

Audit Committee

Item No ...

| | |
|--|--|
| Report title: | Revised Internal Audit Plan 2017-18 |
| Date of meeting: | 21 September 2017 |
| Responsible Chief Officer: | Executive Director of Finance and Commercial Services |
| 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 (4.3) page 12, 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 2017-18](#) (item 8, page 6) in January 2017. 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 supports the delivery of the Council's Priorities set out in the 'Caring for our County' report, presented to the Policy and Resources Committee.
- The Internal Audit strategy to deliver 1,491 budgeted days has been revised to 1,486 days (including work for External Clients) and of that 706 (768) were budgeted days for work to directly support the Council's audit opinion (**Appendix A**). The slight reduction in audit opinion days reflects an increase in our grant certification work. However, the opinion work is considered sufficient as it covers the essential elements of governance, internal control, financial management and risk management. The strategy also allows for delivering 80 days traded schools work and 100 for investigative work. (2.6)
- The revised Internal Audit Plan for 2017-18 (**Appendix Bi**) has an oversubscription of 72 days (significantly in the second half of the year) to allow for potential cancellations and 'recycling' additional income from traded schools audit work (2.7)
- Topics already identified as not being covered in the remainder of this year

(deferred audits **Appendix Bii**) will be carried forward to the next year's audit planning as a priority for consideration (2.12)

- There was significant progress towards completion of the 2016-17 plan that was carried forward into 2017-18. 95 days in quarter 1 were attributed to completion of carried forward work. Likewise, there was significant work in progress from the first half of the 2017-18 year carried into the second half of the year.
- There are 39 separate audit opinion topics in the revised 2017-18 audit plan. It is planned that final report and draft reports for the revised 2017-18 audit plan will total 20 and 7 respectively, to be reported on in the 2017-18 Annual Internal Audit Report. It is planned that all 28 of the 2016-17 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 meeting the Council's priorities of 'Caring for our County', 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 2017-18 Internal Audit Strategy has been revised for the second half of the year (**Appendix A**). The actual days available to deliver the audit opinion work within the strategy have reduced from 768 days to 706 days, however the days remain sufficient to support the opinion
- The revised Internal Audit Plan to support the opinion for the whole year (**Appendix Bi**) is 706 days, which includes contractor time as part of our planned mixed economy delivery model. The opinion work plan will be managed flexibly to support the traded schools approach. Some audits timed for Quarters 1 and 2 are carried into the remainder of the year as work in progress.
- The Strategy includes 100 days for the Investigative Auditor's work
- The three year [Internal Audit Strategy](#), (item 8, Appendix A) agreed in January 2017, remains largely unchanged and will be refreshed in January 2018
- The overall target for 2017-18 final reports and draft reports for audits are 20 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 County Leadership Team have been consulted in the preparation of this report.

2. Evidence

2.1 The approach to refreshing the Internal Audit Plan has been to:

- Consider the overall assurance objectives in 2017-18 (para 2.2)
- Consider the available resources to support:
 - the Audit Strategy for 2017-18 (para 2.6)
 - the Audit Opinion work for 2017-18 (para 2.7)
- Consolidate and reconcile the required audit opinion work from:
 - Work in progress from Quarter 1 and Quarter 2 of 2017-18 (para 2.10)
 - Original planned work for the remainder of the year (para 2.11)
 - Work no longer required or deferred (para 2.13)
 - New work required in 2017-18, following the audit needs assessment refresh (para 2.14)
- 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 2018. 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 Priorities
- 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 revised internal audit plan supports the new administrations priorities together with the corporate priorities that have been identified to make better use of resources:

- Caring for your Money
- Caring for your Family
- Caring for your Community

- Caring for your Health and Well being
 - Caring for your Roads and Environment
 - Caring for your Economy
- 2.5 The top six risk priorities of Norfolk Audit Services activity remain as presented in the Internal Audit Strategy for 2017-2020 agreed by Committee in January 2017 (see 5.3).
- 2.6 The original agreed internal audit strategy scope remains largely the same, as set out in **Appendix A**.
- 2.7 The resourcing of the overall Audit Strategy has been reviewed (see 5.4)
- 2.8 The resourcing of the Council's Internal Audit opinion days has been reviewed:
- The overall physical capacity of the Internal Audit has reduced to 706 audit opinion days (was 768)
 - The revisions made to the detailed plan at **Appendix Bi** are significantly in relation to the audit topics to be undertaken which have been considered on a risk assessed basis.
 - We have completed almost all of the 28 audits from 2016-17 that were carried forward into the first half of 2017-18. In Quarter 1 this utilised 95 days opinion work from 2017-18. An allocation of 100 days has been included in the second half of the year for completion of the first half of 2017-18 audits. This is standard practice for the completion of audits within different reporting periods.
- 2.9 The approach to applying the resources to the audit opinion work is set out below.
- 2.10 The Work in Progress from Quarter 1 and Quarter 2 of 2017-18 the days will be deployed to complete that work as a priority, the work in the quarter has covered the following:
- Of the 320 audit opinion days total for Quarter 1 (Actual) and Quarter 2 (estimated) (See **Table 2**):
 - 95 days were spent on delivering the completion of audit opinion work that related to the 2016-17 audit plan. That is because there were 28 audits from the 2016-17 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
 - 15 days have been included in quarter 2 for completion of all 2016-17 audit opinion work
 - 35 days supported two Information Management audits; Information Security and Awareness of new Information

