Scrutiny & Audit Committee

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Internal Audit Annual Plan 2014-15

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1.   Introduction

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.

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.

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 and development work both in relation to the organisation's governance of internal audit and internal audit's own arrangements and practices has been undertaken during 2013/14 in readiness for a formal external quality assessment (EQA) on a validated self-assessment basis against the PSIAS in 2014/15.

The past twelve months has resulted in significant change in the Council, including the management restructuring, the emerging Transforming Angus agenda as well as the Scrutiny and Audit Committee Members establishing their own reviews for the first time.

In recognition that it is envisaged that 2014/15 will continue to be a 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.

Our Internal Audit plan will be delivered in accordance with the Internal Audit Charter that was approved by the Scrutiny & Audit Committee in September 2013. This sets out the role, professional requirements, independence and overall responsibilities of Internal Audit.

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 reporting to the Chief Executive and, for contract management purposes, the Service Manager - Governance. This was subject to review and approval during 2013/14 to ensure compliance with the PSIAS.

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 are provided throughout the year as updates on the outcome of each audit to the Scrutiny and Audit Committee each cycle with an overall summary and opinion on the corporate governance of the council in the form of an annual report to the June cycle.

2.   The Planning Approach

The audit planning process for developing a risk based audit plan is well established within the council.

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

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.

3.   The Risk Assessment Model

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.

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.

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.

4.   The Audit Plan

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
- Known problems or issues arising in previous audits/inspections etc
- Reviews being undertaken by other assurance providers (e.g. External Audit)
- Special requests

*The guiding principle involved in relation to the frequency of the audit for each classification is:-

Core / Critical   Audited every year
High   Audited every three years
Medium   Audited every five years
Low   Audited every seven years

However, it must be recognised that it is unlikely that these frequencies will be adhered to, most especially in terms of the medium and low risk areas as resources realistically require that the focus be toward the high and critical risk areas, and this is the principle upon which the function is staffed.

The audit universe is also used to highlight those areas that have not been reviewed in accordance with the above timescales. They are predominantly either new areas identified as part of this year's exercise which will be picked up in future years, or the medium and low level areas. There are, however, a few higher risk areas which remain overdue in terms of the above principle and they will form the reserve list for the current year.

In addition, a portion of the plan has been reserved for internal consultancy work, which is included at the request of both the Scrutiny and Audit Committee and management. This includes an allocation for any work in support of the Scrutiny and Audit Committees new review process as well as supporting Lean reviews. Consultancy work 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.

5.   The 2014/15 Internal Audit Plan

The 2014/15 Internal Audit plan has been developed on the basis of the above model plus specific management requests.

Prior to developing the detailed areas to review, time allocations are required for other audit work and non-chargeable work, calculated as follows:

Areas	Audit Days 2014-15	Audit Days 2013-14
Audit days per annum – internal audit team	958	1136
Co-source contractor days	100	75
Vacant Post (see below)	-	(130)
Available audit days	**1058**	**1081**
Headline Audit Areas (see breakdown below)	**652**	**700**
Contingency	130	130
Scrutiny & Audit reports	11	11
Tayside Joint Police Board	-	10
Audit Management	80	
National Fraud Initiative	20	40
Non Chargeable Items (admin, staff development and training)	65	65
Audit Planning & PSIAS Development	40	50
Audit Management Systems development/New systems	20	30
Previous year clear up	30	30
Annual Self-Assessment (PSIAS)	10	15
Available audit days	**1058**	**1081**

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

The co-source contractor days reflect the Audit Manager role (80 days) and 20 days of time to conduct audits which require specialist input. Contingency time includes time for conducting both ad-hoc reviews and investigations.

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 and Head of Corporate Improvement & Finance in his role as Section 95 Officer.

The balance of time availability is then allocated to the specific areas which will be reviewed during the year. An initial allocation of the available audit days is shown below:

Headline Area	Audit days 2014-15	Audit Days 2013-14
Governance, Risk, Planning & Performance	210	140
Financial Governance	135	255
IT Governance	35	50
Internal controls	75	65
Asset Management	5	15
Legislative & Other Compliance	47	75
Consultancy	75	100
Follow-Up	70	-
Total Days	**652**	**700**

Our audit plan for 2014/15 aims to align our assurance activity to those areas subject to process and organisational change as well as those identified as being of higher risk in relation to achievement of corporate objectives. This explains the increased number of days allocated to "Governance, Risk, Planning & Performance" reviews as identified in the table above. A number of our reviews in this headline area will also include an added focus on service/process improvement.

Whilst the number of days allocated to direct financial governance activity is less than in 2013/14, this will be a key consideration in many of "Governance, Risk, Planning & Performance" reviews.

