

Audit Committee

Item No.....

Report title:	Internal Audit Strategy, Approach, Strategic Plan 2017-2020 and Internal Audit Plan for first half of year 2017-18
Date of meeting:	26 January 2017
Responsible Chief Officer:	Executive Director, Finance and Commercial Services
Strategic impact 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. 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'.	

Executive summary

Norfolk Audit Services fulfils the internal audit function for the Council as required by its own Terms of Reference and the relevant regulations, which are considered annually by the Committee. Internal Audit's work is planned to support the Council's priorities, being:

- Excellence in Education
- Real Jobs
- Good Infrastructure
- Supporting Vulnerable People

The Internal Audit Strategic Planning:

- Supports the Council's [priorities](#) (page A6) and New Ways of Working with more transparent charging and costing, critical thinking methods and a business approach more akin to a commercial audit practice
- Complements the Council's Medium Term Financial Plan 2016-20 as published in the [Council's Budget Book](#) and the Corporate Risk Management work

This report sets out the:

- Requirements (Section 2.1)
- Internal Audit Budget 2017-18 (Section 2.4)

- Internal Audit Strategy 2017-20 (Section 2.9)
- Internal Audit Approach 2017-18 (Section 2.11)
- Strategic Audit Planning 2017- 20 (Section 2.14)
- 2017-18 Internal Audit Plan (Section 2.16)

Recommendation:

The Audit Committee is recommended to consider:

- That internal audit's strategy and plan, contribute to an effective system of internal audit and risk management and that those arrangements are compliant with all applicable statutes and regulations, including the Public Sector Internal Audit Standards (2016) and the Local Authority Guidance Note of 2013 and any other relevant statements of best practice
- The strategy and plan being the; Internal Audit Strategy 2017-20 (**Appendix A**), the Approach 2017-18 (**Appendix B**), the Three Year Strategic Audit Planned Days to support the Audit Opinion (**Appendix C**), the Summary Internal Audit Plan for the first half of the year 2017-18 for work supporting the Internal Audit Strategy (**Appendix D**) and the Detailed Internal Audit Plan for the first half of the year 2017-18 (**Appendix E**) and mapping of Corporate Risks to the plan (**Appendix F**).

1. Proposal (or options)

1.1 The proposal is set out in the Executive Summary above.

2. Evidence

The Requirements

2.1 The top six risk priorities of Norfolk Audit Services activity remain as:

- 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.

2.2 During 2017-18 and going forward Internal Audit should be:

- Supporting the Council's [priorities](#) (page A6) and New Ways of Working with a very strong internal audit function that is able to operate in a much wider and strategic way, assisting the organisation by helping it put in place a more efficient and effective control, performance and governance environment
- Turning the strategy into action (see 2.11 below)
- Working on progressing and reporting the resolution of Corporate High Priority Internal Audit Findings
- Strengthening anti-fraud activities and arrangements within the Council
- Implementing the France Channel England Audit Authority
- strengthening the traded schools service; and
- working to reorganise the team to exploit any potential collaboration or contracting opportunities that may arise

2.3 The Public Sector Internal Audit Standards (2016) and the Local Authority Guidance Note of 2013 set out the requirement for expected professional standards for internal audit in local government and the requirement for a risk based internal audit plan.

The Internal Audit Budget 2016-17

- 2.4 The overall planned internal audit days (audit opinion work) for the Council for 2017-18 (including contractor days) are 768 days. This is slightly higher than the 2016-17 revised days of 709, reported in September 2016 (see **Appendix D**). The detailed audit plan for 2017-18 will be presented as two half year plans with a split of 365 and 403 audit opinion days respectively.
- 2.5 Throughout the budget reduction process of recent years, an adequate and effective internal audit function has been maintained, as per the requirements of the Accounts and Audit Regulations 2015 and providing the necessary assurance to Members and the external auditors.
- 2.6 It is the current assessment that the review of all internal processes has delivered all the anticipated reductions in audit days. The generation of additional income through commercialisation may further reduce the net costs in the internal audit budget.
- 2.7 The net budget for internal audit remains at £520k for 2017-18. Projected income for 2016-17 is £91,007.
- 2.8 The budget plan reflects an unchanged resource requirement except for the work as European Union Audit Authority for the France-Channel-England (FCE) programme where the cost of the additional resource will be offset by EC income. The involvement of NCC as a Managing Authority

for the programme was endorsed by Cabinet on 10 June 2013, as supported by a report highlighting the risks and benefits of such an initiative. It was formalised through both the formal designation of NAS as Audit Authority for the FCE programme by DCLG on 26 January 2016 and the inclusion of the Audit Authority functions in NAS Terms of Reference, as approved by this Audit Committee on 28 January 2016.

