

Internal Audit Plan Approach 2015/16

The Annual Audit Plan is developed in order to provide independent assurance to Medway Council on the:

- effectiveness of internal control
- management of risk
- governance
- fraud resilience
- pursuit of value for money
- data quality

Individual internal audits are scoped based on an assessment of the risk to which the council is exposed. Examples of risk considered include:

- financial loss
- reputational damage
- operational disruption
- fraud and irregularity
- missed opportunities
- Regulation or legislative non-compliance
- equality and diversity issues
- poor IT governance
- sustainability

An audit opinion on the current management of risk is provided at the conclusion of most audit assignments and then an overall audit assurance is provided in the Internal Audit Annual Report which is presented to the first Audit Committee of the financial year. The Annual Report includes an overall audit opinion, and highlights key issues arising in year.

The assurance provided by Internal Audit is reasonable but not absolute, and is drawn from:

- Audit assignments performed in current year
- Audit coverage and opinion from the previous two years
- Management response to audit recommendations
- Control issues identified as a result of investigations undertaken
- Control and risk advice work undertaken as a result of a request by management
- Feedback from external audit
- The Council's risk management process.

The proposed Annual Plan for 2015/16 at **Annex B** includes an indicative scope for each audit, although the scope will be reviewed with management prior to the audit being undertaken. The plan is also mapped to the work being undertaken as part of the 2014/16 Fraud Resilience Strategy for information. This proposed plan has been discussed and agreed with Senior Management and External Audit. There has also been liaison with relevant professional groups, including Kent Audit Group and the Home Counties Chief Internal Auditors Group.

Once the potential audits were identified, based on what would be necessary for providing the required annual audit opinion, the resources available within Internal Audit were reviewed to ascertain whether there were sufficient resources to deliver the identified audits. I can confirm that there are sufficient resources within Internal Audit, both in terms of number of audit days and expertise within the team, to deliver the proposed plan. The resourcing plan is detailed at **Annex C**.

The annual audit plan is presented to the Audit Committee in March each year, but whilst planning for the first audits begins from April each year, the delivery of the plan runs for the 12 months from July.

The proposed plan includes an allocation of days for completion of the previous year's audits is included in the calculation of resources available. The 2015/16 annual audit plan provides 120 days for the completion of the 2014/15 plan, increased slightly from previous years in light of the on-going consultation regarding resources.

Where the audit findings limit the level of assurance that can be provided, the audit process is not complete until a follow up is undertaken to review management action and re-evaluate the overall audit opinion. A further 80 days has been allocated for undertaking such reviews.

Audits Included on the Annual Plan

Key Systems - Annual Audits

There are three annual audits relating to governance issues providing direct assurance on corporate governance, risk management, and data quality.

A further four audits are undertaken annually relating to key financial systems which are identified as being of significant inherent risk to the council. The level of risk is calculated based on the overall monetary value, the number of transactions, and the high potential for fraud and error.

Key Systems – Cyclical Audits

There are a number of financial and non-financial systems that are audited on a cyclical basis in order to provide regular assurance on processes where audit have determined that the level of inherent risk is significant, but previous audit history has demonstrated that the controls are generally robust. These audits are undertaken focusing on the key risk areas. The approach for the financial audits is also discussed with External Audit to ensure that the coverage being provided maximises the overall assurance being provided to the council.

The planning process involves mapping the audits undertaken over the previous two years plus current to the identified key corporate systems and processes. Audits may appear more than once on these tables to show where assurance is being provided.

Annex D sets out the coverage of these systems over the previous three years, the intention being that there is full coverage of these systems over a four year period, the level of coverage depending on an evaluation of risk which includes:

- previous audit opinions
- significant changes to processes
- changes in key personnel
- evaluation of fraud risk
- assurance provided by other review agencies

Risk Based Audits

In addition to providing assurance over key systems and processes as identified by Internal Audit, the audit plan also includes audits on the management of the key risks as identified by management in Medway Council's Corporate Risk Register. Determination of audits to be conducted is based on an assessment of how audit resources might best be applied to maximise assurance to the council, with reference to:

- Issues identified in minutes of Committees
- Projects and developments
- Assurance by other review agencies
- Audit history

Consideration is also given to the coverage over the previous two years plus current and this is shown at **Annex E**.

The level of assurance that Internal Audit can provide on the management of each strategic risk depends on the nature of the identified risk, and for this reason the coverage of the corporate risks is not evenly spread.

As the corporate risk register is constantly under review and subject to change the audit focus will vary over time, and potentially in year. Should there be any relevant changes made during 2015/16 the Annual Audit Plan may need to be revised to ensure that audit resources are being focused most appropriately. Any proposed revisions to the plan will be presented to Audit Committee for approval.

