

Audit Committee

Item No 11

Report title:	Revised Internal Audit Plan 2016-17
Date of meeting:	22 September 2016
Responsible Chief Officer:	Executive Director of Finance
Strategic impact	
<p>The Audit Committee are responsible for monitoring the adequacy and effectiveness of the systems of risk management and internal control, including internal audit, as set out in its Terms of Reference, part 4.1 (4.4) page 9, which is part of the Council's Constitution Article 6, at page 5.</p> <p>The Audit Committee should, 'Consider annually the effectiveness of the system of internal audit including internal audit's strategy, plan and performance and that those arrangements are compliant with all applicable statutes and regulations, including the Public Sector Internal Audit Standards and the Local Authority Guidance Note of 2013 and any other relevant statements of best practice'.</p>	

Executive summary

The Audit Committee agreed the [Internal Audit Strategy and Plan for 2016-17](#) (page 114) in January 2016. The proposed audit plan meets the legislative requirement of the Accounts and Audit (England) Regulations (2015). It is good practice to refresh the plan at the half year stage, to ensure it is current.

The key messages from the refresh are:

- The strategy to deliver 1,336 budgeted days (including work for External Clients) and of that 709 budgeted days for work to directly support the Council's audit opinion (**Appendix A**) remains unchanged. The opinion work is considered sufficient as it covers the essential elements of governance, internal control, financial management and risk management. The planned opinion work is oversubscribed by 92 days. The strategy also allows for delivering 80 days traded schools work (2.6)
- The revised Internal Audit plan for 2016-17 (**Appendix Bi**) has an oversubscription of 92 days to allow for potential cancellations and 'recycling' additional income from traded schools audit work (2.7)
- Topics already identified that will not be covered in the remainder of this year (deferred audits **Appendix Bii**) will be carried forward to the next years audit planning as a priority for consideration (2.12)
- There was significant work in progress from the first half of the 2016-17 year carried into the second half. There were several unexpected issues impacting the delivery of audits (see Evidence 2.9) and (Appendix B)

- It is planned that final report and draft reports for the revised 2016-17 audit plan will total **30 and 7** respectively, to be reported on in the 2016-17 Annual Internal Audit Report. It is planned that all 2015-16 carried forward work will be issued at final within year (2.15)

Recommendation:

The Committee is asked to note:

- That internal audit's strategy and plan, contribute to an effective system of internal audit and that those arrangements are compliant with all applicable statutes and regulations, including the Public Sector Internal Audit Standards and the Local Authority Guidance Note of 2013 and any other relevant statements of best practice
- That the Internal Audit Strategy remains the same for the second half of the year (**Appendix A**). The actual days available within the strategy to deliver the audit opinion work remain sufficient to support the opinion
- The revised Internal Audit Plan to support the opinion for the whole year (**Appendix Bi**) remains at 709 days, which includes contractor time. The opinion work plan will be managed flexibly to support the traded schools approach, while the service continues to develop. Some audits timed for Quarters 1 and 2 are carried into the remainder of the year as work in progress
- the three year [Internal Audit Strategy](#), (page 114) agreed in January 2016, remains largely unchanged and will be refreshed in January 2017
- The overall target for 2016-17 final reports and draft reports for audits are 30 and 7 respectively, to be reported on in the Annual Internal Audit Report.

1. Proposal (or options)

- 1.1 The recommendation is set out in the Executive Summary above.
- 1.2 The Chairman of the Audit Committee and County Leadership Team have been consulted in the preparation of this report.

2. Evidence

- 2.1 Audit planning focusses the available resources on the necessary activity to provide sound assurance as required by the relevant regulations. The plan brings together the people (resources) and the

standards to ensure an efficient and effective function. The approach to refreshing the Internal Audit Plan has been to:

- Consider the overall assurance objectives in 2016-17 (para 2.2)
- Consider the available resources to support:
 - the Audit Strategy for 2016-17 (para 2.6)
 - the Audit Opinion work for 2016-17 (para 2.7)
- Consolidate and reconcile the required audit opinion work from:
 - Work in progress from Quarter 1 and Quarter 2 of 2016-17 (para 2.9)
 - Original planned work for the remainder of the year (para 2.11)
 - Work no longer required or deferred (para 2.12)
 - New work required in 2016-17, following the audit needs assessment refresh (para 2.13)
- Consult with County Leadership Team and Service Heads

2.2 The overall assurance objectives remain the same. The planned internal audit work will make a significant contribution to the Council's priorities and be reported in our annual internal audit report in June 2017. The plan makes adequate provision for the risks arising from organisational change, the continued economic downturn and that resources are sufficient to accomplish the reduced plan.

