

Angus Council Internal Audit



Annual Internal Audit Plan 2017-18

March 2017

Allan Munn
Audit Manager
Chief Executive's Unit

Contents Page

| | |
|---|-----------|
| Introduction..... | 3 |
| 2017-18 Audit Plan – Detailed Outputs..... | 9 |
| 2017-18 Outputs to Scrutiny and Audit Committee..... | 14 |
| Conclusion | 14 |
| Appendix 1 – Summary of Corporate Risk Register as at March 2017 | 15 |

Introduction

1. The primary role of internal audit is to provide independent assurance and opinion on the effective operation of the council's risk management, governance and internal control processes. Internal Audit can also provide consultancy services, where management have more input to the core objectives of the assignment.
2. Management are responsible for establishing the risk, governance and internal control processes and systems as well as their ongoing monitoring. Management are also responsible for managing fraud risks and ensuring that internal control systems are designed to guard against fraud and misappropriation. Internal audit is not a substitute for these management responsibilities. Rather it is the review function which will challenge current practices and recommend best practice and improvements to lead to a strengthening of the control environment and therefore assisting the council in achieving its objectives.
3. Professional practice in relation to the provision of internal audit service is defined by The Public Sector Internal Audit Standards (PSIAS) issued by the relevant authorities (CIPFA for local government). These standards are exacting in relation to the organisation's governance of internal audit and internal audit's own arrangements and practices. The Standards have been revised from 1 April 2016 to incorporate the Mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.
4. An External Quality Assessment (EQA) performed in late 2014 by CIPFA confirmed that Internal Audit was fully compliant with the requirements of the PSIAS. An annual self-assessment is undertaken to confirm continuing compliance with the Standards.
5. Due to the continuing changes within the council, the plan should be considered to be flexible and will be periodically reviewed and amended as required to reflect any new requirement or significant change to Council risks. Any amendments will be brought to the Scrutiny and Audit Committee for approval.
6. Our Internal Audit plan will be delivered in accordance with the Internal Audit Charter that was approved by the Scrutiny & Audit Committee in September 2016. This sets out the role, professional requirements, independence and overall responsibilities of Internal Audit.
7. The authority, access rights and reporting arrangements for the Internal Audit function are also contained within the Internal Audit Charter. This details the functional reporting arrangements for the Audit Manager to the Scrutiny and Audit Committee and Chief Executive as well as, for contract management purposes, the Service Manager – Governance and Consultancy. The Charter requires annual approval and will be presented to the Scrutiny and Audit Committee in September 2017.

8. In discharging the internal audit role, the Audit Manager is required to set a risk based audit plan sufficient to provide the required assurances to members and officers in relation to corporate governance, risk management and internal controls. These assurances will be provided throughout the year. We will present the results of individual audit reviews through Internal Audit Update reports to each Scrutiny and Audit Committee. The activity related to the Counter Fraud Team will be reported bi-annually. In June 2018, the Audit Manager will also present an overall summary of the effectiveness of governance, risk and the internal control environment as well as an opinion on the corporate governance of the Council in the Annual Report.

The Planning Approach

9. The audit planning process for developing a risk based audit plan is well established within the Council.
10. The process involves determining the potentially auditable areas of the Council and updating these each year. The auditable areas are identified from a number of sources including:
 - Consultations with Council Members (incl. Scrutiny and Audit Committee)
 - Consultations with the Council Management Team (incl. the Head of Corporate Improvement and Finance)
 - Knowledgebase within Internal Audit
 - Council plans and policy documents
 - Corporate and departmental risk registers
 - External inspection reports
 - Internal service, efficiency reviews etc.
 - Liaison with external auditors
 - Any matters arising from the work of the Scrutiny and Audit Committee
11. This then establishes the audit universe for the upcoming year from which the specific individual areas of audit will be chosen, based on the risk assessment methodology discussed below.

The Risk Assessment Model

12. Once the auditable areas are identified they are separately risk assessed in accordance with the model which considers aspects of corporate importance and sensitivity of the area and the control and inherent risk. This then allows the elements of the audit universe to be classified into Critical, High, Medium or Low risk. There are also a number of 'core' areas which are reviewed every year, regardless of the risk classification.

