Angus Council Internal Audit

Annual Internal Audit Plan 2015-16

April 2015

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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 from 1 April 2013 is defined by The Public Sector Internal Audit Standards (PSIAS) issued by the relevant authorities (CIPFA for local government). These new standards are exacting in relation to the organisation's governance of internal audit and internal audit's own arrangements and practices.

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 will be undertaken to confirm continuing compliance with the Standards.

5. In recognition that it is envisaged that 2015-16 will continue to be a further year of change for the council, the plan should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new need, arrangements or changing risks to the council. 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 2014. 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 also 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. The Charter requires annual approval and will be presented to the Scrutiny and Audit Committee in September 2015.

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. In June 2016, the Audit Manager will also present an overall summary of the effectiveness of governance, risk and 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 Members of the Scrutiny and Audit Committee

    - Consultations with the Executive Management Team and the Head of Corporate Improvement and Finance

    - Knowledge base within internal audit

    - Council plans and policy documents

    - Corporate and departmental risk registers

    - External inspection reports

    - Internal service, efficiency reviews etc

    - Liaison with external audit

    - 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

and the headline areas themselves 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. This will be used to lead and direct investigation activity. It is anticipated that the majority of investigation work will be resourced from the new corporate Counter Fraud team which will sit within the Council's Change and Governance Unit. Contingency resource will also be available to fulfil reviews at the request of the Scrutiny and Audit Committee and management. In the case of the latter, this can relate to specific assignments where the objectives are set jointly by Audit and by the Committee/ Management or can be advisory or project assurance roles.

The 2015-16 Internal Audit Plan

17. The 2015-16 Internal Audit plan has been developed on the basis of the above model plus specific management requests.

18. As indicated in paragraph 16, above, from 1 April 2015 onwards, the structure of the current Governance Unit will be changing. The staff currently involved in Benefit Fraud investigation will no longer perform that role. Some of them will form the corporate counter fraud function. Included within their remit will be resourcing investigations that have traditionally been performed by Internal Audit staff. The Internal Audit team will continue to lead and support investigations as required.

19. The Internal Audit team now has a dedicated resource of 3.6 FTE, comprising one Senior Auditor and three Auditors (2.6 FTE). The team is complemented by our co-source arrangement which provides 110 days for 2015-16 with 80 days dedicated to the Audit Manager role and 30 days to deliver specific audits within the plan.

20. A detailed Internal Audit capacity plan was developed to establish the number of days available within the team to deliver core audit work.

21. 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

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

Areas	Audit Days
Productive days available from Internal Audit team	700
Co-source provision	110
Total available days	**810**
Allocated as follows	
Audit plan (see 2015-16 Detailed Outputs below)	700
Audit Management	80
Audit Planning and PSIAS annual self-assessment	30
Total allocated days	**810**

23. 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.

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

Headline Area	Audit days 2015-16
Governance, Risk, Planning & Performance	215
Financial Governance	135
IT Governance	30
Internal controls	90
Asset Management	5
Legislative & Other Compliance	60
Contingency, follow-up, NFI	85
Consultancy inc Transforming Angus boards	80
Total	**700**