Management Policies and Procedures. These audits support the action plan from the ICO visit last year

- 2.11 Delivery of other opinion work during quarter 1 was in line with the internal audit strategy and the detailed plan. Actual delivery for quarter 1 and planned and revised delivery for quarters 2, 3 and 4 are shown in Table 1 below. Planned delivery for quarter 2 is always lower than other quarters due to contractual working patterns of the audit team, however unplanned sickness absences over the summer has further reduced this.

Table 1 – Revision to the Audit Opinion days per quarter 2017-18

| | Q1 | Q2 | Q3 | Q4 | Total |
|---|-----|-----|-----|-----|-------|
| Planned opinion days | 183 | 183 | 201 | 201 | 768 |
| Actual for Q1 and revised for Q2,3 & 4 opinion days | 195 | 125 | 193 | 193 | 706 |

- 2.12 Original planned work for the remainder of the year is detailed in **Appendix Bi**, with revisions to the plan (new audits) highlighted as new.
- 2.13 Work no longer required or deferred (94 days) is listed at **Appendix Bii** and total days shown in **Table 2** below.
- 2.14 New work identified from either the first half year plan or as new work to the second half year plan (372 days), as only a detailed six month plan was agreed by Committee in January 2017, that have been identified are included in the revised plan and highlighted in **Appendix Bi** and **Table 2** below. In establishing the audit topics for inclusion in this revised 2017-18 plan, our audit planning followed the approach that was advised to, and considered by this Committee in [January 2017](#), (item 8)
- 2.15 The overall changes to the original internal audit plan days, agreed by the Committee in January 2017, are described in **Table 1** below.

Table 2 – Changes to the Internal Audit Strategy and Audit Opinion Days 2017-18 (See Appendix A)

| Changes | 2017-18 Days |
|--|--------------|
| Original agreed delivery of audit strategy budgeted days | 1,491 |
| Plus increase in grant certification work and assurance to the Section 151 Officer | 57 |
| Less reduction in strategy of audit opinion days | 62 |
| Revised delivery of overall audit strategy plan days | 1,486 |
| | |
| Original agreed audit opinion budgeted days (See | 768 |

| | |
|--|-----|
| Table 2) | |
| Less reduction in strategy of audit opinion days | 62 |
| Revised audit opinion plan in days (oversubscribed) = Appendix Bi total | 706 |

Table 3 - Reconciliation of planned 'audit opinion days' 2017-18

| Changes to opinion days | Days |
|--|------------|
| Original agreed audit plan days from January 2017 (presented as a half year plan with first call on second half of year) | 500 |
| Additional new audit opinion days onto the original plan (mainly second half as now planned for) (2.13) | 372 |
| Deferred audit opinion days taken from the original plan (mainly from first half) (2.12) | (94) |
| Revised total audit opinion planned days | 706 |
| plus oversubscription | 62 |
| Total original agreed audit opinion days budget | 768 |

- 2.16 Based upon the Actual and Revised total of 706 days in **Table 3**, the target for final report and draft reports for audits at year end are 20 and 7 respectively (with 12 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 18 days.
- 2.17 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 2017, 9 schools have either received or booked a traded audit during 2016-17.
- 2.18 Technical details appear in **Appendix C** for information.

3. Financial Implications

- 3.1. The revised audit plan will be met from our existing agreed budget for 2017-18. 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 2017-18.
- 3.2. The internal audit plan covers the risks arising from the Council's budgeted Gross Revenue Expenditure £1.383bn as well as the Councils' Assets of £977m and matching Liabilities. (NCC Budget Book 2017 - 20)

- 3.3. The expenditure falls within the parameters of the Annual Budget agreed by the Council.
- 3.4. Norfolk Audit Services plan to deliver the 2017-18 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.
- 3.5. All standard audits are allocated a cash budget (£) which is formally monitored at draft and final report stages. A target for 2017-18 has been set to deliver 100% of audits within +/-5% of the agreed cash budget.
- 3.6. The costs of half yearly audit plans are communicated to the Executive Director of Finance and Commercial Services.