13. Each of the risk assessed areas within the “universe” is then allocated to a “headline area” as follows:

- Corporate Governance
- Financial Governance
- Information Technology Governance
- Internal Controls
- Asset Management
- Legislative and other compliance

The headline areas are subject to a high level risk assessment model which looks at the relative risk and relative risk maturity of the headline areas to work out a broad allocation of the available audit days. This is not considered a rigid calculation but more a guide to the balance of the plan which can be amended to reflect specific needs and drivers.

14. The high level risk assessment takes into consideration the local risks contained within the corporate risk register as well as known risks at a national level.

The Audit Plan

15. The final step in the development of the annual plan is to identify the individual audits from the audit universe which will sit below each of the headline areas and form the plan for the year. This choice is determined by a number of factors including:

- The assessed risk from the audit universe
- The time lapse since last audit
- Review of Corporate Risk Register
- Known problems or issues arising in previous audits/inspections etc.
- Reviews being undertaken by other assurance providers (e.g. External Audit)
- Special requests

16. In addition, a portion of the plan has been reserved for contingency activity. Contingency resource will be available to fulfil reviews at the request of the Scrutiny and Audit Committee and management. This can relate to specific assignments where the objectives are set jointly by Internal Audit and by the Committee/Management or can be advisory or project assurance roles.

The 2017-18 Internal Audit Plan

17. The 2017-18 Internal Audit Plan has been developed on the basis of the above model plus specific management requests.

18. The internal audit team has a dedicated internal resource comprising two auditors (1.6 FTE). The Internal Audit team is complemented by a co-source arrangement which provides 110 days for 2017-18 with 80 days dedicated to the Audit Manager role. During 2016 two full-time posts were vacated and the committee were informed that an additional co-source arrangement was required to complete the 2016/17 plan (report 309/16 refers). 170 days of contractor resources were secured for this purpose. It is intended to review and address the staffing resource requirements prior to the end of March 2017. The plan prepared below for 2017-18 reflects the availability of a full complement of staff. The Governance and Consultancy Team has three Counter Fraud Officers (2 FTE) and will be responsible for the delivery of that work.
19. An Internal Audit capacity plan was developed to establish the number of days available within the team to deliver core audit work.
20. The total number of productive days available from the Internal Audit team has taken into consideration the following:
 - Maximum number of available days
 - Professional development for staff
 - Annual leave
 - Internal administration activities
21. The prior year plan incorporated reference to the Counter Fraud Team to reflect its contribution to the Council's governance arrangements and to reflect that potential Internal Audit work may result from the findings of the Counter Fraud Team. In the forthcoming year, the risk of the Council being subject to fraud and corruption is not likely to reduce. To ensure that the Council maintains its strong counter fraud arrangements, the Counter Fraud Team (as part of the Governance and Consultancy Team) will continue to carry out data matching exercises to identify fraud and error; publicise, promote and enforce the Counter-Fraud and Corruption Strategy and framework; continue to develop joint working arrangements with colleagues in Housing; and will liaise with other local authorities to identify areas of best practice. The team input is equivalent to 2 FTE staff.
22. The Council's participation in the National Fraud Initiative (NFI) continues to be an integral part of the corporate approach to the prevention and detection of fraud and errors. The Governance and Consultancy Manager will submit reports to this committee, together with a summary of the local outcomes.
23. The Audit Plan continues to include work carried out in relation to Angus Alive. Internal Audit will agree with the Angus Alive Board a specific plan for Angus Alive. The output from these audits will be prepared for the Angus Alive Board and if relevant for the Council Audit and Scrutiny Committee.