- 2.9 The volume of work and number of the FCE Audit Authority audit days to be delivered over 2017-18 is expected to increase slightly, as the programme is now starting to incur expenditure and the audit work will move from the evaluation of the adequacy of the systems set up (as carried out in 2016-17) to the audit of the actual effectiveness of the systems. All costs incurred in delivering the audit authority function are recovered from the European Commission, such that the resources can be back filled, where necessary.
- 2.10 The proposed audit plan for the full year includes a target of 36 traded school audits, which is a slight increase in the 32 traded audits delivered in 2016-17. The target for each half year is 16 and 20 respectively. This increase is deemed realistic given the current climate schools are facing and the continued Government programme of schools academisation.
- 2.11 The proposed audit plan includes a target to complete 75% of carried forward audits during the first half of 2017-18, with the remaining 25% being completed early in the second half.
- 2.12 The proposed audit plan includes 20 new audit opinion topics. As the audit plan is oversubscribed by 48 days for the first half of the year it is expected that 3 identified audits will be given priority in quarter 3, the second half of the audit year, leaving 17 topics for the first half. The prioritisation of topics will be managed on a risk assessed basis. The target for final report and draft reports for audits as at 31 September (end of first half of year) are 6 of each (with 5 audits being work in progress at 31 September). It is expected to achieve 100% of these targets.

The Internal Audit Strategy 2017-20

- 2.13 Internal Audit's strategy and planning provides assurance on risk management, internal control and governance which support the Council in achieving its priorities. Internal audit contributes to this by:
- recognising the local government environment continues to change and adapt to external drivers, including financial pressures bringing greater risks for the Council to manage
 - helping to promote a secure and robust internal control environment, including the management and reporting of performance which enables a focus to be maintained on those priorities
 - supporting the Council to address the significant governance and control issues that have been identified and reported in some parts of the Council

- monitoring the statutory changes to Local Public Audit arrangements
- Ensuring robust and effective Anti-Fraud activity including prevention, detection and investigation continues and the planning makes provision for this.

2.14 Attached as **Appendix A** is the proposed Internal Audit Strategy 2017-20. This Strategy includes a stronger and clearer approach to how Internal Audit will support the delivery of the Council's priorities. The strategy provides greater clarification of roles, responsibilities and processes, together with how internal audit assess and report on audit outcomes and what measures are in place to hold responsible officers to account to make improvements where required.

The Internal Audit Approach 2017-18

2.15 The Internal Audit Approach translates the strategy (2.13) into planned work. The audit days to support the strategy for 2017-18 of 1,006 days 969 (16-17) days (see 2.4) is considered sufficient to support an opinion on the Council's control environment, taking into account the Council's risk management, performance management and other assurance procedures.

2.16 The approach is set out in **Appendix B**. That document explains how and why the function operates describing:

- Regulatory Requirements
- Financial and Organisational Changes
- Approach to the Audit Plan 2017-18
- Scoping for 2017-18
- Conclusions

The Strategic Audit Planning 2017-20

2.17 The Strategic Plan Days for 2017-20 (**Appendix C**) to deliver the work to support the audit opinion has been devised following a risk based approach using the following.

- concerns from Members
- concerns from the County Leadership Team
- the Council's [priorities](#), (page A6)
- the Corporate Risk Register,
- departmental Risk Registers,
- engagement with senior officers,
- review of the External Audit and Inspections reports,
- a review of corporate strategies,
- cumulative audit knowledge and experience,
- engagement with other Heads of Audit and
- Professional judgement on the risk of fraud and error.

2.18 The Strategic Plan is designed to inform this process for providing relevant assurance opinions on systems either in place or developing and providing

directional assessments regarding actions required to implement any of the necessary improvements. The days proposed for supporting the Annual Audit Opinion in 2017-18 are 768 (709 for 2016-17 which was oversubscribed by 92 days), shown in Figure 2 below. The audit opinion work is shown in two halves of the year, i.e. as two six monthly plans. The plan for the first half of the year again exceeds the calculated available audit resource of 365 days (oversubscribed by 48 days) but audits will be undertaken on a risk based prioritisation as described in the plan below.

