

Report to the Audit and Governance Committee



Report reference: **AGC-019-2015/16**
Date of meeting: **31 March 2016**

**Epping Forest
District Council**

Portfolio: **Governance and Development Management**

Subject: **Internal Audit Strategy and Plan 2016/17**

Responsible Officer: **Sarah Marsh** (01992 564446).

Democratic Services: **Gary Woodhall** (01992 564470).

Recommendations/Decisions Required:

(1) The Internal Audit Strategy and Plan for 2016/17 be approved, including the level of Internal Audit resources required;

Executive Summary:

Internal Audit supports and contributes to the achievement of the Council's objectives by supporting good governance, with the outcomes from Internal Audit work feeding into the Annual Governance Statement. The Internal Audit Strategy and Plan for 2016/17, and the indicative work programme for the subsequent two years (2017/18 and 2018/19) sets out how this will be achieved.

Reasons for Proposed Decision:

To approve the Council's Internal Audit Plan as required in the Audit and Governance Committee's Terms of Reference.

Other Options for Action:

None.

Report:

Introduction

1. The Internal Audit function provides independent and objective assurance and consulting services to Epping Forest District Council. This Internal Audit strategy summarises the key principles for the Internal Audit team for the period 2016/17, with some longer term aims. The strategy supports the Audit Plan which sets out the work of the Internal Audit function for the year.

2. Internal Audit supports and contributes to the achievement of the Council's 2015-20 strategic aims. These have been taken into account whilst developing the Internal Audit Strategy and Plan:

- To ensure that the Council has appropriate resources, on an ongoing basis, to fund its statutory duties and appropriate discretionary services whilst

- continuing to keep the Council Tax low.
- To ensure that the Council has a sound and approved Local plan and commences its delivery.
- To ensure that the Council adopts a modern approach to the delivery of its services and that they are efficient, effective and fit for purpose.

Purpose

3. The purpose of the Internal Audit Strategy and Plan is to document the Internal Audit team's approach to:

- provide independent and objective assurance to Members and senior management on the effectiveness of the Council's internal control framework;
- ensure the recognition of the key risks the Council faces in meetings its objectives when determining and allocating the use of internal audit resources;
- add value and support to senior management in providing effective control, whilst identifying opportunities for improving value for money; and
- deliver an Internal Audit Service that is compliant with the requirements of The Public Sector Internal Audit Standards.

Internal Audit Mission and Core Principles

4. In 2015 the Global Institute of Internal Auditors made some new additions to the International Professional Practices Framework (IPPF) which included for the first time a mission and ten core principles, which have been adopted by this Internal Audit Service and are listed below.

Mission: To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

Core principles:

1. *Demonstrates integrity.*
2. *Demonstrates competence and due professional care.*
3. *Is objective and free from undue influence (independent)*
4. *Aligns with the strategies, objectives, and risks of the organisation.*
5. *Is appropriately positioned and adequately resourced.*
6. *Demonstrates quality and continuous improvement*
7. *Communicates effectively.*
8. *Provides risk-based assurance.*
9. *Is insightful, proactive, and future-focused.*
10. *Promotes organisational improvement.*

The Internal Audit Approach

5. While Internal Audit provides assurance through completing a programme of planned work the service is also flexible and responsive to changing and emerging issues. Some audit work is delivered on a consultancy basis, contributing advice on risk and controls, for example ex-officio attendance at project meetings or undertaking a specific investigation of a newly identified issue.

6. The purpose, authority and responsibility of Internal Audit is formally defined in the Internal Audit Charter, which was approved at the November 2015 Audit and Governance Committee.

Key Deliverables

7. The key deliverables for the Internal Audit service during 2016/17 are:
- *Delivery of the Plan* - the Chief Internal Auditor will ensure there is sufficient audit coverage in order to provide an annual internal audit opinion and report, which feeds into the Council's Annual Governance Statement.
 - *Integrated approach to assurance* – Providing ongoing assurance to management on the integrity, effectiveness and operation of the Council's internal control, governance and risk management processes. Working with other assurance providers including External Audit to prevent duplication of work.
 - *Management commitment*- Ensure agreed management responses to audit recommendations made are implemented thereby improving the overall control framework.
 - *Continually develop our approach* – To develop, improve and deliver a quality assurance and improvement programme for the service, including working more closely with the Audit and Governance Committee.
 - *Business insight* - working more closely with services to establish greater relevance to what matter most to the Council by contemplating current and future key risks and challenges.

