

AUDIT COMMITTEE – 13 May 2016

Title of paper:	INTERNAL AUDIT ANNUAL WORK PLAN 2016/2017	
Director(s)/ Corporate Director(s):	DIRECTOR OF STRATEGIC FINANCE	Wards affected: All
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Other colleagues who have provided input:		
Recommendation(s):		
1	To endorse the Internal Audit Plan for 2016/2017	

1. REASONS FOR RECOMMENDATIONS

- 1.1. The Accounts and Audit Regulations 2015 require every local authority to maintain an adequate internal audit function which should operate within codes of professional best practice.
- 1.2. The Committee's terms of reference include the function of overseeing the work of IA. Approval of the IA Plans gives the Committee the opportunity to understand the focus of audit resources and helps inform the Committee's understanding of the Council's assurance, control and governance arrangements.
- 1.3. This report informs the Committee of the proposed work planned by the Internal Audit Service (IA) and is designed to support the City Council's Governance and Control Framework.

2. BACKGROUND

- 2.1 The IA Plan is produced annually and allocates audit resources throughout the year to review risks to the Council's vision, values and strategic priorities. The construction of the Plan is informed by consideration of a range of factors including the Council Plan, the Council's Risk Register, previous internal and external audit activity, emerging themes and priorities, professional networks, the Council's transformation and improvement activity, and changes to national, local and regional policy. The Annual Plan contains capacity to adapt to accommodate new and unforeseen work as risks and priorities change and develop throughout the year.
- 2.2 **Appendix 1 of this report** is a summary of the IA Plan for 2016/2017. Detailed plans are available for members of the Audit Committee or by request to the Head of Internal Audit and Risk (HoIA). The plan is centred on the need to align audit activity to Council objectives and to meet the requirements of effective Corporate Governance, including the Annual Governance Statement (AGS).

- 2.3 The HoIA meets with colleagues from Departmental Leadership Teams to consider their plans and the implications of these. Where possible, departmental priorities are incorporated to enable Corporate Directors to provide assurance for the AGS.
- 2.4 The work of the service will be conducted in accordance with the standards set out in the Public Sector Internal Audit Standards 2012 (PSIAS). These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework and promote improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

3. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

4. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

- The Accounts and Audit Regulations 2015
- Public Sector Internal Audit Standards 2012

Internal Audit Plan 2016/2017

1. Introduction

This document contains the operational Internal Audit Plan for 2016/2017.

2. Background

2.1. The Accounts and Audit Regulations 2015 require every local authority to maintain an adequate Internal Audit (IA) service which should operate within codes of professional best practice.

2.2. CIPFA and the IIA developed a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector.

2.3. The PSIAS definition of IA is as follows:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

2.4. The PSIAS affirm the need for “risk based plans” to be developed for IA, stating that the “Chief Audit Executive” must “establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals” They refer to the need for the Plan to reflect the assurance framework, risk management arrangements and input from management and “the board”, which in NCC is interpreted to be the Audit Committee.

2.5. Consequently IA is recognised as an integral part of the Council’s Corporate Governance Framework giving assurance which complements that given by external review bodies including that given by external auditors.

3. The Role of IA

3.1. IA is an independent, objective assurance and consulting activity designed to promote the highest levels of financial management and probity across the Authority.

3.2. A key factor in the effectiveness of IA is that it is seen to be independent. To ensure this independence, IA operates within a framework that allows:

- Unrestricted access to senior management
- Reporting in its own name
- Segregation from line operations.

3.3. Each audit or piece of work undertaken has a clear scope and objectives. Any audit undertaken within the Council and its partners is conducted under the framework of an agreed audit programme, service level agreement or a clearly defined letter of engagement. This is of particular importance in the management of consultancy where the respective roles, inputs and outputs are clearly defined and the independence of auditors maintained.

3.4. The IA Service requires unrestricted coverage of the Authority's and its partners' activities and unrestricted access to all records and assets deemed necessary to fulfil this function. In addition, the Head of Internal Audit and Risk (HoIA) has unrestricted access to the Chief Executive, Councillors, Corporate Directors and all colleagues of the Council.

4. The Audit Plan and Planning Process.

4.1. IA work is co-ordinated with that of external review agencies to provide maximum audit coverage and to prevent duplication of effort where practical.

4.2. The work is targeted in order to address the key risks to the Council's strategic objectives and other priorities of the Council. The proposed Nottingham City Council IA Plan for 2016/2017 is summarised in the table below

Summary of 2016/2017 Internal Audit Plan

Audit Title	Planned Days
Strategic Risk Register	100
Resources	96
Chief Executive/Transformation	70
Children & Families	125
Commercial & Operations	80
Development	130
Corporate Audits	380
Fraud / Counter Fraud	600
Corporate Fraud Strategy	73
Companies / Other Bodies	314
Consultancy, Advice and Support	160
Developments / Other Work	90
Total Days	2218

4.3. The unique value that the professional IA function provides to the Council is objective assurance on the effectiveness of the governance, risk management and internal control processes. Management colleagues are responsible for the strategic and operational elements of these processes but need independent assurance that they are operating effectively and advice in respect of their improvement.