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 2017-18 audit plan was approved by the Audit Committee on [26th January 2017 within the minutes](#), (item 8; page 6) available at the link underlined above.
- 5.2. This report explains the changes made to the Annual Internal Audit Plan for 2017-18 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. The top six risk priorities remain:

- 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
- That Commissioning, Procurement and contract management are well governed and achieve value for money.
- That other key NCC management systems are fit for purpose
- 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.

5.4. The resourcing review covered:

- The overall target budget for the team was reviewed and remains largely the same, 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 (1,491 days) were calculated on the basis of us successfully recruiting to our new Investigative Auditor role and our vacant Audit Manager role. We have recruited to both posts, although there have been delays with planned start dates. The revised strategy reflects this in the number of audit days available for in-house and contractor delivery.
- We continue to use an Audit contractor as part of our mixed economy resourcing arrangement to provide up to 100 days of audit resource. This gives us greater flexibility and resilience.

5.5. 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:

If you have any questions about matters contained in this paper please get in touch with:

Officer Name: Adrian Thompson - Chief Internal Auditor

Tel No: 01603 222784

Email address: adrian.thompson@norfolk.gov.uk



If you need this Agenda in large print, audio, Braille, alternative format or in a different language please contact 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.

Appendix A

Proposed Revised Delivery of Internal Audit Strategy for Q3 and Q4 of 2017-18

Appendix B (i)

Proposed Revised Internal Audit Plan 2017-18 (Detailed)

Appendix B (ii)

Proposed Revised Internal Audit Plan 2017-18 (Deferred Work)

Appendix C

Technical Details

Additional background

- 2.1 The three year Internal Audit Strategy agreed in January remains largely unchanged in terms of our objectives, the nature of our work, delivery of our work and managing our resources. We continually seek efficiencies in delivering the strategy. There has been reprioritisation of some audits and new audits being identified and included within year **Appendix Bi**.

Delivering the Audit Strategy (Appendix A):

- The reporting to the Audit Committee remains the same. This reporting is detailed and welcomed by the Committees.
- The facilitation of the Annual Governance Statement (AGS) for 2016-17 preparations has remained the same at 8 days, although this was supplemented by additional days from the days allowed for the provision of assurance to the Executive Director of Finance days. This was to further support the self-certification process for the 2016-17 Annual Governance Statement. This further strengthens Chief Officer and member involvement using the CIPFA Solace guidance.
- The number of days to support the grant certification work has increased by 52 days, there are more grants to certify and more grants required a 100% certification check.
- The resources needed for the France Channel England project remain estimated at 175 days for 2017-18. With the Brexit outcome we continue to assess and understand any likely impact on our role as Audit Authority and will take responsive action as and when necessary.

The Audit Opinion Work (Appendix Bi):

- 2.2 Appendix B (i) sets out the resources to deliver one key element of the Strategy, the audit opinion. The revised proposed audit opinion work for 2017-18 is currently oversubscribed by 94 days. This oversubscription will be managed through the six months of the audit plan remaining by natural and expected movement of planned audits. Any remaining audits not delivered due to oversubscription will be carried forward, on a risk assessed basis to quarter 1 of 2018-19. Appendix B (ii) sets out the work that was identified in the original plan and the revised plan through our audit needs assessment, but that has been deferred due to the number of audit days available within the team.

Section 4 Issues, Risks and Innovation details

- 4.1. If appropriate systems are not in place or are not effective there is a risk of:
- the Council failing to achieve its corporate objectives
 - the Audit Committee not complying with best practice and thereby not functioning in an efficient and effective manner
 - not meeting statutory requirements to provide adequate and effective systems of internal audit.
- 4.2. These documents underpin the operational performance of Norfolk Audit Services and hence significant changes to these plans would

impact on the delivery of the audit service and may put at risk the good reputation of the service. The External Auditor places reliance on the work of Norfolk Audit Services which helps to lower their fees to the Council.

- 4.3. This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.
- 4.4. Under Section 17 of the Crime and Disorder Act 1998, the Council has a statutory general duty to take account of the crime and disorder implications of all its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 4.5. The Council has in place an Anti Fraud and Corruption Strategy which is actively promoted. Norfolk Audit Services work helps with the aim of prevention of crime in Norfolk in that its work results in the likelihood of detection and prosecution increasing.

Section 5 Background details

- 5.1. The Council must undertake an adequate and effective internal audit to meet the requirements of the Accounts and Audit (England) Regulations (2015). The proposed audit plan meets this statutory requirement. The planning also meets relevant standards (UK Public Sector Internal Audit Standards, UKPSIAS). Norfolk Audit Services must establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. The plan must take into account the requirement to produce an annual internal audit opinion, the relative risk maturity of the organisation and the assurance framework. Norfolk Audit Services identifies and considers the expectations of senior management, the Audit Committee and other stakeholders for internal audit opinions and other conclusions. The plan and resource requirements need to be communicated to senior managers and the Audit Committee for review and approval.

End.