24. The overall Internal Audit resource and allocation is included in the table below:

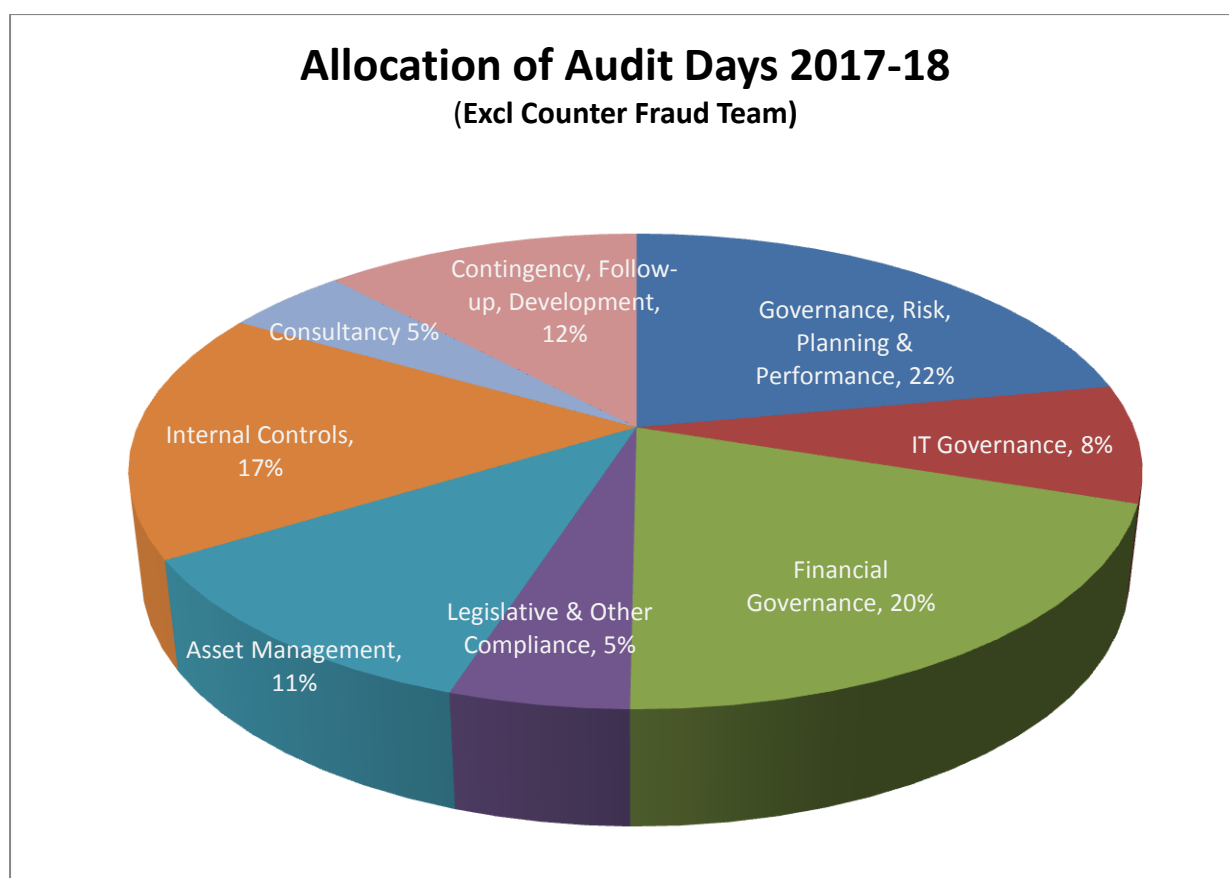
| Areas | Audit Days |
|---|--------------|
| Productive days available from: Internal Audit team | 674 |
| Counter Fraud Team (Governance and Consultancy) | 436 |
| Audit Manager (and supplementary) co-source provision | 110 |
| | |
| Total available days | 1,220 |
| | |
| Allocated as follows | |
| Audit plan (see 2017-18 Detailed Outputs below) | 624 |
| Counter Fraud Team (Governance and Consultancy) | 436 |
| Angus Alive | 50 |
| Angus Health and Social Care Partnership | 30 |
| Audit Management | 80 |
| Total allocated days | 1,220 |

25. The current resource availability is sufficient to allow me to produce my Annual Internal Audit Opinion as well as provide the required assurances to Scrutiny & Audit Committee Members as well as the Head of Corporate Improvement & Finance in his role as Section 95 Officer.

26. The high level initial allocation of the available days in delivering the audit plan is shown below:

| Headline Area | Audit days 2017-18 |
|--|-----------------------|
| Governance, Risk, Planning & Performance | 135 |
| Financial Governance | 125 |
| IT Governance | 50 |
| Internal controls | 110 |
| Asset Management | 70 |
| Legislative & Other Compliance | 30 |
| Follow-up, PSIAS Review, Contingency | 50 |
| Consultancy inc Transforming Angus boards | 29 |
| Staff and Team Development | 25 |
| Sub-total: | 624 |
| Fraud Prevention and Detection - Carried out by Counter Fraud Team, managed by Governance and Consultancy Service Mgr. | 436 |

27. The diagram below illustrates the percentage allocation of audit days for 2017-18:



28. The above allocation of days highlights that 42% of our planned audit coverage relates to matters of corporate and financial governance. We believe that this allocation is appropriately aligned to risk profile and will address the assurance needs of the Council in 2017-18.

