



Report for:
INFORMATION

Contains Confidential or Exempt Information	No
Title	Annual Internal Audit Strategy and Indicative Plan 2017/18
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Portfolio	Cllr Yvonne Johnson - Finance, Performance and Customer Services
For Consideration By	Audit Committee
Date to be Considered	28 February 2017
Implementation Date if Not Called In	1 April 2017
Affected Wards	All
Keywords/Index	Audit Strategy and Plan

Purpose of Report:

This report details the Internal Audit Strategy and the proposed operational Internal Audit plan for 2017/18.

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Audit Committee is being asked to review and approve the proposed strategy and plan.

1. Recommendation

- 1.1 In accordance with the PSIAS requirements, the Audit Committee is asked to review and approve the strategy and proposed Internal Audit Plan for the period 1 April 2017 to 31 March 2018.

2. Reason for Decision and Options Considered

- 2.1 Internal Audit is an assurance function that provides an independent and objective opinion to the Council on the adequacy and effectiveness of the systems of internal control comprising of risk management, internal control and governance, by evaluating its effectiveness in achieving corporate 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.

- 2.2 The assurance gained from the programme of work set out in the 2017/18 Plan (Appendix A), will form the main input for the development of the 2017/18 opinion of the Chief Audit Executive regarding the control environment within Ealing Council.

3 Key Implications

- 3.1 The 2017/18 Internal Audit Plan is an indicative plan which is kept under constant review to ensure that it is aligned and able to respond to emerging risks. It is subject to revisions during the year with the approval of the Audit Committee.

4 Background

- 4.1 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 Executive Director of Corporate Resources and the 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 Corporate and Service Risk registers.

- 4.2 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.

- 4.3 The PSIAS require the Council to have an Internal Audit Charter, similar to a terms of reference, which sets out the purpose, authority and responsibility of the Internal Audit Service. The Internal Audit Charter is currently being developed and will be presented to the next meeting of the Audit Committee.

- 4.4 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.

5. Internal Audit Strategy

5.1 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.

5.2 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:

- Issues of local significance and importance;
- New areas of activity;
- Changes to models for service delivery and partnership working;
- Changing issues and priorities;
- Greatest risks to achievement of the Council' s objectives; and
- The impact of change on existing control structures.

5.3 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, KPMG, 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.

5.4 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;
- Audit input within change programmes;
- Cross cutting reviews for a selection of corporate themes which link to the corporate risk register;
- Schools audit coverage will be based on thematic reviews on key risk areas, allowing lessons to be learnt across the entire establishment of schools;
- Support for corporate governance, with particular focus on governance issues identified in the Council's annual governance statement, ensuring that proposed actions are taken;
- Follow up reviews to monitor 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.

5.5 The internal audit plan is prepared on the basis of a risk assessment which is 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.

5.6 The internal audit service is provided by a shared service arrangement with Ealing Council, which utilises a shared Head of Audit and Investigations between both Councils. This allows for resource economies and sharing of good practice at a strategic level and also further economies of scale and benchmarking opportunities when similar audits are conducted across both councils.

5.7 The majority of the audit plan for the shared service is delivered by our Strategic Audit Partner, PricewaterhouseCoopers (PwC). There is one in-house auditor within the shared service, who provides the balance of the resource requirements to deliver the audit plan.

6. Development of 2017/18 Audit Plan

6.1 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.

6.2 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;
- Key governance issues identified within the Annual Governance Statement (AGS);
- Concerns and emerging risks as identified by Chief Officers and Members; and,
- Horizon scanning of issues for consideration in audit plans in other London boroughs.

6.3 An assurance mapping exercise was undertaken during 2016/17 to ensure that the audit plan is aligned to the Council's assurance requirements and that audits are focussed on the key risks to the organisation. The main benefits of having an assurance map are:

- Ability to prioritise the assurance resource where it is needed leading to a 'smarter' audit plan;
- Greater understanding of the organisation's control environment and key risk areas; and,
- Identification of any gaps or duplication in the assurance framework leading to efficiencies.

6.4 The assurance mapping exercise ensures that the 2017-18 audit plan is focussed on the key risk areas, according to the risks identified and level of assurance currently in place. Medium and low risk areas have also been considered and included in the audit plan where there is a specific appetite to audit these activities, for example, internal audits of schools and key financial controls. Wherever possible, Internal Audit will take assurance from management's oversight of the control framework, and the results of any other review bodies. The assurance mapping process identifies these other forms of assurance and considered the degree to which reliance can be placed upon them.

6.5 The draft Audit Plan has been circulated to, and discussed with, the corporate leadership team for comments. It has also been discussed with the Council's external auditor, KPMG, to ensure that, where possible, the contents reflect areas where they require audit assurance.

6.6 The indicative Audit Plan is presented in Appendix A. It has been review by the Council's s151 Officer and considered by the corporate leadership team.

7. Performance Measures

7.1 Key performance indicators (KPIs) have been established to measure the delivery of the audit service across the shared service. These are how we measure our performance to ensure that all audits on the plan for each Council are delivered by the end of the financial year. The shared service KPIs for delivery against the audit plan for each quarter are (based on draft reports issued):

Quarter 1 – 15% of 2017/18 audits delivered (draft report issued)

Quarter 2 – 35% of 2017/18 audits delivered (draft report issued)

Quarter 3 – 65% of 2017/18 audits delivered (draft report issued)

Quarter 4 – 100% of 2017/18 audits delivered (draft report issued)

7.2 Key performance indicators have been established with PwC to ensure the standard and quality of outsourced service provision can be monitored. These are:

- %age of draft audit reports issued on time (target 95%);
- %age of final reports issued on time (target 95%); and
- %age of assignments completed within agreed budget (target 100%).

