

AUDIT COMMITTEE	AGENDA ITEM No. 9
26 MARCH 2018	PUBLIC REPORT

Report of:	Marion Kelly - Interim Corporate Director Resources	
Cabinet Member(s) responsible:	Councillor Seaton Cabinet Member for Resources	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel: 384557

INTERNAL AUDIT STRATEGY, CHARTER AND AUDIT PLAN

R E C O M M E N D A T I O N S	
FROM: Steve Crabtree, Chief Internal Auditor	Deadline date: N/A
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> 1. Consider and agree to the Internal Audit Charter for 2018 / 2019 (Appendix A); 2. Consider and agree to the Internal Audit Code of Ethics (Appendix B); and 3. Consider and approve the Internal Audit Strategy and Plans for 2018 / 2019 (Appendix C, D). 	

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a routine planned report on the development of the role and service delivery of Internal Audit and investigations.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to ensure that the Council reviews and agrees the audit activity for the next audit year.

2.2 This report is for Committee to consider under its Terms of Reference:

2.2.1.1 To consider the annual report and opinion of the Corporate Director Resources and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.

2.2.1.3 To consider reports dealing with the management and performance of the providers of internal audit services.

2.2.1.15 To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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4. BACKGROUND AND KEY ISSUES

4.1 INTRODUCTION

4.1.1 The report explains the strategic approach for Internal Audit that will be adopted to continue to provide effective assurance on the new and higher risks facing the Council and the strategic approach to tackling fraud against the Council for the coming year. An ongoing focus for 2018 / 2019 will be the ways in which we can assist management to meet the new challenges they face through developing combined assurance maps, to redesign controls to ensure that key risks are managed with reduced resources and by providing appropriate challenge, support and assurance to key programmes and projects which are enabling transformation and efficiencies.

4.1.2 The remit and work of the section is documented in the Internal Audit Charter. The Charter is subject to an annual review by the Committee and is compiled in accordance with the Public Sector Internal Audit Standards and the CIPFA Code of Practice for Managing the Risk of Fraud and Corruption.

4.2 INTERNAL AUDIT CHARTER 2018 / 2019 (Appendix A)

4.2.1 The Charter sets out the purpose, objectives and scope of the activities of the service and has been developed to take account of the following requirements, which have previously been reported to the Audit Committee:

- The Public Sector Internal Audit Standards, which came into effect on 1 April 2013 (and revised in 2017); and
- The governance requirements set out in CIPFA Statement on the Role of the Head of Internal Audit in Local Government (December 2010).

4.2.2 The Charter 2018 / 2019 has been compiled to ensure compliance with the Public Sector Internal Audit Standards (PSIAS). In summary, the PSIAS, which were agreed by a range of bodies including IIA and CIPFA, place the following requirements on public sector organisations' internal audit arrangements:

(i) *Compliance with the IIA Code of Ethics* (and those of other professional bodies of which an auditor is a member, e.g. CIPFA). The IIA Code of Ethics sets out key principles and rules of conduct covering the following: Integrity; Objectivity; Confidentiality; and, Competency.

(ii) *Purpose, authority and responsibility* of the internal audit activity must be formally defined in an internal audit charter which should:

- define the terms "board" and "senior management" for the purposes of internal audit activity;
- cover arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

(iii) *Independence and objectivity*: the Chief Internal Auditor must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The Chief

Internal Auditor must report functionally to the board. In practice this means that Audit Committee (as the Board) will be involved in:

- approving the internal audit charter;
- approving the risk based internal audit plan; and
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations.

(iv) *Proficiency and due professional care*: audit engagements must be performed with proficiency and due professional care. Internal auditors must possess the knowledge skills and other competencies needed to perform their individual responsibilities. The Chief Internal Auditor must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

v) *Quality assurance and improvement programme*: the Chief Internal Auditor should develop an improvement programme that covers all aspects of the internal audit activity. An external assessment should be conducted at least once every five years and progress against any improvement plans, agreed following external assessment, must be reported to senior management and to Audit Committee. The external assessment is currently underway and will be reported to the next Audit Committee.

