

Report to	-	Audit and Standards Committee
Date	-	25 March 2019
Report of the	-	Executive Director
Subject	-	Internal Audit Strategy and Plan 2019/20 to 2021/22

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**Recommendation:** It be **RESOLVED:** That the revised Internal Audit Strategy and Plan for 2019/20 to 2021/22 be approved.

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**Audit Manager: Gary Angell**

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## **Introduction**

1. The Accounts and Audit Regulations 2015 require the Council to “undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The proper practice for the Internal Audit Service is laid down in the Public Sector Internal Audit Standards (hereafter referred to as “the Standards”).
2. These standards are met by establishing a risk-based plan to determine the priorities of the Internal Audit Service, consistent with the Council’s goals. This plan must take into account the requirement to produce an annual Internal Audit opinion and the assurance framework. It must also incorporate or be linked to a strategic or high-level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter.
3. The Audit Manager is required to communicate the plan and resource requirements, including significant interim changes, to senior management and the Audit and Standards Committee for review and approval. In order to approve the Strategic Audit Plan for 2019/20 to 2021/22, Members must first be satisfied that it meets the above requirements.

## **Internal Audit Strategy**

4. For Internal Audit to remain relevant, it must adapt to changing expectations and maintain alignment with organisational objectives. The Internal Audit Strategy is fundamental to remaining relevant - playing an important role in achieving a balance between cost and value, while making meaningful contributions to the Council’s overall governance, risk and control framework.
5. The existing Internal Audit Strategy (last approved by Members in 2016) has therefore been reviewed and updated in preparation for this report. The revised strategy (with tracked changes) is included in Appendix A for Members’ approval.

## **Strategic Audit Plan for 2019/20 to 2021/22**

6. The Strategic Audit Plan sets out the work programme for Internal Audit activity over a three-year period. The Plan for 2019/20 to 2021/22 is attached in Appendix B.
7. The Plan has been compiled by the Audit Manager in accordance with the Internal Audit Charter 2017 and is based on a risk assessment carried out by him in January 2019. All systems/activities rated as high risk have been included in the Plan, except where they have recently been reviewed. All other audits in the Plan are medium risk items and these are only reviewed once in the three-year cycle. In addition, the Plan also includes provisions for known consulting activities and counter fraud work.
8. As in previous years, a significant portion of the Plan will be devoted to Governance Audit work owing to the importance of the assurance these audits provide. However, now that the External Auditors no longer specifically rely on this work when forming their own opinion on the Council's final accounts, there is a need for a slight change in focus. It has therefore been agreed with the Strategic Management Team that rather than providing full coverage every year, Internal Audit will adopt a risk-based approach to all future Governance Audits in line with other audit work.
9. Under this new approach, all areas key to the integrity of the Council's financial accounts will continue to be checked annually but all other coverage will be determined based on an evaluation of risk (which will consider such factors as system change, staff continuity and past performance). This will mean that not all aspects of the Governance Audits will be reviewed each year, and some of the audits will receive more detailed coverage than others.
10. The main benefit of this approach is that it will allow Internal Audit to focus its efforts on those areas that provide the most value to the Council. However, the flexible nature of the new approach makes planning more difficult. The time allocations in years 2 (2020/21) and 3 (2021/22) are therefore estimates at this stage and the Audit Manager will need to revise them before the final Audit Plan is agreed in each of these years.
11. The Executive Directors, the Heads of Service, and External Audit have all been consulted about the contents of the Plan, and the final version detailed in this report was reviewed by the Strategic Management Team in February 2019 and is supported by them.
12. Members will note that each year of the Plan covers a wide range of activities. This is important, as the overriding objective of using a risk-based approach to compile the Plan is to obtain sufficient assurance from the audit work to enable the Audit Manager to present an annual Internal Audit opinion on the adequacy of the control environment.

## **Resources**

13. Best practice dictates that the Plan should meet the audit needs of the organisation, regardless of the level of resources available to deliver it. If the

days required exceed the days available, then it is for senior management to decide whether additional resources should be made available or whether they are content to accept the risks involved of not carrying out some of the reviews, and state which reviews should be omitted.

