

Audit & Governance Committee
9 April 2015

Internal Audit Plan 2015/16

SUMMARY AND PURPOSE:

1. The purpose of this report is to present the Annual Internal Audit Plan for 2015/16 to the Committee.
2. Under-pinning the work of the Internal Audit team in delivering the Annual Internal Audit Plan are the key principles and objectives as set out in the Internal Audit Charter and Strategy. These are presented alongside the Annual Internal Audit Plan for 2015/16 as good practice dictates that these should be updated and reviewed on an annual basis.
3. Also included in this report are the updated Internal Audit Reporting and Escalation Policy and Quality Assurance and Improvement Programme as required by the Public sector Internal Audit Standards (PSIAS).

RECOMMENDATIONS:

4. Members are asked to consider the contents of this report and annexes, and to approve the following:
 - (i) Internal Audit Charter (Annex A)
 - (ii) The Internal Audit Strategy (Annex B)
 - (iii) The Internal Audit Reporting and Escalation Policy (Annex C)
 - (iv) The Internal Audit Quality Assurance and Improvement Programme (Annex D)
 - (v) 2015/16 Internal Audit Plan (Annex E)

BACKGROUND:

5. The statutory basis for Internal Audit in local government is provided in the Accounts and Audit Regulations 2015 - which require a local authority to "*undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes*".
6. The Accounts and Audit Regulations contain the expectation that Internal Audit will take into account public sector internal audit standards or guidance. The Audit and Governance Committee has adopted the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013, as the basis for Internal Audit in Surrey County Council.

7. **Internal Audit Charter (Annex A)**

The PSIAS require Internal Audit to have a Charter that has been formally approved and is regularly reviewed. The Charter attached at Annex A reflects the PSIAS Local Government Application note which was published in April 2013. There have been no substantial changes to the Charter previously approved by this Committee in March 2014, although the Charter now references the Accounts and Audit Regulations (2015) which came into effect on 1 April 2015.

8. **Internal Audit Strategy (Annex B)**

Under the PSIAS there is no longer a requirement to produce an Internal Audit Strategy. However the Chief Internal Auditor is of the opinion that this is a useful document that links the work of Internal Audit to the Council's vision for 2020 to be confident in Surrey's future. The Internal Audit Strategy has undergone a complete refresh this year. It is now set out on just one page that has some visual impact, clearly shows what Internal Audit is about and obviously aligns with our Corporate Strategy

Through approving the Internal Audit Strategy for 2015-2020 alongside the Internal Audit Plan for 2015/16, the link between the work of Internal Audit and the high level strategic vision of the Council is apparent.

9. **Internal Audit Reporting and Escalation Policy (Annex C)**

The Internal Audit Reporting and Escalation Policy has been updated to reflect the Council's new arrangements for the security classification of data and information and the change in audit opinion classification (from "Major Improvement Needed" to "Significant Improvement Needed").

10. **The Internal Audit Quality Assurance and Improvement Programme (Annex D)**

The PSIAS require the Chief Internal Auditor to develop a Quality Assurance and Improvement Plan (QAIP) which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides

A copy of this QAIP is attached at Annex D for Audit and Governance members to consider. Although the Accounts and Audit Regulations 2015 have removed a requirement to conduct an annual review of internal audit, the Chief Internal Auditor is of the opinion that an annual review is useful to ensure compliance with the PSIAS. As such there are no significant changes to the QAIP that was approved by this Committee in March 2014.

11. **2015/16 Internal Audit Plan and resources (Annex E)**

Development of the Internal Audit Plan

The Internal Audit Plan for 2015/16, which is a risk based programme of work, is set out at Annex E. There are a number of core elements to the Internal Audit Plan which are likely to feature each year. Certain audit activities are mandatory eg

- (i) Reviewing corporate governance arrangements to inform the Annual Governance Statement
- (ii) Grant certification
- (iii) Irregularity contingency
- (iv) Participation in the National Fraud Initiative (NFI)

In addition to these mandatory elements, Internal Audit also carries out testing on an annual basis, of all the Council's key financial systems.

Once these core elements of the Plan and follow up reviews are accounted for, the remaining audits shown in the proposed Plan have been included based on a risk priority which has been assessed following:

- (i) Consultation with:
 - a. Heads of Service and other senior management
 - b. Members of the Cabinet including the Leader of the Council
 - c. Members of the Audit and Governance Committee
 - d. Head of Policy and Performance
 - e. S151 Officer
 - f. The Risk and Governance Manager
 - g. External Auditor
- (ii) Consideration of risk registers
- (iii) Areas of concern emerging from liaison with other Local Authority Internal Audit Sections

The draft Plan, which attempts to demonstrate a link to the Council’s strategic priorities was also presented at a meeting of the Statutory Responsibilities Network on 16 March.

The Chief Internal Auditor is confident that the draft Internal Audit Plan at Annex E provides comprehensive coverage across the Council’s activities and addresses key areas of risk.

Resources

The Internal Audit budget allocation included in the Council’s Medium Term Financial Plan is as follows:

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000s	£000s	£000s	£000s	£000s	£000s
Audit	663	640	652	665	679	691

The Internal Audit team consists of 12 members of staff. The slightly reduced budget for 2015/16 does not allow for all 12 auditor positions to be filled with permanent staff and so some agency resourcing will be used during 2015/16 to help deliver the audit plan. The slightly reduced total audit days available for 2015/16 (2069 compared with 2180 in 2014/15) is also a reflection of the reduction in budget.

The Internal Audit team is sufficiently resourced to deliver the programme of work (as shown at Annex E) which will enable the Chief Internal Auditor to provide an opinion on the adequacy of the Council’s system of internal control for 2015/16.

IMPLICATIONS:

- 12. Financial Equalities Risk management and value for money
- 13. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. The Annual Internal Audit plan is designed to focus on key areas of risk and as such should help ensure effective risk management and support the achievement of value for money.

WHAT HAPPENS NEXT:

14. The Internal Audit team will deliver the 2015/16 Internal Audit Plan and Internal Audit reports will be produced and distributed in line with the Reporting and Escalation Policy.
15. Completed audit reports will continue to be presented to the Committee throughout the year and an update on performance against the 2015/16 Plan will be reported to the Committee in December 2015.

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