4.4. IA also has an important role to support the Chief Finance Officer in the statutory responsibilities , which include:

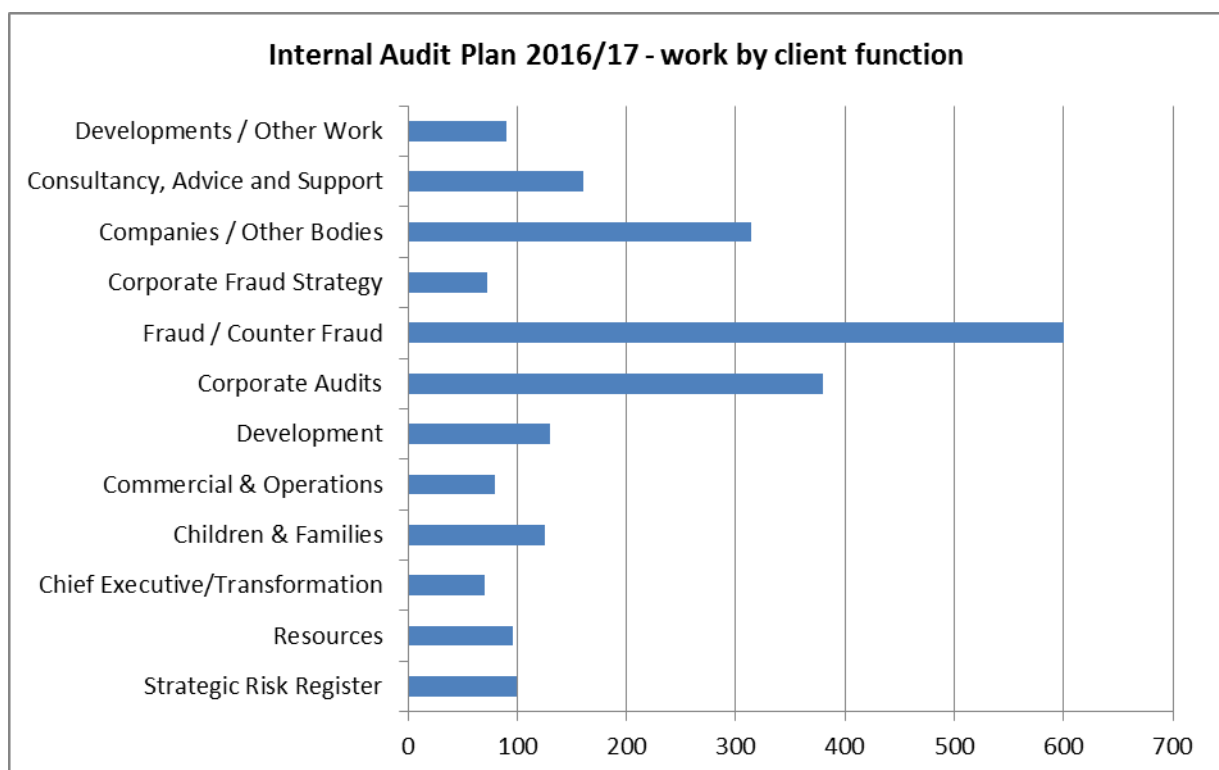
- S151 Local Government Act 1972 – to ensure the proper administration of financial affairs.
- S114 Local Government Act 1988 – to ensure the Council's expenditure is lawful.
- Accounts and Audit Regulations 2015 – to ensure that an adequate and effective IA of the Council's accounting records and of its system of internal control is undertaken in accordance with the proper practices in relation to internal control.

4.5. IA also helps the Council to achieve its key priorities. The service does this by helping to promote a secure and robust internal control environment which enables a focus to be maintained on these key priorities.