Protocol for Audit Reviews

8. For each audit a Lead Auditee will be identified who will be involved in scoping to ensure the audit is appropriately focused on key risks areas, providing assurance and maximising added value. A terms of reference will be produced for each audit to ensure the scope, objectives and approach are agreed with the appropriate Director.
9. Following fieldwork a draft Internal Audit report will be issued for discussion with the appropriate levels of management which is normally set put in the terms of reference.
10. Final reports will be issued after the agreement of draft reports and contain completed management actions plans that identify those responsible for implementation and timescales.
11. Agreed actions or recommendations will be followed up through the Internal Audit tracker process. All high priority recommendations and any passing their original implementation date are reported to the Audit and Governance Committee.

Quality Assurance and Performance Management

12. The Internal Audit Quality Assurance and Improvement Programme ensures the work of the Internal Audit function conforms with the Public Sector Internal Audit Standards, operates in an efficient and effective manner and is adding value and continually improving Internal Audit activity. This is achieved through internal and external assessment, monitoring, and reporting on performance.
13. In 2016/17 the internal audit function will undergo an External Quality Assessment (EQA) which, in line with the PSIAS, must be conducted every five years by a qualified independent assessor or assessment team from outside the Council. The EQA will cover all three councils and will help inform the shared service as it moves forward. Each Audit Committee will be consulted on the process and outcomes.
14. To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, performance targets have been established based

on best professional practice and cover the following aspects:

- Coverage;
- Productivity and process efficiency; and
- Compliance with professional standards.

15. The following service performance targets will be reported on in 2016/17:

Aspect of Service	Performance Indicator	Target
Audit Plan	• Achievement of the annual Plan	• 95% minimum
Internal Audit processes	• Issue of draft report after closing meeting • Issue of final report after agreement with client to draft	• 10 working days • 5 working days
Effective management engagement	• Management responses within 10 working days of draft report • Implementation of agreed audit recommendations	• 10 working days • Within agreed timescales
Compliance with professional standards	Public Sector Internal Audit Standards	100% compliant

Developing the Internal Audit Plan

16. The methodology for developing the Internal Audit Plan is focused on the quantification of the risks associated with the Council's objectives in consultation with key officers. This process also takes into account:

- knowledge and experience accumulated in Internal Audit, including the results of previous reviews;
- a review of audit themes against the strategic risk register and Council priorities;
- the work of other assurance providers both internally and externally;
- the external environment including economic climate, government initiatives such as welfare reform and changes in funding; and
- harmonisation of themes with Harlow and Broxbourne Councils to enable benchmarking and sharing of good practice with other local authorities.

17. The Internal Audit Plan is indicative and changes may need to be made as the risk profile and priorities of the Council change. This will be achieved by ongoing review and amendment in consultation with relevant officers and any significant changes brought to the Audit and Governance Committee for approval.

18. It is important for Internal Audit to plan ahead and allocate resources over the medium term but still maintain a flexibility of approach. This is achieved by documenting known risks over a three year period so that the three year plan includes an indication of proposed audit work for years two and three, based on current known risks if circumstances remain unchanged. However, as new risks emerge audit resources over the medium term will be focused accordingly.

19. The sections of the Internal Audit Plan include:

- Corporate Framework – key risk areas including those defined in the Council's strategic risk register;
- Strategic Themes – including cross cutting issues some of which will be incorporated within operational audits or will be undertaken through consultative work; and

- Service Areas – review of services, systems and processes accordingly to an assessment and business priorities.

