

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 18th March 2016

Subject: Internal Audit Plan 2016-17

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's Corporate Governance arrangements.
2. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to deliver an annual internal audit opinion and report that can be used by the council to inform its governance statement. The standards also refer to the need for a risk-based plan to take into account the requirement to produce an annual internal audit opinion which includes input from management and the Corporate Governance and Audit Committee¹. Standard 2020 requires that internal audit plans are communicated to senior management and the Committee for review and approval.
3. The terms of reference for the Corporate Governance and Audit Committee include the consideration of the council's arrangements relating to internal audit requirements and specifically, reviewing and approving the risk-based plan and any additional significant work²
4. This report therefore provides members with the proposed Internal Audit Plan for 2016-17.

¹ The Corporate Governance and Audit Committee within LCC is the 'Board' as defined in the Public Sector Internal Audit Standards. *The Board is the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors. 'Board' may refer to an audit committee to which the governing body has delegated certain functions.*

² As defined in the Internal Audit Charter

Recommendations

5. The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2016-17.

1 Purpose of this report

- 1.1 The purpose of this report is to present the proposed Internal Audit Plan for 2016-17 to the Corporate Governance and Audit Committee for review and approval. This report also includes a summary of the basis for the plan. The plan has been developed in consultation with senior management including the Chief Officer (Financial Services) and the Deputy Chief Executive.

2 Background information

- 2.1 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's Corporate Governance arrangements.
- 2.2 From April 2013 CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS set out the standards for internal audit.
- 2.3 The principles of the PSIAS are consistent with the previous CIPFA Code of Practice for Internal Audit that applied across local government. They include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the Corporate Governance and Audit Committee. Standard 2020 requires that internal audit plans are communicated to senior management and the Committee for review and approval.
- 2.4 The Deputy Chief Executive, as the council's Section 151 Officer, is responsible under the Local Government Act 1972 for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of internal audit is an important source of information for the Deputy Chief Executive in exercising his responsibility for financial administration.

3 Main issues

- 3.1 The report provides the proposed Internal Audit Plan for 2016-17. The report also outlines the planning process undertaken to produce the proposed plan.
- 3.2 The PSIAS require that the Head of Internal Audit³ *'must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.'* Furthermore, the standards state that the risk-based plan should take into account the requirement to produce an annual internal audit opinion and report that is used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. There also needs to be a balance between breadth (taking a broad look at governance and risk

³ The Head of Internal Audit within LCC is the 'Chief Audit Executive' as defined in the Public Sector Internal Audit Standards. *The Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the 'Definition of Internal Auditing', the 'Code of Ethics' and the 'Standards.'* (PSIAS.)

management) and depth (drilling down into specific areas where internal audit can provide valuable insight.)

- 3.3 The number of days allocated in the plan to specifically provide the Head of Internal Audit with the evidence for the opinion on the control environment is 2,685 days (2015/16 - 3,980 days.) The level of resources required to provide internal audit services to external clients is 197 days and 15 days have also been included in the plan for the external assessment process required by the PSIAS every 5 years (the first assessment must be completed by 31st March 2018 and is currently provisionally scheduled for the summer of 2016.) The total Internal Audit Plan for 2016/17 is therefore 2,897 days (2015/16 – 4,352 days.)
- 3.4 Given the reduction in resources, there will be a need for greater reliance to be placed on management controls within the internal control framework and for a potentially higher level of risk to be accepted. Directorate Leadership Teams must have appropriate arrangements in place to ensure that they have assurance on key risk areas and that the risk management process supports and enables the delivery of objectives. Internal audit resource will need to be focused on the most significant risk areas and on the robustness of financial control.
- 3.5 The above mentioned assurances will continue to be developed and increased and these, taken together with the work of internal audit, will provide the assurance coverage necessary to support the needs of the Corporate Governance and Audit Committee.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 This report did not highlight any consultation and engagement considerations.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

- 4.3.1 The terms of reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the council's corporate governance arrangements (including matters such as internal control and risk management.) They also require the Committee to consider the council's arrangements relating to internal audit requirements including reviewing and approving the risk-based plan and any additional significant work.
- 4.3.2 The council's Financial Regulations require that an effective internal audit service is provided in line with legislation and the appropriate audit standards to help the organisation accomplish its objectives.

4.4 Resources and value for money

- 4.4.1 In relation to resources and value for money, the internal audit work plan includes a number reviews and initiatives in line with the council's value of spending money wisely. These will be included in the regular update reports to the Committee.
- 4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates that the efficiency and effectiveness of the section is continually improving.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 None.

4.6 Risk Management

- 4.6.1 The Internal Audit Plan has been and will continue to be subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.
- 4.6.2 The risks relating to the achievement of the Internal Audit Plan will be managed through ongoing monitoring of performance and resource levels. This information will continue to be reported to the Committee.

5 Conclusions

- 5.1 The proposed Internal Audit Plan for 2016-17 has been prepared in line with the PSIAS. A risk-based approach has been used to prioritise internal audit work and ensure there is sufficient coverage and internal audit resource to provide an evidence-based assurance opinion that concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 5.2 The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service that focuses on those key risks facing the organisation throughout the year.
- 5.3 Progress against the plan will be monitored throughout the year and key issues will continue to be reported to the Corporate Governance and Audit Committee.

6 Recommendations

- 6.1 The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2016-17.

7 Background documents

- 7.1 None.