4.6. Accordingly the Audit Plan has been devised following a risk based approach using the following sources:

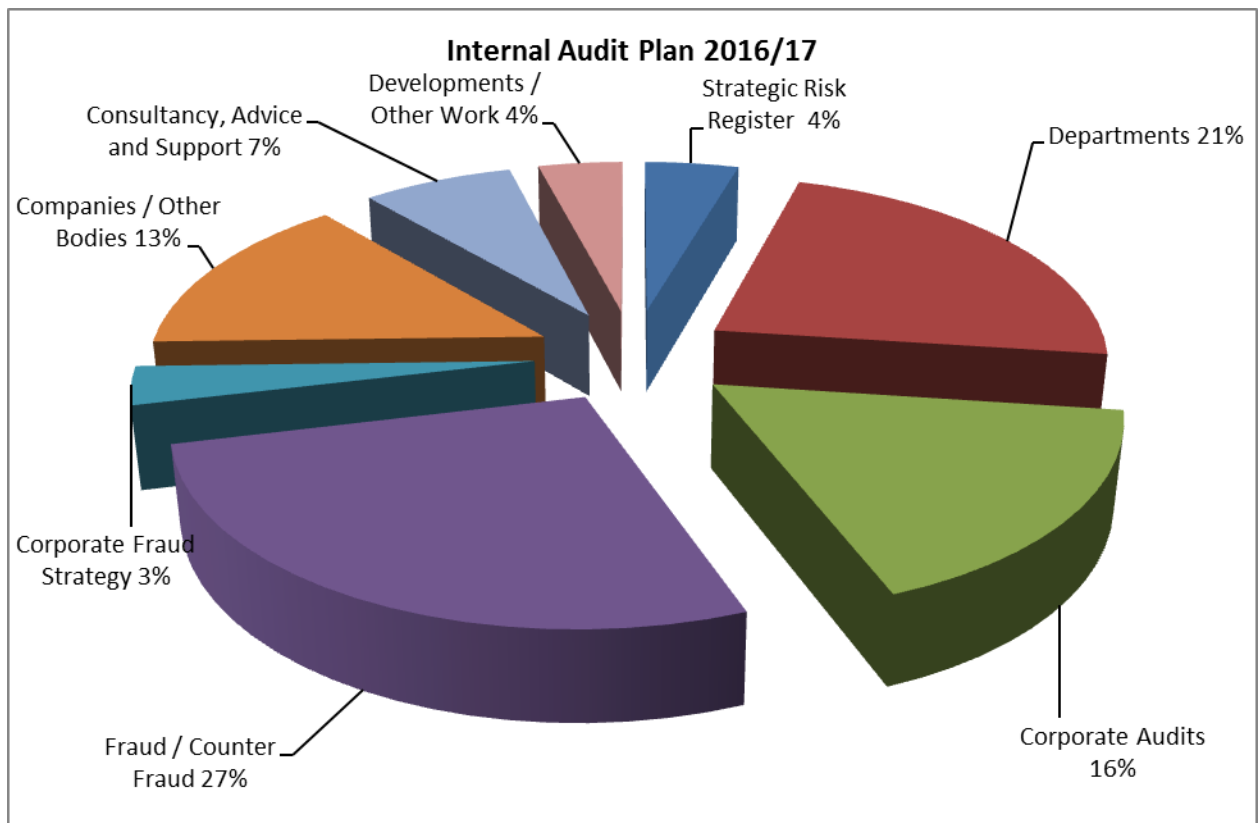
- The Corporate Risk Register and the requirements of Council objectives
- Consultations with Directors, senior officers and meetings with DLTs
- The requests of the external auditor (KPMG)
- Meeting with partners, particularly EMSS
- Requirements of the Chief Finance Officer (S151 Officer)
- Review of the External Audit and other independent Inspections' reports
- IA Risk Model informed by cumulative audit knowledge and experience and meetings with senior colleagues
- Engagement with Core Cities Heads of Audit
- Professional judgement on the risk of fraud and error

The illustration below depicts how the plan meets the client and risk demands



- 4.7. As was the case when developing previous plans, the Council is continuing to go through a period of radical change giving rise to significant changes to financial and colleague resources available. Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (threats). The reduction in the workforce for example, provides opportunity for a breakdown in control as well as an opportunity to improve service delivery.
- 4.8. Substantial transformational changes are taking place in the design, commissioning and delivery of services. Delivering business as usual and achieving key priorities remains a key challenge for the Council and these are reflected in the IA Plan.
- 4.9. IA will continue to deliver work on the core financial systems and a number of proactive anti-fraud, irregularity and probity audits to provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error. However, the IA Plan incorporates some flexibility to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified.
- 4.10. Drawing on the available sources of information the Plan has been drafted to balance the following:
- The requirement for External Audit to place reliance on IA work in forming its opinion on the Council's financial statements
 - Key financial systems including those operating within East Midlands Shared Services
 - The requirement to give an objective and evidence based opinion on all aspects of governance, risk management and internal control
 - The corporate strategic vision wherein IA seeks to add value through improving controls and streamlining processes
 - The allocation of time required for responding to queries on control issues
 - The allocation of time required for responding to fraud queries
 - The need to fulfil the assurance requirements of the Audit Committee

The Illustration below shows the plan by type of activity undertaken



5. Standards

5.1. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. The service has internal quality procedures in place and is ISO9001:2008 accredited. IA has adopted the standards contained in the PSIAS and its compliance has been confirmed by independent review. The service has fulfilled the requirements of the Account & Audit Regulations 2015 and associated regulations in respect of the provision of an internal audit service.

5.2. The City Council's Audit Committee receives regular monitoring reports of work undertaken against the Plan. The Committee scrutinises the work undertaken at both Plan and individual audit level, and monitors the actions taken by departments in respect of the recommendations made. The work of IA will also inform the opinion of the Audit Committee in respect of the assurance and corporate governance arrangements in place.