29. It should be noted that at this stage, the days per headline area can only be an early indicative estimate and will require to be firmed up once more detailed scoping work has been carried out. The outputs detailed in the '2017-18 Audit Plan – Detailed Outputs' section below include all the outputs which will be provided by both internal audit and our co-sourcing partner, who are considered to be an extension to the internal audit team.

30. All audit work will be conducted by the Internal Audit team under the guidance and direction of the Audit Manager and Senior Auditor. Where any team member has a perceived or actual conflict of interest in relation to an Internal Audit assignment or investigation, they will not be permitted to have any involvement in that piece of work. In addition, Internal Audit staff who are represented on Transforming Angus workstream programme boards will not be permitted to be involved in any internal audit work that is directly related to the programme board(s) they sit on.

2017-18 Audit Plan – Detailed Outputs

The table below sets out the individual audits to be conducted during the 2017-18 financial year and the output that will be generated from each piece of work. We have included, where relevant, a link to those risks contained within the Corporate Risk Register (CRR ref.) as at March 2017 (see Appendix 1). This allows Members and management to identify where Internal Audit can provide assurance on the effectiveness of the controls implemented to mitigate risks.

| Audits | Output | Commentary | CRR ref. |
|--|-------------------|---|----------|
| Corporate Governance | | | |
| Corporate Governance annual review – 2016-17 | Management letter | Review of the self-assessment process and progress with action plans. | 10 |
| General Data Protection Regulations (GDPR) Readiness | Report | To review corporate arrangements for compliance with new data protection legislation that will be enacted May 2018. | 6,8 |
| Information Governance – (Locality Hubs) | Report | The review will assess the extent of compliance with good information security management practice. The work will include a review of physical security at a sample of the new locality hubs. To be planned for 2018. | 6,8 |
| Freedom of Information | Report | We will assess the processes to service freedom of information requests and ensure compliance with legislation. | 6 |
| Public Accountability | Report | This review will assess the Council's response to Audit Scotland's Best Value report identifying public accountability as an area for improvement. | 8 |

| Audits | Output | Commentary | CRR ref. |
|-----------------------------|--------|---|----------|
| Corporate Governance | | | |
| Performance Information | Report | This review will assess the Council's response to Audit Scotland's Best Value report identifying performance management as an area for improvement. | 8 |

| Financial Governance | | | |
|---|-----------|---|-----|
| Schools' Funds – Governance (primary schools) | Report | Review of processes in place to manage primary schools' funds. Informed by findings of 2016/17 review on secondary school funds governance. | 1 |
| Central Administration Recharging | Report | Review of processes related to the recharging of central administration costs | 1,8 |
| Data Analysis – Payroll and Accounts Payable | Report(s) | Data analytics will be used to review the applications' data to identify trends, as well as missing or anomalous transactions. | 1,8 |
| Corporate Tendering Process | Report | The review will ensure the administration of the corporate tendering process is compliant with good practice and internal policies. | 1 |

| IT Governance | | | |
|-------------------------------|--------|---|---|
| Data Sharing | Report | Review of controls and processes in place to ensure the Council is compliant with legislation and achieving best practice when sharing data with 3 rd parties. | 6 |
| IT User Access Administration | Report | As the administration of user access to IT systems is devolved to local managers a core financial system will be selected for review. | 6 |

| Audits | Output | Commentary | CRR ref. |
|--|--------|--|----------|
| Internal Controls | | | |
| Contractual Arrangements | Report | A review of significant supplier spending to review contractual arrangements and delivery of services provided through the contract(s). | 1,8 |
| Property Repairs Work Allocation | Report | To review the allocation of work to contractors via the Archimedes system | 1,8 |
| Service Level Agreements | Report | A review of the use of SLAs for the monitoring of services provided to the Council | 4 |
| Schools' Support Staff Appraisal and Development | Report | The review will focus on Children and Learning support staff as they were not included in the 2016/17 review. The audit will review the implementation of the new process to confirm the effectiveness of the processes. | 2 |