4.3 **INTERNAL AUDIT CODE OF ETHICS (Appendix B)**

4.3.1 The Code of Ethics sets out the expected behaviours of Internal Audit staff in relation to service delivery.. The basis of standards of conduct remain unchanged with reference to those followed by Internal Audit in previous years, as the Code of Ethics developed for the current financial year was originally rewritten to mirror the incoming obligations in this area as per the Public Sector Internal Audit Standards.

4.3.2 Aside from the Code of Ethics, the Chief Internal Auditor in the role of the Chief Audit Executive will also be cognisant of and comply with requirements laid down in CIPFA's Statement on the Role of the Head of Internal Audit, and it is further acknowledged that all Internal Audit staff will operate in accordance with their own professional bodies' Code of Ethics, as well as any organisational Codes of Ethics or Conduct relating to their employer.

4.4 **INTERNAL AUDIT STRATEGY 2018 / 2019 (Appendix C)**

4.4.1 The Internal Audit function will:

- Provide the Section 151 Officer and Audit Committee with an overall annual opinion on the Council's governance, risk and control arrangements, which also supports the Annual Governance Statement;
- Review the Council's governance, risk management and control processes through a risk-based annual work plan which is aligned to the Council's objectives, giving assurance on the Council's wider risk profile, not just financial controls, and on key emerging risks;
- Support the organisation through changes in structure, culture and operating models;
- Demonstrate the value of audit by working proactively with those responsible for transformation and efficiency activities, to avoid duplication of audit and assurance effort and provide assurance across governance arrangements;
- Drive improvement in risk management, controls and governance by making effective recommendations to management arising from our work and monitoring and reporting on implementation;
- Assist management to optimise the control environment through a better understanding of risks which potentially enables fewer but better controls to be put in place;
- Co-operate effectively with external auditors and other review bodies functioning in

the council;

- Use technology to improve the efficiency of audit testing –using data analytics and continuous audit methodologies – to foster greater compliance with policies and procedures;
- Improve governance through strengthening of the challenge role of Audit Committee, promoting appropriate compliance and ethical behaviours, and extending assurance arrangements to partnerships.

4.4.2 The strategic approach set out above is underpinned by the Internal Audit Strategy which is set out in **Appendix C** and is aligned with internal audit best practice.

4.5 **INTERNAL AUDIT PLAN 2018 / 2019 (Appendix D)**

4.5.1 At the February 2018 Audit Committee, Members were provided with details of emerging issues which Internal Audit were using to shape its Internal Audit Plans. Following consultation with all Departmental Management Teams, reviews of strategic and operational risk registers, organisational changes etc.

4.5.2 The Plan for 2018/19 aims to give the Council the best audit coverage within the resources currently available, in order to provide an Annual Audit Opinion to feed into the Annual Governance Statement. Assurances from other providers will be utilised where appropriate. The current allocation of the estimated 760 available days (without recruitment) is shown below.

Internal Audit Work Activities 2018 / 2019	Days	%
Financial Governance	48	6
Corporate Governance	60	8
Information Governance	57	7
Anti Fraud Culture	60	8
Service Delivery Risks	78	11
Procurement and Contracts	60	8
Programme and Projects	50	7
Certification	80	10
Other Resource Provisions	115	15
External Works	152	20

5. **CONSULTATION**

5.1 Consultation during the drafting of the documents and plans has been through the Directors and their respective management teams. Further consultation was undertaken with Members of the Audit Committee at the previous meeting when the Emerging Audit Issues were discussed.

6. **ANTICIPATED OUTCOMES OR IMPACT**

6.1 Internal Audit work schedules and resources will be set out for the 2018 / 2019 year.

7. **REASON FOR THE RECOMMENDATION**

7.1 Audit Committee have a role to oversee the effect delivery of audit resources to ensure that corporate governance arrangements across the Council are monitored, reviewed and are effective to delivering the Council agenda.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 There is a statutory duty for the s151 Officer to put in place appropriate arrangements for the provision of Internal Audit.

9. IMPLICATIONS

9.1 Financial Implications

This report does not give rise to any additional capital or revenue financial implications. Actions to communicate the policies and to ensure compliance will be undertaken within the existing budgets.

9.2 Legal Implications

None

9.3 Equalities Implications

Not applicable

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 None

11 APPENDICES

A: Internal Audit Charter
B: Internal Audit Code of Ethics
C: Internal Audit Strategy
D: Internal Audit Plan

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