Priority Areas for 2016/17

20. Having regard for the current risk profile of the Council the following have been identified as priority areas for Internal Audit work for 2016/17. These may not be audits in themselves, but cross cutting themes that will be fundamental to the scope of Internal Audit work undertaken:

- *Change Management* – Internal Audit assurances will aim to complement management's and those from other assurance providers. Areas will include project management, information management including data integrity and security and changes in business processes.
- *Information Governance and Management* - This includes data quality and security Internal Audit work will seek to provide assurances over the management information used for making key decisions.
- *Risk Management* – Internal Audit has a key role in promoting effective risk management and will continue to work with the Director of Resources and the risk manager to help embed a robust risk management framework across the Council. Within individual audits Internal Audit will seek compliance with good risk management practices and the adequacy of controls put in place by management to mitigate risks in their service areas.
- *Fraud* – Internal Audit will support the Council's anti-fraud work and strategy and, consider the potential for fraud within work.
- *Value for Money* – An increasing focus on VfM will be reflected in Internal Audit's work mainly as a cross cutting theme within operational audits. These will incorporate how the council makes the best use of resources and assets, the balance of cost and performance and meeting the needs of our residents; and providing challenge on whether services could be done differently.
- *Audit and Governance Support* – Internal Audit will work with the Audit and Governance Committee in developing its role in relation to best practise and to contribute to effective corporate governance of the Council.

21. At the operational level the key priorities of Internal Audit work in 2016/17 include:

- *Transformation* – To ensure any new processes and ways of working are working in the best interest of the Council.
- *Key Financial Systems* – The effectiveness of controls and management of risks with the core financial systems remains a core part of the Internal Audit work. Audits have been scheduled on a three year cyclical basis so not all key financial systems will be undertaken each year.

Resources

22. At the start of 2015/16, the Internal Audit function consisted of a Chief Internal Auditor, a senior Internal Auditor, two Internal Auditors and a vacancy for an Internal Auditor. The Chief Internal Auditor retired at the end of May and the Head of Internal Audit for the shared service between Harlow District Council and Borough of Broxbourne Council took on this role from 1 June 2015. The cost and time of this person is shared equally between the three councils. The auditor vacancy has not been recruited to; instead an outsourced internal audit provider was brought in to help complete the 2015/16 Plan.

23. Joint team meetings between with auditors from all three Councils have taken place and audit methodology, working practices and document templates have been aligned between all three.

24. On the basis of a shared Chief Internal Auditor, a senior Internal Auditor and two Internal Auditors there are 602 audit days available for the 2016/17 Plan. The longer term plan is to formalise the shared internal audit service between the three Councils, and this process is starting with all auditors working across all three Councils in delivering each of the 2016/17 Audit Plans.

25. For 2016/17, the intention is not to fill the vacancy and to sell Epping Forest's spare capacity to Broxbourne and Harlow.

Audit Plan 2016/17

26. The Audit Plan as detailed in Appendix A requires 500 days, as set out in the table below:

Thematic Area	Audit days (% in brackets)
Corporate framework including governance, assurance framework, fraud, value for money and risk management	63 (13%)
Information and performance management audits	35 (7%)
Projects, Joint Working and Partnership audits	44 (9%)
Financial audits	60 (12%)
IT Audits	18 (4%)
Cross cutting/themed audits	41 (8%)
Operational Audits	108 (22%)
Follow Ups	25 (5%)
Audit Committee support	16 (3%)
Audit strategy and engagement with the business	35 (7%)
Contingency (including investigations)	35 (7%)
Advice, training and raising staff awareness	20 (4%)
TOTAL	500

Resource Implications:

No additional resources required, but potential income as a result of 'selling' audit days.

Legal and Governance Implications:

The responsibilities, duties and obligations of Internal Audit are set out in the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards (2013) against which internal audit activity should be measured and determined.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Public Sector Internal Audit Standards, Internal Audit Charter, Internal Audit Resource Plan

and risk assessment.

Risk Management:

Failure to achieve the audit plan may lead to a lack of assurance that internal controls are effective and risks properly managed.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date/Name	Summary of equality analysis
31/03/16 Chief Internal Auditor	There are no equality implications arising from the recommendations of this report.