14. The resources for year 1 of the Strategic Audit Plan (2019/20) are shown in Appendix C. This demonstrates that it will be possible to meet the total resource requirement with existing staff resources.

### **Reporting Arrangements**

15. Progress against the Plan will be monitored by the Audit Manager and reported to the Audit and Standards Committee once a quarter. The content of the Plan will also be kept under review by the Audit Manager in liaison with the Strategic Management Team and Heads of Service, and adjusted if required, to ensure that it continues to reflect the Council's needs and priorities.

### **Conclusion**

16. The Internal Audit Strategy outlines how the Internal Audit Service will be delivered and developed, and how it contributes to the Council's objectives and priorities.
17. Planning is a key part of the Strategy and the Audit Plan needs to provide sufficient coverage to meet the Council's statutory duty. The three-year Strategic Audit Plan aims to meet this requirement by optimising the effectiveness of Internal Audit so as to contribute to the achievement of sound governance.

Malcolm Johnston  
Executive Director

### **Risk Assessment Statement**

A strong, independent and well supported Internal Audit function ensures that the Council does not suffer from poor internal control systems.

# Internal Audit Strategy



## 1.0 Introduction

The Accounts and Audit Regulations 2015 require the Council to “undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance” The proper practice for the Internal Audit Service is laid down in the Public Sector Internal Audit Standards (hereafter referred to as “the Standards”).

The Internal Audit Strategy provides a high-level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities. It also communicates the contribution that Internal Audit makes to the Council by specifying:

- Internal Audit objectives and outcomes;
- how the Audit Manager will form and evidence his opinion on the governance, risk and control framework to support the Annual Governance Statement;
- how Internal Audit will plan its work by identifying and addressing significant issues and risks;
- how the service will be provided; and
- the resources and skills required to deliver the Strategy.

The Strategy should be approved, but not directed, by the Audit and Standards Committee.

## 2.0 Internal Audit Objectives and Outcomes

The primary objective of Internal Audit is to provide an independent and objective opinion to the Council on the governance, risk and control framework by evaluating its effectiveness in achieving the organisation’s objectives. This is done by examining and evaluating the framework and reporting on its adequacy as a contribution to the proper, economic, efficient use of resources.

To achieve this primary objective, the Audit Manager aims to fulfil the statutory responsibilities for Internal Audit by:

- identifying all of the systems, both financial and non-financial, that form the Council’s control environment and governance framework, and contribute to meeting its obligations and objectives – i.e. the ‘Audit Universe’;
- creating an audit plan providing audit coverage on the higher risk areas in the Audit Universe;
- undertaking individual audit reviews, in accordance with the Standards, to independently evaluate the effectiveness of internal control;
- providing managers with an opinion on, and recommendations to improve, the effectiveness of risk management, control and governance processes;

- providing managers with advice and consultancy on risk management, control and governance processes;
- liaising with the Council's External Auditors to ensure efficient use of scarce audit resources through the avoidance of duplication wherever possible; and
- providing the Council, through the Audit and Standards Committee, with an opinion on governance, risk and control framework as a contribution to the Annual Governance Statement.

### 3.0 Opinion on the Governance, Risk and Control Framework

As stated above, one of the key objectives of Internal Audit is to communicate to management an independent and objective opinion on the governance, risk and control framework, and to prompt management to implement agreed actions.

Significant issues and risks are to be brought to the attention of the S.151 Officer as and when they arise. Quarterly update meetings will also be held with all Heads of Service to discuss issues arising and other matters.

The Audit Manager will report progress against the annual audit plan and any emerging issues and risks to the Audit and Standards Committee.

The Audit Manager will also provide a written annual report to the Audit and Standards Committee, timed to support their recommendation to approve the Annual Governance Statement, to the Council.

The Audit Manager's annual report will:

- (a) include an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
- (b) disclose any qualifications to that opinion, together with the reasons for the qualification;
- (c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;
- (d) draw attention to any issues the Audit Manager judges particularly relevant to the preparation of the Annual Governance Statement;
- (e) compare the audit work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and targets; and
- (f) comment on compliance with the Standards and communicate the results of Internal Audit's Quality Assurance and Improvement Programme.

