e.g. redundancy), Staff Performance Management	10

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<b>IT Audit</b>				
<u>18</u>	IT Strategy	Horizon Scanning and no recent audit coverage.	Strategy formulation;; Organisational design and Target Operating Model; Governance structure; Project portfolio/programme management.	10
<u>19</u>	Other IT audits to be confirmed by needs analysis	-	-	20
<b>Other Work</b>				
<u>20</u>	Follow up reviews	Ongoing	Follow up outstanding recommendations	10
<u>21</u>	Management	Ongoing	Including planning/assurance mapping for 18/19	20
<u>22</u>	Contingency	-	Contingency allowance	20
<u>23</u>	Head of Audit	Ongoing	Head of Audit days	24
<b>TOTAL AUDIT DAYS</b>				<b>303</b>