2.3 The opinions we provide through our audit work and strategy will demonstrate the following topics all being 'better off':

- Corporate Ambitions
- Annual Governance Statement
- Sound Operations
- Risk Management for Reputational Damage
- Risk Management for Financial Loss (Financial Resilience)
- Risk Management for Financial Loss (Financial Management)

2.4 The top six risk priorities of Norfolk Audit Services activity remain as presented in the Internal Audit Strategy for 2016-2019 agreed by Committee in January 2016:

- That key NCC management systems are fit for purpose
- That sound financial management, resilience and governance are in place, that there is compliance and where exceptions occur they are identified and treated in a timely manner. This risk is expanded to include where services may not ensure value for money
- The risks associated with transformational change in the organisation are managed. That change objectives (organisational and financial) are met and internal controls and savings are maintained during and after that change

- Anti-Fraud and Corruption work, particularly prevention and detection work (per Fighting Fraud Locally Strategy and the CIPFA Code)
- That assets, physical and information, are secured and controlled effectively, including data quality
- That Commissioning, Procurement and contract management are well governed and achieve value for money.

2.5 The original agreed internal audit strategy scope remains largely the same, as set out in **Appendix A**.

2.6 The resourcing of the overall Audit Strategy has been reviewed:

- The overall target budget for the team was reviewed, translating that to an appropriate staffing model which provides the number of audit days available from the team and adding up to 100 days of contractor time
- Those available days are then matched to the overall audit strategy thus identifying the available days to support the audit opinion for the Council in the period.
- The original total audit strategy days (1,336 days) were calculated on the basis of us successfully recruiting to our vacant Senior Auditor roles. We were unable to recruit at Senior Auditor level as originally planned, so agreed a new staffing strategy which included recruiting two new Auditors.
- The two new full time Auditors started in April 2016 and have been making a positive contribution and are being 'fast tracked' and have undertaken the Institute of Internal Auditors professional training 'introduction to internal auditing'.
- Our new staffing strategy includes a new post of Investigative Auditor to manage any unplanned reactive investigative work. Plans for the Investigative Auditor post have been put on hold whilst there is uncertainty over the Brexit outcome and the impact this may have on our role as Audit Authority for the France Channel European programme.
- An experienced Senior Auditor returns from maternity leave in November 2016; and
- We plan to continue to use an Audit contractor temporarily to provide up to 100 days of audit resource. This gives us greater flexibility and resilience.

2.7 The resourcing of the Council's Internal Audit opinion days has been reviewed:

- The overall physical capacity of the Internal Audit remains as per the original opinion day's plan of 709 days

- The revisions made to the detailed plan at **Appendix Bi** are purely in relation to the audit topics to be undertaken which have been considered on a risk assessed basis.
- We have had to increase the number of audit days for finalisation of 2015-16 audits, which count as audit opinion days (20% of audit work was carried forward) which was previously under-budgeted (an increase from 15 days to 100 days)
- The remainder of the days (less 2017-18 planning and following up Corporate High priority Findings) are shared between the departments.

2.8 The approach to applying the resources to the audit opinion work is set out below.

2.9 The Work in Progress from Quarter 1 and Quarter 2 of 2016-17 the days will be deployed to complete that work as a priority, the work in the quarter has covered the following:

- Of the 372 audit opinion days total for Quarter 1 (Actual) and Quarter 2 (estimated) (See **Table 2**):
 - 88 days were spent on delivering the completion of audit opinion work that related to the 2015-16 audit plan. That is because there were 22 audits from the 2015-26 audit plan where work did not commence until late in the year due to a combination of client request and availability of NAS resource and these subsequently needed completion during 2016-17
 - 12 days have been included in quarter 2 for completion of all 2015-16 audit opinion work
 - 25 days were taken by unplanned minimum working wage work
 - preparation and support for the ICO visit and investigatory work
 - A significant investment was also made in introducing a self-certification process for the 2015-16 Annual Governance Statement which should see time savings due to more efficiencies in subsequent years
 - Higher than expected sickness absence, which has delayed the timings of some audits.

- 2.10 Delivery of work during quarter 1 was in line with the internal audit strategy, although 88 of the days were for audit opinion work relating to the 2015-16 audit plan. Actual delivery for quarter 1 and planned and revised delivery for quarters 2, 3 and 4 are shown in Table 1 below.

Table 1 – Revision to the Audit Opinion days per quarter 2016-17

	Q1	Q2	Q3	Q4	Over subscription	Total
Planned opinion days	184	185	170	170		709
Actual for Q1 and revised for Q2,3 & 4 opinion days	185	167	178	179		709

- 2.11 Original planned work for the remainder of the year is shown in **Appendix Bi**.
- 2.12 Work no longer required or deferred (345 days) is listed at **Appendix Bii** and total days shown in **Table 2** below.
- 2.13 New work identified from new risk areas (253 days) that have been identified are included in the revised plan and highlighted in **Appendix Bi as '[NEW]'** and the days are shown in **Table 2** below. The key new topics that have been added include:
- Adult Services
 - Better Care Fund (Governance Arrangements)
 - National Minimum Wage Work (Phase 1 and 2)
 - Children's Services
 - Financial Governance in Schools
 - Resources
 - Audits to support the Annual Governance Statement
 - Health and Safety – Norfolk Fire and Rescue Service
 - Contract Standing Orders Compliance
 - Information Management Strategy
 - Information Commissioner's Visit support
 - Finance
 - Wholly Owned Company Controls

- 2.14 The overall changes to the original internal audit plan days, agreed by the Committee in January 2016, are described in **Table 1** below.