Figure2. Audit Days - Key Numbers for first half of 2017-18

Source:	First half of 2017-18 days	Full year days 2017-18	Revised 2016 -17 days
Audit Team Delivery to NCC Total (Appendix D)	485	1006	969
Audit Team Delivery allocation for audit opinion (Appendix D)	365	768	709
% of NCC delivery to support audit opinion	76%	76%	73%

The Internal Audit Plan for 2017-18

- 2.19 The authority's own audit days available for 2017-18 are calculated at 768 days (previously 709 as 2016-17 was oversubscribed by 92 days), which is considered sufficient to allow the Chief Internal Auditor to form an opinion on the authorities control environment, taking into account the authorities' risk management, performance management and other assurance procedures. It should be noted that the audit days for 2017-18 are in line with the revised audit days for 2016-17 (September committee) indicating that the days are stable for 2016-17 and 2017-18 in line with no change in the net budget. The planned percentage of time spent on NCC opinion work is 76% (73%) out of NCC total time is in line with the slight increase in audit opinion days.
- 2.20 Using the above sources of information, the Annual Internal Audit Plan for 2017-18 (**Appendix D**) has been drafted to balance the following:
- the requirement to give an independent, objective and evidence based opinion on all aspects of governance, risk management and internal control.
 - the requirement for External Audit to place reliance on internal audits of the key financial systems for their annual opinion on the financial statements,
 - identified control and governance issues,
 - Complementary sources of assurance are considered as part of the Audit needs planning and are recognised in the Council's Annual Governance Statement. Where reliance is to be placed on other

sources of assurance the quality and standards of the work are assessed to ensure they meet the required standard

- the requirement to inform and support the production of the Annual Governance Statement for the Council,
- best practice is that Internal Audit adds value through improving controls and streamlining processes. The work should have a balance of breadth and depth of scope
- the allocation of time required for responding to queries on control issues,
- the allocation of time required for responding to fraud queries and
- the resource and skill mix available to undertake the work.

2.21 In addition, major changes have continued to take place across the organisation. These include further re-organisation and transformation of the type of services that the Council provides to deliver its priorities. These changes have been a significant consideration in the preparation of the audit plan and will continue to have a major on-going impact on its delivery on account of the impact that these changes will have on the structure, culture, operational and internal control and risk environment of the Council. However, it is important audit work is carried out on the key systems to provide assurance adequate controls are working as required during this period of change.

2.22 As a result of these on-going changes the audit plan has been developed as two half yearly plans. The first half of the year is detailed in Appendix D and has been consulted with, and agreed with Executive Directors and Senior Officers. The second half of the year detailed plan will be presented to Committee in September 2017. The assigning of the plan into two halves will help to ensure that each half is current, relevant and reflects the changing environment and will ease the administration necessary when adjustments to the plan need to be made. County Leadership Team, senior managers and Members will all have a role to play in determining the audit plan for each half of the year. It is the intention to ensure that regular scheduled meetings take place to discuss service developments, any emerging risks identified as a result of this and any requirements for the second half of the years audit plan, or indeed any changes that may be necessary to the first half of the year. This will keep the audit plan current and relevant addressing the areas of highest risk.

2.23 The first half of the year (1 April to 30 September 2017) Internal Audit Plan for 2017-18 is presented at **Appendix D** and is prepared in accordance with the relevant standards, the requirements, our proposed budget, our strategy, approach and strategic planning.

2.24 The proposed first half of the year plan includes a target of 16 traded school audits, with the second half of the year target being 20 (total 36), which is a slight increase in the 32 traded audits delivered in 2016-17. This increase is deemed realistic given the current climate schools are facing and the continued Government programme of schools academisation.

2.25 The proposed first half of the year audit plan includes a target to complete 75% of carried forward audits during the first half of 2017-18, with the remaining 25% being completed in the second half.

- 2.26 The proposed audit plan includes 20 new audit opinion topics of which 17 can be delivered within the available opinion days. The target for final report and draft reports for audits as at 31 September (end of first half of year) are 6 of each (with 5 audits being work in progress at 31 September). It is expected to achieve 100% of these targets.