Regular progress meetings are undertaken between the Section 151 Officer (Executive Director of Corporate resources), The Director of Finance, the Head of Audit & Investigations and the PwC Contract Manager.

8. Financial

8.1 The Audit Plan will be funded from the Audit and Investigations budget.

9. Legal

9.1 All Local Authorities are required to make proper provision for Internal Audit in accordance with the 1972 Local Government Act and the Accounts and Audit Regulations 2011 (as amended). The Public Sector Internal Audit Standards (PSIAS) requires proper planning of audit work.

10. Value for Money

10.1 Ealing's Internal Audit Services are currently provided by a Strategic Audit Partner (PricewaterhouseCooper). The contract places an obligation to continuously develop and improve services over the life of the contract, including improved benchmarking of services and costs.

11. Sustainability Impact Appraisal

11.1 Not applicable.

12. Risk Management

- 12.1 The Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.
- 12.2 The proposed internal audit plan is based on risk and takes into consideration the current levels of strategic and operational risks managed by the Council. Risk management arrangements are, however, kept under continual review.

13. Community Safety

- 13.1 Not applicable.

14. Links to Strategic Objectives

- 14.1 Internal Audit makes a significant contribution to delivering the Corporate Plan and Council Objectives, providing regular assurance to senior management and Members on the effectiveness of the corporate governance and internal control framework. Internal Audit impacts on all services and functions throughout the Council, including internal and external partnerships, and stakeholders. This links to the strategic objective of being a high performing organisation focussed on the needs of its community.

15. Equalities and Community Cohesion

- 15.1 No equality impact assessment has been undertaken as the report does not affect the general duties of the Equalities Act 2010.

16. Staffing/Workforce and Accommodation implications

- 16.1 Not applicable.

17. Property and Assets

- 17.1 Not applicable.

18. Any other implications

- 18.1 None.

19. Consultation

- 19.1 As per attached table.

20. Appendices

Appendix A: 2017/18 Indicative Internal Audit Plan

Consultation

Name of consultee	Department	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Ian O'Donnell	Executive Director of Corporate Resources	15/02/17	15/02/17	Throughout
Ross Brown	Director of Finance (Deputy s151 Officer)	15/02/17	15/02/17	Throughout
Corporate Board	All Departments	16/02/17	16/02/17	N/a
Cllr Yvonne Johnson	Portfolio Holder - Finance, Performance and Customer Services	20/02/17	N/a	N/a

Report History

Decision type:	Urgency item?		
For information	No		
Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
Report no:	Report author and contact for queries:		
	Jeremy Welburn, Interim Head of Audit & Investigations, Welburnj@ealing.gov.uk		

APPENDIX A – Indicative 2017/18 Audit Plan

No.	Review Area	Assurance map risk rating	Indicative Scope/notes
Chief Executive/ Cross Cutting Reviews			
1	Workforce Planning	High	Specialist review focusing on the resourcing implications of significant organisational change. Key risks to be addressed: <ul style="list-style-type: none"> - Inappropriate succession planning arrangements; - Operational capacity not matching business need; - Retention and recruitment to specialist roles
2	Review of Related Parties	Management Request	Reviews of a selection of arms-length organisations based on a risk assessment exercise. To provide assurance on governance, financial management and performance monitoring
3	Temporary Workers/ Contractors	High	Processing, recording and monitoring of contractors. Would include implementation of IR35
Corporate Resources Directorate			
4	Continuous Auditing and Monitoring – Phase 1	Ongoing Review	Testing of key financial systems, including: Payroll; Accounts Payable; Accounts receivable; Council Tax; NNDR, and, General ledger
5	Continuous Auditing and Monitoring – Phase 2		
6	Data Protection	Medium	Readiness for 2018 legislation changes
Children, Adults and Public Health Directorate			
7	No Recourse to Public Funds	High	Review of assessment and referral process. Budget monitoring processes.
8	School Themed Audits – Financial Governance	Cyclical	Thematic reviews plus probity reviews of specific schools
9	School Themed Audits – Payroll & Safer Recruitment		
10	School Themed Audits - Procurement		
11	Safeguarding Adults – Deprivation of Liberty	High	Controls and processes relating to Deprivation of Liberty safeguards and the Council’s statutory responsibility as a supervisory body
12	Direct Payments	High	Review of both children and adults (to incorporate data analytics)
13	Home Care/Support	High	Controls in place for procurement of supported living assistance services and contract management (where relevant). Controls around RAS system and the allocation of care packages

14	SEND (Special Educational Needs and Disabilities)	High	Controls in place for managing and allocating resources and demand (Including transport).
Environment & Customer Services			
15	Highways network assets (phase 2)	High	Extended follow up to the 16/17 highways network assets audit. To focus on systems for maintaining the records required to evidence any changes for valuation of highways network assets (the 16/17 audit focused on the systems developed by the Council to revalue Highways Network Assets in advance of the CIPFA change to ensure that the balance is complete, accurate and valid). Phase 2 to focus on 2016/17 work/updates and systems and controls to be used going forward.
16	Viridor Recycling contract	High	Review of contract for recycling services
17	Out of hours service	High	Review of Out of Hours call service processes and procedures
Regeneration and Housing			
18	Licensing	High	To focus on the new property licensing scheme (Homes of Multiple Occupancy).
19	Trading standards	Cyclical review	Trading Standards activities - investigations and premises visits
20	Cyclical planned maintenance	High	Review of planned maintenance programme - Housing stock only
21	Electrical safety	High	Compliance with legislation review - Housing stock only
IT related reviews			
22	IT reviews – High risk areas	N/a	Individual reviews into high risk areas (eg. Cyber security) following the completion of the ICT risk diagnostics review.