Table 1 – Changes to the Internal Audit Strategy and Audit Opinion Days 2016-17 (See Appendix A)

Changes	2016-17 Days
Original agreed delivery of audit strategy budgeted days	1,336
Plus increase in detailed plan of audit opinion days (oversubscribed)	92
Revised delivery of overall audit strategy plan days	1,428
Original agreed audit opinion budgeted days (See Table 2 below)	709
Plus increase in detailed plan of audit opinion days (oversubscribed)	92
Revised audit opinion plan in days (oversubscribed) = Appendix Bi total	801

Table 2 - Reconciliation of planned 'audit opinion days' 2016-17

Changes to opinion days	Days
Original agreed audit plan days from January 2017 (note this was 184 oversubscribed. Without the oversubscription this was 709 days)	893
Additional new audit plan days onto the original plan marked [NEW] in Appendix Bi (2.13)	253
Less deferred audit plan days taken from the original plan at Appendix Bii (2.12)	(345)
Revised total audit planned days at Appendix Bi	801
Less oversubscription	(92)
Total original agreed audit budget days (see Table 1 above)	709

- 2.15 Based upon the Actual and Revised total of 709 days in **Table 2**, the target for final report and draft reports for audits at year end are 30 and 7 respectively (with 10 audits being work in progress at year end), to be reported on in the Annual Internal Audit Report. It is expected to achieve 100% of these targets. The average days per audit is therefore 15 days.
- 2.16 We continue to develop our traded services to schools and reported the positive outcomes of these in our annual report. 80 days has been allowed within the strategy to deliver traded school audits, and

as at 31 July 2016, 19 schools have either received or booked a traded audit during 2016-17.

- 2.17 The revised audit plan with no change in the number of audit opinion days will be met from our existing agreed budget for 2016-17. Norfolk Audit Services have not been required to contribute to further cash savings in year so there has been no impact in respect of the agreed budget or in terms of the revised internal audit plan for 2016-17.
- 2.18 Technical details appear in **Appendix C** for information.

3. Financial Implications

- 3.1. The internal audit plan covers the risks arising from the Council's budgeted Gross Revenue Expenditure £1.415bn and Capital Expenditure of £267m as well as the Councils' Assets of £1.884m and matching Liabilities. (NCC Budget Book 2016-20)
- 3.2. The expenditure falls within the parameters of the Annual Budget agreed by the Council.
- 3.3. Norfolk Audit Services plan to deliver the 2016-17 revised audit plan within budget by adhering to the planned budget and continuing to seek efficiencies in our working. We will actively maintain existing trading and pursue opportunities for new traded income.
- 3.4. All standard audits are allocated a cash budget (£) which is formally monitored at draft and final report stages. A target for 2016-17 has been set to deliver 100% of audits within +/-5% of the agreed cash budget.
- 3.5. The costs of half yearly audit plans are communicated to the Executive Director of Finance.

4. Issues, risks and innovation

- 4.1. In order to facilitate traded schools audits, as part of the agreed Medium Term Internal Audit Strategy, the Internal Audit Plan needs to be sufficiently flexible to allow the traded service to be developed and sustained with appropriate resourcing. Once firm bookings are achieved then additional resources can be appointed to meet the ongoing demands. Until that time up to 80 days of the general plan will require the timing of the audit to be flexed as bookings for Traded Audits are secured. The arrangements will be closely managed to ensure the optimum service is achieved and delays are minimised.
- 4.2. There are no implications with respect to:

- Legal
- Risks
- Equality
- Human Rights
- Environmental
- Health and Safety.

5. Background

- 5.1. The Three Year Internal Audit Strategy and the overall Norfolk Audit Services planning approach for the 2016-17 audit plan was approved by the Audit Committee on [28th January 2016 within the minutes](#), (item 11) available at the link underlined above.
- 5.2. This report explains the changes made to the Annual Internal Audit Plan for 2016-17 and provides more detail for the Committee. Audit topics have been drawn from our Audit Needs Assessment process and consultation with departmental managers.
- 5.3. Technical details appear at **Appendix C** for information.
- 5.4. The Chairman of the Audit Committee and County Leadership Team and the External Auditors have been consulted in the preparation of this report.

Officer Contact

If you have any questions about matters contained or want to see copies of any assessments, eg equality impact assessment, please get in touch with:

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