NB - Only a draft opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework may be given at the time the Annual Governance Statement is reported because the audit work for that year will still be ongoing. The Audit Manager will therefore review the position again at the end of the financial year to check that nothing has changed, and report his final opinion to the Audit and Standards Committee the following quarter.

## **4.0 Audit Planning**

### **4.1 Strategic Planning**

The audit planning process includes the creation of, and ongoing revision of, an 'Audit Universe' which encompasses all key systems/activities that may be subject to an Internal Audit review.

The Audit Universe will include a risk assessment scoring methodology that takes account of a number of factors including: transaction values, transaction volumes, past audit experience, system complexity, system importance and any recent/ imminent change. This will enable the Audit Manager to determine what resources need to be allocated to each audit area and the comparative risk of each item will be used to prioritise the work.

The results from the risk assessment will be used to create a rolling three-year Strategic Audit Plan. The aim of this plan is to ensure that all areas rated "high" or "medium" risk are covered at least once in this period. High risk areas will normally be reviewed on an annual basis, with medium risk areas audited only once in the three-year cycle. The Governance Audits (Benefits, Creditors, Payroll, etc) are reviewed each year regardless of their risk rating owing to the importance of the assurance these audits provide. However, the exact scope of these audits will vary from year to year based on the perceived risk.

The first year of the Strategic Audit Plan will constitute the work programme (or operational plan) for year 1. The operational plans for years 2 and 3 will then be reviewed by the Audit Manager before the start of each financial year and the plan adjusted if required – e.g. to reflect any new and emerging risks.

The Strategic Audit Plan and the revised operational plans for years 2 and 3 will all be discussed with the Strategic Management Team and Heads of Service before they are passed to the Audit and Standards Committee for approval.

### **4.2 Assignment Planning**

Further planning and risk assessment is required at the commencement of each individual audit assignment to establish the scope of the audit and the level of testing required.

## **5.0 Provision of Internal Audit**

The Internal Audit Service is provided by an in-house team.

### **5.1 Policies and Procedures**

The Audit Manager has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the Standards. The manual will be reviewed and updated from time to time to reflect best practice and changes in working arrangements.

### **5.2 Performance Management and Quality Assurance**

The Standards require the Audit Manager to monitor the performance of the Internal Audit Service and to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the Internal Audit activity.

The performance, effectiveness and quality of the Internal Audit Service is monitored and improved through:

- measurement against performance targets;
- annual internal assessments (Review of Internal Audit);
- five-yearly external (peer review) assessments;
- supervision and the review of all Internal Audit output;
- obtaining customer feedback.

### 5.3 *Performance Measures and Targets*

The Audit Manager will closely monitor the performance of the Internal Audit Team to ensure agreed targets are achieved. The following performance indicators have been developed for this purpose.

<b>Performance Indicator</b>	<b>Annual Target</b>
Audit Plan – Percentage of governance audits completed.	100%
Audit Plan – Percentage of overall audit plan completed.	85%
Audit Assignments – Final reports issued within 15 days of second draft report.	90%
Audit Recommendations – Percentage of “high” risk recommendations accepted by management.	100%
Satisfaction/Feedback – Overall percentage of customers rating the Internal Audit Service as “Good” or “Fair”.	90%

The results of these performance measures will be reported to the Audit and Standards Committee on an annual basis.

### 5.4 *Internal and External Assessments*

The Audit Manager completes a self-assessment checklist to measure the effectiveness of Internal Audit against the requirements of the Standards. This self-assessment will be updated annually and an action plan will be drawn up to address any areas where compliance needs to be improved. The results of this self-assessment will be reported to the Audit and Standards Committee.

In addition to regular internal assessments, the Standards require external (peer review) assessments to be conducted at least once every five years. These will be provided by members of the Sussex Audit Group.

### 5.5 *Supervisory Review of Audit Work*

The Audit Manager will maintain the quality of the Internal Audit Service by monitoring the progress of individual audits and reviewing the output of all audit work.

### 5.6 *Customer Feedback*

The Internal Audit Service has adopted a two-part approach to capturing quality assurance feedback. It consists of two separate questionnaires which are completed at different times, namely:

- *Exit Meeting Questionnaire* – This is completed by the main contact at the end of the meeting held to discuss the audit findings and recommendations.