| Asset Management | | | |
|----------------------------------|-------------------|---|---|
| Stocks (year-end) | Management letter | Annual stock checks | 8 |
| Community Asset Transfer Process | Report | The review will consider the impact of the new legislation related to community asset transfer and assess the adequacy of processes established in relation to applications. | 8 |
| Fixed Asset Register | Report | We will assess the controls and processes in place over the Council's fixed asset register and progress made in responding to the issues identified in Audit Scotland's Annual Audit Report regarding fixed assets. | 1 |

| Audits | Output | Commentary | CRR ref. |
|---|------------------|--|----------|
| Legislative and Other Compliance | | | |
| LEADER - European Maritime Fisheries Fund (Rural Funding) | Report | Annual review of LEADER programme expenditure. | 8 |
| Carbon Reduction | Report | Annual review of Carbon Reduction return | 1,4,8 |
| Interreg (European Funding) | Report | Review of processes and procedures relevant to payment of claims prior to external assessment (i.e. excl 1 st level controller role). | 8 |
| Other | | | |
| Follow-up of previous recommendations | Quarterly update | Continuing work to identify progress in implementing agreed audit actions. Maintain quarterly update when new recording system established. | N/A |
| Staff and Team Development | Nil | Ensuring staff have knowledge and expertise to perform reviews in new areas and that Internal Audit meets relevant standards and achieves best practice. | N/A |
| PSIAS (Public Sector Internal Audit Standards) Review and Contingency | Annual Report | Annual internal quality assessment and compliance with standards as required | N/A |

| Consultancy – Advice/Specific | | | |
|---|----------|---|-----|
| Attendance at Transforming Angus Programme Boards | Advisory | As agreed by the Transforming Angus Programme Board | 3 |
| Consultancy support for specific Member and/or management advisory work | Advisory | As determined by requests. | N/A |

| Counter Fraud Team | | | |
|--------------------------------|--|---|---|
| Fraud Prevention and Detection | Bi-annual Report by Governance and Consultancy Manager | The team will carry out various reviews to proactively detect and prevent fraudulent activity. This work will include the use of data analytics to extend the overall scope of the reviews where possible. The team will also contribute to controls identification and other fraud prevention initiatives. | 1 |

2017-18 Outputs to Scrutiny and Audit Committee

31. The table below lists the outputs expected to be presented to the Angus Council Scrutiny and Audit Committee until June 2018.

| Committee Meeting | Output |
|-------------------|--|
| June 2017 | <ul style="list-style-type: none"> • Internal Audit Annual Report 2016-17 • Internal Audit Update Report • Counter Fraud Report |
| August 2017 | <ul style="list-style-type: none"> • Internal Audit Update Report |
| September 2017 | <ul style="list-style-type: none"> • Internal Audit Update Report • Approval of Updated Internal Audit Charter |
| November 2017 | <ul style="list-style-type: none"> • Internal Audit Update Report • Counter Fraud Report |
| January 2018 | <ul style="list-style-type: none"> • Internal Audit Update Report |
| March 2018 | <ul style="list-style-type: none"> • Internal Audit Update Report • Internal Audit Annual Plan 2018-19 |
| April 2018 | <ul style="list-style-type: none"> • Internal Audit Update Report • Counter Fraud Report |
| June 2018 | <ul style="list-style-type: none"> • Internal Audit Annual Report 2017-18 • Internal Audit Update Report |

Conclusion

32. This report has outlined the audit planning and risk assessment process utilised within the council to develop the annual internal audit plan and presents the proposed audit plan for 2017-18. Members are asked to approve this plan, the discharge of which will be reported to the Scrutiny and Audit Committee at each Committee cycle.

Appendix 1 – Summary of Corporate Risk Register as at March 2017

| Risk No. | Description | Current Risk Score | Risk Appetite |
|----------|------------------------------------|--------------------|---------------|
| 1 | Securing Financial Sustainability | 12 | 6 |
| 2 | Cultural Change | 12 | 9 |
| 3 | Transforming Angus non-delivery | 12 | 6 |
| 4 | Performance Management | 9 | 6 |
| 6 | Workforce fit for the future | 10 | 12 |
| 7 | Information Governance | 12 | 8 |
| 9 | Residual Waste Contract | 12 | 9 |
| 10 | Core Governance | 8 | 8 |
| 15 | Health and Social Care Integration | 12 | 9 |
| 16 | Public Protection | 10 | 8 |
| 17 | Constitutional Change | 12 | 9 |
| 18 | Legislative change | 9 | 9 |