25. The diagram below illustrates the percentage allocation of audit days for 2015-16:

Allocation of Audit Days 2015-16
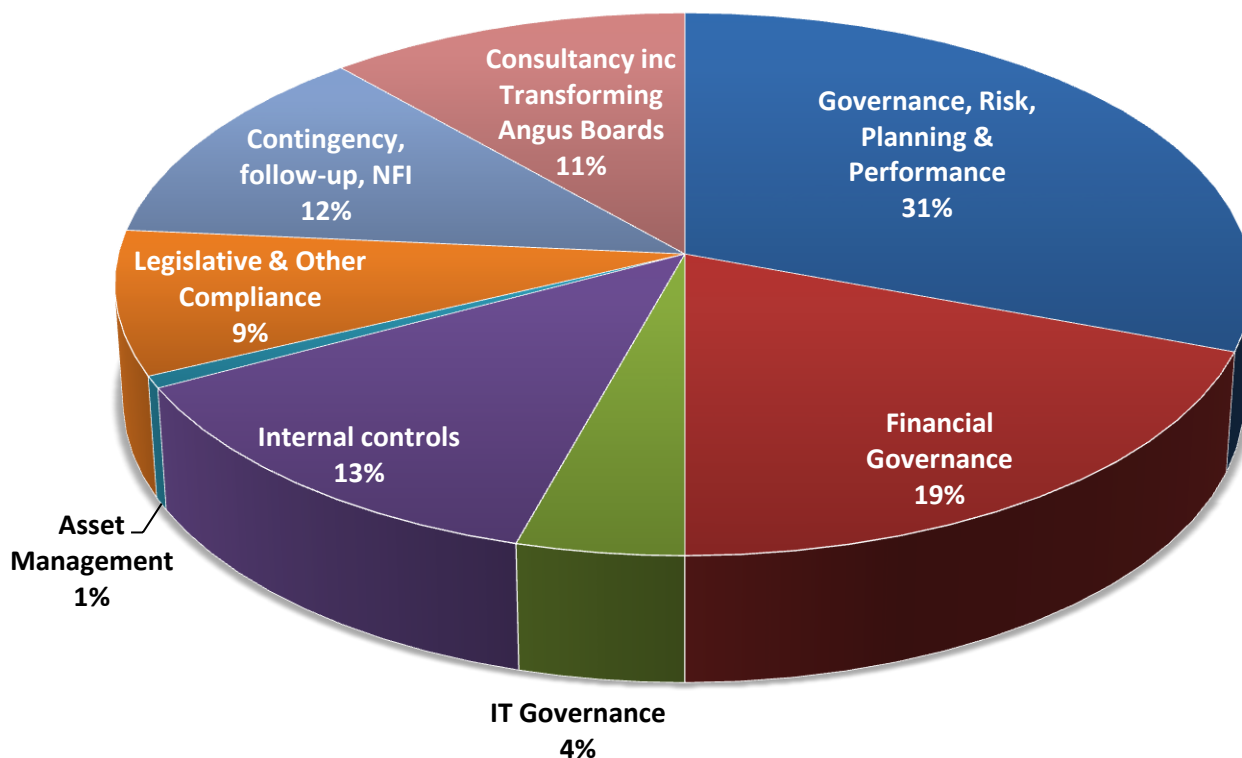
26. The above allocation of days highlights that 50% of our planned audit coverage relates to matters of corporate and financial governance as well as risk and performance management. We believe that this allocation is appropriately aligned to risk profile and will address the assurance needs of the Council in 2015-16.

27. 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 '2015-16 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.

28. 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.

2015-16 Audit Plan – Detailed Outputs

29. The table below sets out the individual audits to be conducted during the 2015-16 financial year as well as the output that will be generated from each.

30. We have also included this year, where relevant, a link to those risks contained within the Corporate Risk Register (CRR ref.) as at February 2015 (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 and report – 2014-15	Report	The concluding audit covering the corporate whole and individual Directorates	10
Corporate Governance 2015-16 – Interim Review	Management letter	Interim review of the local code/progress of action plans	10
Service Reviews	Report	Review will focus on the process for commissioning, completing and reporting on service reviews and how they support future budgeting.	2, 3
Self-Directed Support Implementation	Report	An assessment of the effectiveness of implementation of the SDS guidance.	18
Culture and Leisure Trust	Report	A consultancy review of planned governance arrangements to confirm their adequacy in advance of the introduction of the new Trust.	2, 3
Transforming Angus	Report	Review of processes for benefit identification, tracking and realisation (c/f from 2014/15)	3
Health & Social Care Integration	Report	Review of relevant governance aspects of the Shadow Board arrangements. Will include work with NHS Tayside Internal Auditors.	15

Audits	Output	Commentary	CRR ref.
Housing Strategy – Compliance with Scottish Housing Quality Standard	Report	Review of processes for current and future compliance with the requirements of the Standard.	
Complaints Management	Report	Review of compliance with the process and reporting arrangements.	
Information Governance – Data Security	Report	Review will assess the extent of compliance with good data security practices within the Council and adherence to policies.	7
Business Continuity Planning	Report	Review of processes for development, maintenance and testing of plans.	12