- *Head of Service Questionnaire* – This is completed by the Head of Service at the Audit Manager's quarterly Audit Update Meetings. It covers all audits issued to the Head of Service since the last meeting.

The Audit Manager keeps a summary of all responses to quality assurance questions in order to monitor the Internal Audit Team's overall performance. The results will be reported to the Audit and Standards Committee on an annual basis.

## 6.0 Resources and Skills

### 6.1 Staff Resources

The Internal Audit risk assessment and consequent Strategic Audit Plan determine both the skills and resource level required to deliver an efficient and effective Internal Audit Service.

The Internal Audit Service is currently comprised of three full-time members of staff; the Audit Manager, Senior Auditor and Internal Auditor.

The Audit Manager is a professionally qualified internal auditor (CMIIA) with wide experience of Internal Audit and its management. The Senior Auditor is also professionally qualified (PIIA) with many years of experience.

The Audit Manager is responsible for ensuring that staff are recruited and trained to the appropriate skill level to deliver the Audit Plan. The Senior Auditor assists him in this task by sharing his knowledge with the Internal Auditor.

Should the Audit Manager feel that the level of agreed resources will impact adversely on the provision of the annual Internal Audit opinion, he must report the matter to the Audit and Standards Committee.

### 6.2 Staff Development and Training

The Audit Manager will assess the relative knowledge, skills and experience of his auditors before allocating out the work.

The Internal Audit Team keep up-to-date with developments in the profession by attending seminars, conferences and training events, and through background reading. The knowledge gained from training events also helps the Audit Manager to determine what skills will be required of the team in the coming years, and to plan accordingly.

The Council's staff appraisal process is used to assess how well employees are developing and the Audit Manager maintains Training Needs Analysis records for each member of the team in order to target their needs and to promote staff development.

## 7.0 Conclusion and Review

The Internal Audit Strategy outlines how the Internal Audit Service will be delivered and developed, and how it contributes to the Council's objectives and priorities.

This strategy document will be reviewed by the Audit Manager at least once every three years and updated where necessary to ensure that it continues to meet the changing priorities of the Council.

## Version Control

Version 2 – February 2019



Year 1 (2019/20)		Year 2 (2020/21)		Year 3 (2021/22)	
GOVERNANCE AUDITS	DAYS	GOVERNANCE AUDITS	DAYS	GOVERNANCE AUDITS	DAYS
Benefits	25	Benefits	25	Benefits	25
Business Rates	20	Business Rates	20	Business Rates	20
Cash and Banking	15	Cash and Banking	15	Cash and Banking	15
Council Tax	25	Council Tax	25	Council Tax	25
Creditors	25	Creditors	25	Creditors	25
Debtors	15	Debtors	15	Debtors	15
ICT Governance	15	ICT Governance	15	ICT Governance	15
Main Accounting	10	Main Accounting	10	Main Accounting	10
Payroll	25	Payroll	25	Payroll	25
Treasury Management	20	Treasury Management	20	Treasury Management	20
<b>TOTAL</b>	<b>195</b>	<b>TOTAL</b>	<b>195</b>	<b>TOTAL</b>	<b>195</b>
OTHER GOVERNANCE WORK	DAYS	OTHER GOVERNANCE WORK	DAYS	OTHER GOVERNANCE WORK	DAYS
Joint Waste Contract - Central Admin (Old Contract)	20	Joint Waste Contract - Central Admin (New Contract)	20	Joint Waste Contract - Central Admin (New Contract)	20
<b>TOTAL</b>	<b>20</b>	<b>TOTAL</b>	<b>20</b>	<b>TOTAL</b>	<b>20</b>
HIGH & MEDIUM RISK AUDITS	DAYS	HIGH & MEDIUM RISK AUDITS	DAYS	HIGH & MEDIUM RISK AUDITS	DAYS
Camber Beach & Foreshore	10	BACS/BACSTEL-IP Computer System	7	Asset Management	15
Car Park Income	20	Data Protection	15	Food Safety	15
Community Grants	10	Estates Income	15	Grounds Maintenance Contract	15
Community Infrastructure Levy (CIL)	15	Garden Waste Income	7	ICT Network Security	20
Disabled Facilities Grants	15	Homelessness Prevention Grants & Loans	10	Income Tax	10
HMO Licensing	12	Housing Temporary Accommodation	10	Insurance	12
Housing Allocations	8	Licensing	12	Pollution Control	8
Joint Waste Contract - RDC Client Control	10	Planning Income	15	Public Conveniences Cleaning Contract	10
Land Charges	12	Procurement	12	Section 106 Agreements	15
Property Investment	10	Reprographics Service	10		
Transformation Projects Implementation	10	Risk Management	10	<i>To be determined</i>	43
U4BW ERP Computer System - Health Check	25	Value Added Tax	15		
		Works Contracts	15		
<b>TOTAL</b>	<b>157</b>	<b>TOTAL</b>	<b>153</b>	<b>TOTAL</b>	<b>163</b>