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 audit outputs detailed in section 6 below include all the outputs which will be provided by both internal audit and our co-sourcing partners, who will be considered for output purposes to be an extension to the internal audit team.

All audit work will be conducted by the Internal Audit team under the guidance and direction of the Audit Manager and Senior Auditors. 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.

6.   2014-15 Audit Plan – Detailed Outputs

Audits	Risk Rank	Output	Commentary
Corporate Governance			
Corporate Governance annual review and report – 2013-14	Core	Report	The concluding audit covering the corporate whole and individual Directorates
Corporate Governance 2014-15 – Interim Review	Core	Report	Interim review of the local code/progress of action plans
Risk Management	Core	Report	Review will focus on the implementation of the new risk management strategy.
Information Governance	Core	Report	Review of the Information Governance framework including policy development and implementation as well as responsibilities
Transforming Angus	Critical	Report	Review of governance and scrutiny arrangements for the Transforming Angus programme
Transforming Angus	Critical	Report	Review of processes for benefit identification, tracking and realisation
Health & Social Care Integration	Critical	Report	The specifics of this review will be determined during 2014/15
Health & Safety Governance	High	Report	Will consider the processes for ensuring effective governance over Health & Safety management within the Council.
Performance Management	High	Report	Review of process for reporting on Council and Directorate performance.
Financial Governance			
Downsizing Incentive Scheme	Medium (Welfare Reform Core)	Report	Review of system and controls in place for the operation of the scheme (c/f from 13/14)

Audits	Risk Rank	Output	Commentary
Affordable Housing / Survive & Thrive	High	Report	Review of the arrangements for the funding and implementation of the Survive and Thrive Initiative.
Children & Young People (Scotland) Bill	Medium (nursery providers & school meals)	Report	Review of preparations for implementation of the Children & Young People (Scotland) Bill. To cover pre-school education / childcare and free school meals provision.
Procurement	Core	Report	Review of compliance with Financial Regulations for contracting.
Salaries	Core	Report	Review of controls at Service level
Creditors Payments	Core	Report	Review of payment processes.
Income Collection - Letting of premises	High (Income & Cash Mgt) Medium (School lets)	Report	Schools (incl. PFI) - People Leisure facilities - Communities / services to communities Town Halls - Communities / services to communities Libraries/Museums - Communities / services to communities

IT Governance

Audits	Risk Rank	Output	Commentary
Angus.gov.uk - online services	High	Report	Project management review of arrangements for implementing / optimising online services for citizens
PSN compliance	High	Report	Resource requirements for full compliance vs 'business as usual'

Internal Controls

Audits	Risk Rank	Output	Commentary
Economic Development	High	Report	Property portfolio / business advice / business development. Focusing on service delivery and outcomes.

Audits	Risk Rank	Output	Commentary
Charitable Funds	High	Report	Review of authorisation process for spend from Charitable Funds
Subscriptions	Core (Payment processes)	Report	VfM study of corporate subscriptions and individual subscriptions paid by the Council (e.g. professional memberships)
Rural bus services	High	Report	Value for money review of rural transport subsidies

Asset Management

Stocks (yr end)	Core	Management letter	Annual stock checks

Legislative & Other Compliance

Landfill Tax	High	Report	Annual legislative compliance
LEADER	Core	Report	Annual review of LEADER programme.
European Fisheries Fund	Core	Report	Annual legislative compliance
Carbon Reduction	Core	Report	Annual review of Carbon Reduction return

Other

Contingency		Quarterly update on investigations	Investigations and other reactive work
Follow-up of previous recommendations		Quarterly update	
National Fraud Initiatives			Completion of NFI 2012. Submission of data for NFI 2014
Counter-fraud initiatives			Proactive data matching exercises
Completion 13/14 plan			

Audits	Risk Rank	Output	Commentary

| **Consultancy – Advice / Specific Requests** | | | |

Audits	Risk Rank	Output	Commentary
Scrutiny Reviews		Advisory	Support to Service Manager – Governance where required in relation to scrutiny review/workshop work
LEAN reviews		Advisory	Support to Service Manager – Governance in relation to the lean review pilot and subsequent reviews
Project Boards/Teams etc • Information Governance • CGOG • Resourcelink • Risk, Resilience & Safety Group		Advisory	

7. Conclusion

This report has outlined the audit planning and risk assessment process utilised within the council to develop the annual internal audit plan and presents, within sections 5 and 6 above, the proposed audit plan for 2014/15. Members are asked to approve this plan, the discharge of which will be reported to the Scrutiny and Audit Committee on at least a quarterly basis.