3. Financial Implications

- 3.1. The expenditure falls within the parameters of the Annual Budget agreed by the Council. Internal Audit's work provides assurance on the systems and internal controls that manage £1.405bn of Gross Revenue expenditure, £145m Capital programme and £977mm of Assets.
- 3.2. The three year costing for internal audit remains unchanged, subject to any savings that the Committee may agree in year, no further savings are proposed for 2017-18. The overall resourcing levels remain unchanged. We will actively maintain traded services and pursue new opportunities when they arise.
- 3.3. There is a contribution to the fixed costs from the France Channel England Programme Technical Assistance. All costs incurred in delivering the audit authority function are recovered from the European Commission, such that the resources can be back filled, where necessary.

4. Issues, risks and innovation

4.1. Issues

Our audit planning is aligned to the new Council structure approved by Council on [20 October 2014](#) . and the Council's [priorities](#) (page A6) The priorities for the Service Departments, for Resources and Finance are set out clearly in those reports and inform our own planning to support those priorities and objectives.

Our audit planning will take account of any improvement plans and planned savings activity that are in progress and will complement that work where appropriate.

4.2. Risk implications

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; and
- not meeting statutory requirements to provide adequate and effective systems of internal audit.

The Internal Audit Plan complements the Councils Corporate Risk Register. The correlation of the audit topics to the corporate risks is described in the Charts 1 and 2 below.

Chart 1: Sources of Assurance on Corporate Risks 2017-18

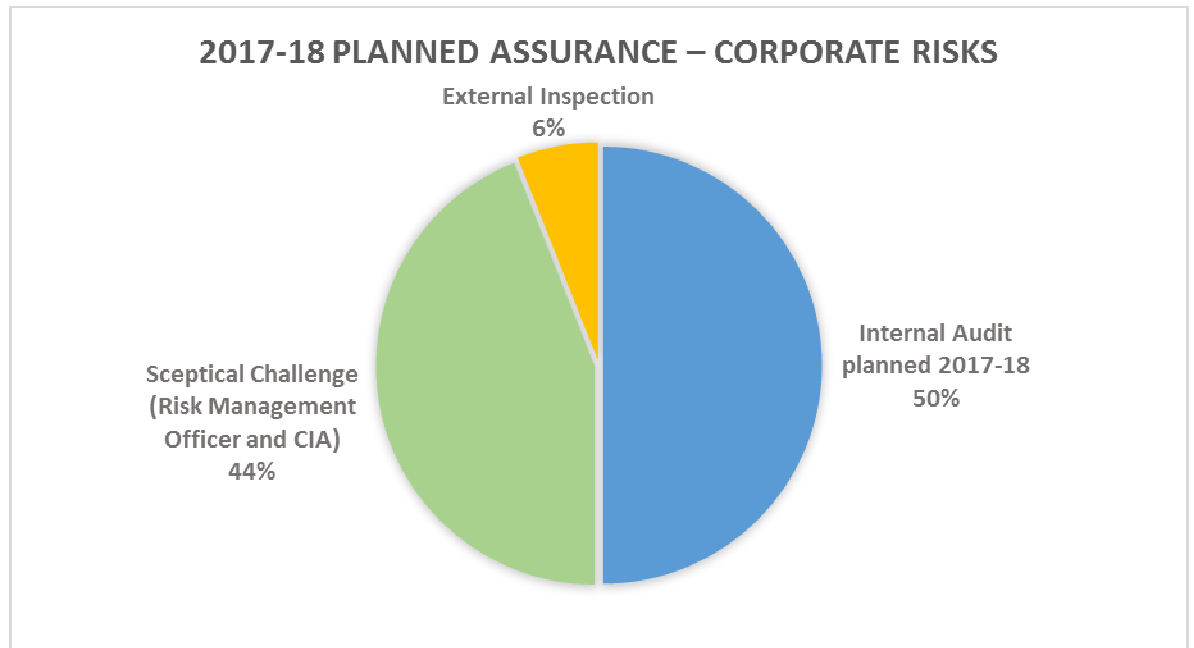
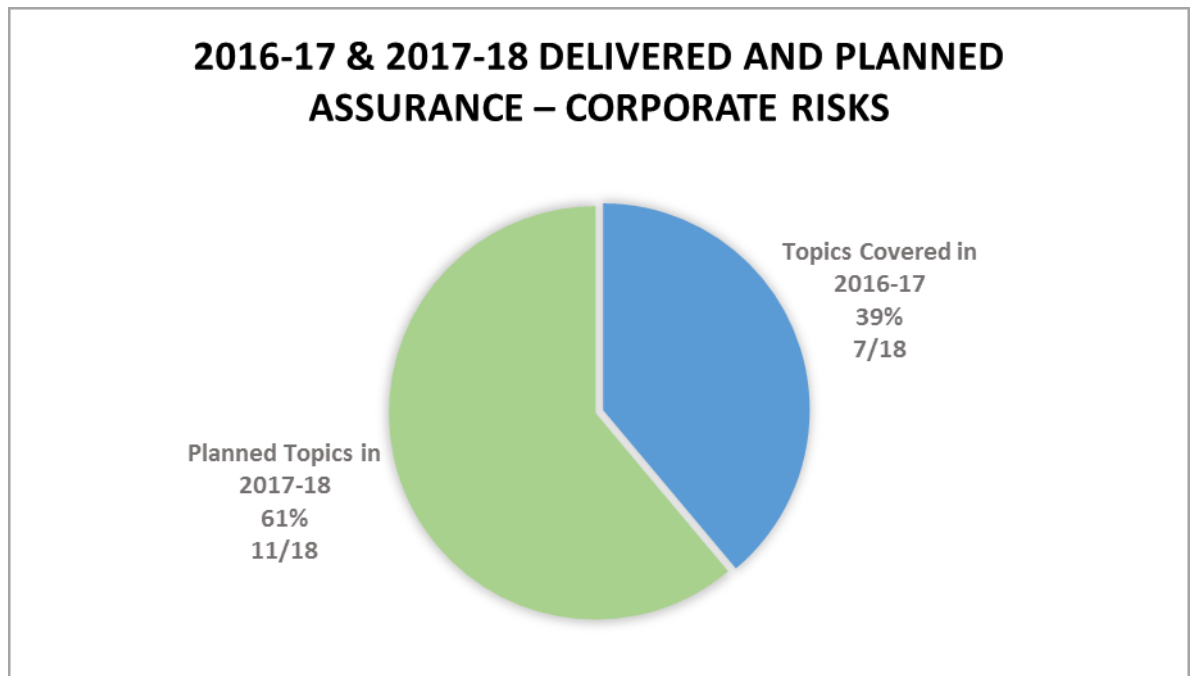