Financial Governance

Audits	Output	Commentary	CRR ref.
Use of Tayside Contracts	Report	Review to assess the adequacy of processes for utilising Tayside Contracts. Focus on procurement compliance vs maximising utility of Tayside Contracts.	
Children & Young People (Scotland) Act - budgeting	Report	Review to confirm arrangements for budget planning and monitoring.	1
Council Tax Reduction	Report	Review of processes to ensure appropriate administration and implementation of the process.	14
Procurement	Report	Review of implementation of "Supporting Local Business" ten point action plan.	18
Salaries	Report	Review of payroll controls at Service level.	
Debtors and Debt recovery	Report	To assess processes for recording debtors and ensuring effective debt recovery across the Council.	
Travel and Subsistence	Report	Review of policy compliance and use of e-Expenses.	
Creditors Payments	Report	Review of payment processes.	

Audits	Output	Commentary	CRR ref.
IT Governance			
IT Security	Report	Review of technical security management arrangements for protecting the Council's information assets.	11
IT application strategy	Report	Assessment of strategic planning for replacement/renewal/consolidation of IT applications.	7, 11
Internal Controls			
Community Asset Transfer process	Report	Review to ensure appropriate and consistent evaluation processes.	2
Universal Credit preparedness	Report	Readiness assessment to ensure plans are in place in advance of Universal Credit introduction.	14
Agile working – mobile phones	Report	Value for money review to confirm if the mobile phone provision is consistent with business and Agile Working requirements.	5
Fuel Management	Report	Review of processes for ensuring effective fuel management for the Angus fleet of vehicles.	
People Directorate – Payments to third parties	Report	Review of controls over payments made to third party suppliers. Will include those in relation to SLAs.	1
Asset Management			
Stocks (year end)	Management letter	Annual stock checks	
Legislative and Other Compliance			
Landfill Tax	Report	Annual legislative compliance	N/A

Audits	Output	Commentary	CRR ref.
LEADER	Report	Annual review of LEADER programme.	N/A
European Maritime Fisheries Fund	Report	Annual legislative compliance	N/A
Carbon Reduction	Report	Annual review of Carbon Reduction return	N/A

Other			
Contingency	Quarterly update on investigations	Investigations and other reactive work	N/A
Follow-up of previous recommendations	Quarterly update	Continuing work to identify progress in implementing agreed audit actions.	N/A
National Fraud Initiative	Nil	Audit work in support of the NFI matches.	N/A

Consultancy – Advice/Specific			
Attendance at Transforming Angus Programme Boards	Advisory	As agreed by the Transforming Angus Programme Board and	3
Project Boards/Teams etc. • Information Governance • CGOG • Resourcelink • Risk	Advisory		
Consultancy support for specific Member and/or management advisory work	Advisory		

2015-16 Outputs to Scrutiny and Audit Committee

31. The table below lists the outputs expected to be presented to the Committee until June 2016.

Committee Meeting	Output
June 2015	• Internal Audit Annual Report 2014-15 • Internal Audit Update Report
August 2015	• Internal Audit Update Report • Update on Investigations Activity
September 2015	• Internal Audit Update Report • Approval of Updated Internal Audit Charter
November 2015	• Internal Audit Update Report • Update on Investigations Activity
January 2016	• Internal Audit Update Report
March 2016	• Internal Audit Update Report • Update on Investigations Activity
April 2016	• Internal Audit Annual Plan 2016-17 • Internal Audit Update Report
June 2016	• Internal Audit Annual Report 2015-16 • Internal Audit Update Report • Update on Investigations Activity

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 2015-16. 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 February 2015

Risk No.	Description	Likelihood	Impact	Risk Score
1	Maximising use of funding	3	3	9
2	Cultural Change	4	4	16
3	Transforming Angus non-delivery	3	4	12
4	Performance Management	3	3	9
5	Agile/Mobile/Homeworking	3	5	15
6	Workforce reductions	2	5	10
7	Information Governance	3	4	12
8	Workforce/succession planning	3	5	15
9	Residual Waste Contract	3	3	9
10	Core Governance	3	4	12
11	PSN	2	5	10
12	Business Continuity	3	3	9
13	Health & Safety	3	3	9
14	Welfare Reform	3	3	9
15	Health and Social Care Integration	3	5	15
16	Public Protection	2	5	10
17	Constitutional Change	4	4	16
18	Legislative change	2	4	8