

AUDIT & GOVERNANCE COMMITTEE
27 MARCH 2017

Internal Audit Plan 2017/18

SUMMARY AND PURPOSE:

The purpose of this report is to present the Annual Internal Audit Plan for 2017/18 to the Committee.

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 2017/18 as good practice dictates that these should be updated and reviewed on an annual basis.

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).

RECOMMENDATION:

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) 2017/18 Internal Audit Plan (Annex E)

BACKGROUND:

1. 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*".
2. 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 recognises the mandatory nature of the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 (and revised 1 April 2016).
3. **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 and has been refreshed in order to:

- reflect the changes to the PSIAS (effective from 1 April 2016), notably the inclusion of a “mission statement”.
- Ensure a consistent look and feel with OrbisIA partners (East Sussex County Council and Brighton and Hove City Council)

4. **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 to be confident in Surrey’s future. There have been no significant changes to the Internal Audit Strategy previously approved by this Committee in April 2015.

Through approving the Internal Audit Strategy for 2016-2021 alongside the Internal Audit Plan for 2016/17, the link between the work of Internal Audit and the high level strategic vision of the Council is apparent.

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

The Internal Audit Reporting and Escalation Policy is attached at Annex C. It remains unchanged from 2016/17 although it is anticipated that minor amendments will be made post April 2017 for changes in terminology arising from Orbis-IA joint ways of working.

6. **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.

7. **2017/18 Internal Audit Plan and resources (Annex E)**

Development of the Internal Audit Plan

The Internal Audit Plan for 2017/18, 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, e.g.

- (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 many of 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. S151 Officer
- e. The Risk and Governance Manager
- f. 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 Governance Panel on 23 February and Statutory Responsibilities Network on 27 February.

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:

	2016/17	2017/18	2018/19	2019/20	2020/21
	£000s	£000s	£000s	£000s	£000s
Audit	665	586	598	610	622

The Internal Audit team consists of 11 members of staff, although currently only 7 of these posts are filled with permanent members of staff. The budget for 2017/18 does not allow for all 11 auditor positions to be filled with permanent staff and so some agency resourcing will be used during 2017/18 to help deliver the audit plan.

The budget for 2017/18 should be sufficient to cover anticipated costs of employment, and the number of audit days available will decrease slightly (from 2117 days in 2016/17 to 1987 days in 2017/18) to reflect the reduction in available time following the retirement of the Chief Internal Auditor. A decision on the leadership of Orbis-IA is expected to be made in April 2017 by the Director of Finance for Orbis and Surrey County Council.

The Internal Audit team is sufficiently resourced to deliver the programme of work (as shown at Annex E) which will enable the Head of Orbis-IA to provide an opinion on the adequacy of the Council’s system of internal control for 2017/18.

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 2017/18 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 2017/18 Plan will be reported to the Committee in December 2017.

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