Through the 2015/16 year we will continue to work on identifying and documenting other providers of assurance on the management of key risks and key systems so that it is evident where the Council rely on Internal Audit for assurance, and where the main source of assurance is from other sources.

Probity Reviews

A significant proportion of the Plan has been allocated to probity reviews, and will focus on reviews of financial management in theatres, sports centres and libraries.

Probity reviews are short audits of particular locations, focusing on financial management arrangements. An output will be prepared at the conclusion of each review, highlighting any probity issues identified, and including an action

plan for addressing any identified control weaknesses. The output will be shared with management and presented to Audit Committee.

At year-end a summary report will be prepared providing an overall opinion on the arrangements in place. The intention is to ensure that significant issues arising, and identified points of good practice, are shared appropriately, through liaison with management, circulation of the summary reports, and presentations to relevant parties.

Consultancy Projects

Alongside the performance of traditional audits internal audit have always provided risk and control advice to management. With the significant level of change occurring across the council Internal Audit are increasingly involved in working with management to set up robust control arrangements to minimise risk and maximise the likelihood of achieving objectives. In this audit plan days have been allocated to this consultancy work, and an overall summary of the work undertaken will be provided to the Audit Committee at year end. If any consultancy arrangement exceeds ten days in the year and/or we identify significant issues, then an individual output will be provided to the Audit Committee.

Grant and Payment by Results

A number of grant schemes require Internal Audit to “sign off” the expenditure, and in some cases (for instance the Troubled Families Scheme) Internal Audit are required to “sign off” the claims submitted for payment by results. Time has been allocated on the audit plan for this work, and a summary of work undertaken is provided to the Audit Committee each meeting, as part of the progress reports.

Schools

The three year programme of school probity reviews is due to be completed by July 2015. Time has been allocated in the 2015/16 audit plan for delivering training and support to school staff and governors. No probity reviews in schools are planned for 2015/16, but a risk based approach for targeting resources for school audits is being developed for roll out from 2016/17.

Fraud Resilience

The Internal Audit work programme also includes time allocated for work directly related to fraud resilience. A number of the audits included in the audit plan are intended to contribute to the overall assurance over the council’s fraud resilience.

Internal Audit, in conjunction with the Corporate Anti-Fraud Team, also provide advice and guidance to management on mitigation of fraud risk, and undertake investigations of internal fraud and irregularity. Time has been allocated as a contingency on the audit plan for delivering the audit investigations.

If the allocated days are not required then the days will be re-allocated for undertaking additional proactive probity reviews. Should investigations

require more resource than is allocated then the potential impact on the annual audit plan will be reviewed, and if there is any need to amend the plan then a proposal will be made to Audit Committee.

Audit Process

The Internal Audit Manual documents the key stages of the audit, including management agreement to the scope, timing and approach to the audit, and also management agreement to the report and ensuing actions. The manual also sets out the process for Internal Audit to follow up on the actions arising.

The Manual has been reviewed in light of the requirements of the Public Sector Internal Audit Standard (PSIAS) which came into force 1 April 2013. A further review of the Manual will be conducted before the annual Audit Effectiveness Review is completed for the next meeting of the Audit Committee.

Staffing Issues

The resources within the Internal Audit team for 2015/16 are not fully resolved as a staff consultation is not yet complete. The need to meet savings targets resulted in a proposal to reduce from two to one Principal Auditors, with additional resources being provided by the Senior Investigator. This proposal is still subject to consultation. Resources for 2015/16 are further reduced due to two auditors and the Senior Investigator due to begin professional training in this year, and one auditor moving to part time working. A verbal update will be provided to the Audit Committee on the outcome of the consultation process. Meanwhile the proposed audit plan has been developed on the assumption that the proposed changes are implemented.

The proposed Internal Audit resourcing should be seen as a transitional arrangement, providing the basis for building a sound internal audit structure for the future, and also providing flexibility for the new Head of Internal Audit to determine a new structure for Audit Services for 2016/17 onwards. The resourcing of Audit Services as a whole will need to be subject to review for 2016/17 following the transfer of responsibility for housing and council tax benefit investigations to SFIS with effect from February 2016.

The resources are sufficient for 2015/16 to deliver the proposed audit plan, and the plan in conjunction with the prior two years audit work, provides sufficient coverage for completion of the 2015/16 annual audit opinion.

We have sought to ensure that the team has a breadth and depth of knowledge and experience and training in specific audit areas is provided as necessary. All the team have the opportunity to attend the Kent Audit Group Conference, and the HIA&CF or Principal Auditors attend meetings of the London Audit Group, Home Counties Chief Internal Auditors Group and Kent Audit Group, which provide forums for knowledge sharing. There are monthly team meetings and these are occasionally used for more formal training events. The undertaking of professional training by two auditors and the

senior investigator will provide further opportunities to update the team's knowledge and understanding, and increases the level of professionalism within the team.

Alison Russell
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