Chart 2: Sources of Assurance on Corporate Risks 2016-2018



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 internal audit which helps to lower their fees to the Council.

4.3. Resource Implications

There are no resources implications in respect of the proposed strategy. However significant changes to the Strategy, Approach and Plan may result in staffing and cost implications. A reduction in overall resources may expose the County Council to inadequate internal audit coverage and in turn to the risk of financial or reputational loss.

4.4. Legal Implications

Internal audit work should fulfil the requirement for an internal audit function as described in the Accounts and Audit Regulations 2015.

4.5. There are no implications with respect to:

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

4.6. Innovation

The Internal Audit Planning seeks to apply innovative practices, methodology, partnering and resourcing where possible, ensuring that relevant standards are maintained and that value for money is demonstrated.

Examples of such innovation include how we resource the audit plan through the in-house team, use of agency staff and contracting BDO to provide resilience and flexibility in audit delivery. We have in the past had PwC to undertake complex ICT auditing and will be procuring a new ICT audit provider for 2017-18.

5. Background

- 5.1 The Council is required under the Accounts and Audit Regulations (England) 2015 to make provision for internal audit in accordance with “proper practices in relation to internal control”. CIPFA, in collaboration with the Chartered Institute of Internal Auditors (CIIA) have produced the UK Public Sector Internal Audit Standards (the Standards) which came into force on 1 April 2013 and were revised on 1 April 2016. CIPFA, in collaboration with the CIIA, also published in April 2013 the Local Authority Guidance Note (LAGN) for the Standards which remain current.
- 5.2 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.
- 5.3 Internal Audit helps this by aiming to deter crime, to increase the likelihood of detection through making crime difficult, to increase the risk of detection and prosecution and to reduce the rewards from crime.

- 5.4 Internal Audit's planning has been designed in order to cover higher risk areas, including where weaknesses in controls might increase the risk of theft, fraud or corruption. An action plan is agreed for any weaknesses that are identified during audits, including any which might increase the risk of theft, fraud or corruption. Consideration has been given to the present economic conditions and the Anti-Fraud and Corruption plan and resources are considered adequate.

6. Background papers

The background papers relevant to this report are the Internal Audit Team's Audit Needs Assessment working papers.

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:

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