CONSULTANCY WORK	DAYS	CONSULTANCY WORK	DAYS	CONSULTANCY WORK	DAYS
Brexit Issues	5	<i>To be determined</i>	33	<i>To be determined</i>	30
ERP System - Implementation/Ongoing Advice	15				
Grants - Income Maximisation	6				
Joint Waste Contract (New Contract)	10				
Sports Centre Development	5				
<b>TOTAL</b>	<b>41</b>	<b>TOTAL</b>	<b>33</b>	<b>TOTAL</b>	<b>30</b>
COUNTER FRAUD WORK	DAYS	COUNTER FRAUD WORK	DAYS	COUNTER FRAUD WORK	DAYS
Fraud Analysis & Referrals	50	Fraud Analysis & Referrals	50	Fraud Analysis & Referrals	50
NFI Coordination & Review	15	NFI Coordination & Review	25	NFI Coordination & Review	15
<b>TOTAL</b>	<b>65</b>	<b>TOTAL</b>	<b>75</b>	<b>TOTAL</b>	<b>65</b>
OTHER WORK	DAYS	OTHER WORK	DAYS	OTHER WORK	DAYS
Audit Advice/Special Investigations	60	Audit Advice/Special Investigations	60	Audit Advice/Special Investigations	60
Committee Representation and Training	15	Committee Representation and Training	15	Committee Representation and Training	15
Liaison with External Audit	5	Liaison with External Audit	5	Liaison with External Audit	5
Recommendation Follow Up	10	Recommendation Follow Up	10	Recommendation Follow Up	10
<b>TOTAL</b>	<b>90</b>	<b>TOTAL</b>	<b>90</b>	<b>TOTAL</b>	<b>90</b>
<b>TOTAL CHARGEABLE DAYS</b>	<b>568</b>	<b>TOTAL CHARGEABLE DAYS</b>	<b>566</b>	<b>TOTAL CHARGEABLE DAYS</b>	<b>563</b>

## RESOURCES FOR THE AUDIT PLAN 2019/20

	TOTALS	Audit Manager	Senior Auditor	Internal Auditor
AUDIT TEAM		G. Angell	S. Akehurst	S. Thomas
FTE POSTS	3.0	1.0	1.0	1.0
DAYS AVAILABLE	786	262	262	262
PLANNED AUDIT WORK	Days			
Governance Audits	195			
Other Governance Work	20			
High & Medium Risk Audits	157			
Consultancy Work	41			
Counter Fraud Work	65			
Other Work	90			
TOTAL CHARGEABLE DAYS	568			
NON-CHARGEABLE TIME	Days			
Supervision & Management	50	40	10	
Team Meetings	18	6	6	6
Seminars & Training	12	3	3	6
Planning & Business Development	10	10		
Performance Appraisals	4	2	1	1
Annual Leave (Inc. Days Carried Over)	85	31	32	22
Public Holidays	24	8	8	8
Sickness	15	5	5	5
Maternity/Paternity Leave	0			
Vacancies/Recruitment	0			
TOTAL NON-CHARGEABLE DAYS	218	105	65	48
TOTAL RESOURCE REQUIREMENT	786			
TOTAL AVAILABLE DAYS	786			

Note

For the purposes of planning it is assumed that the current staffing level (3.0 FTE) will remain constant throughout the three-year cycle of the Strategic Audit Plan.