



**Audit Committee**  
20 March 2017

**Report from the Chief Finance  
Officer**

For Information

Wards Affected:  
ALL

**Draft Internal Audit Strategy, Plan and Internal Audit  
Charter 2017/18**

**1. Summary**

- 1.1. This report sets out the Draft Internal Audit Strategy and Plan for 2017/18 and the basis on which the plan has been formulated. The Internal Audit Charter has been appended to the report for consideration and approval.
- 1.2. All Local Authorities are required to make proper provision for Internal Audit in line with the 1972 Local Government Act and the Accounts and Audit Regulations 2003 (as amended). The Public Sector Internal Audit Standards (PSIAS) require, "...chief audit executive to establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals".

**2. Purpose of the Report**

- 2.1 In accordance with the terms of reference for the Committee and in accordance with Standard 2000 – Managing the Internal Audit Activity as outlined within the Public Sector Internal Audit Standards, the Audit Committee is asked to review and approve the 2017/18 Internal Audit Strategy and Audit Plan along with the Council's Internal Audit Charter. The Audit Plan has been based on the assessment of risk and has been designed to demonstrate that the Authority has an effective Internal Audit service, which provides assurance with regards to the

design and application of its systems of internal control.

### **3. Recommendations**

- 3.1. The Audit Committee approve the 2017/18 Internal Audit Strategy within this report.
- 3.2. The Audit Committee note the approach taken to formulate the draft plan for the 2017/18 financial year and approve the content of the plan (Appendix 1). This is in line with the Committee's role, as defined in the Constitution: *To consider the strategic and annual audit plans, and consider the level of assurance these can give over the Council's corporate governance and risk management arrangements.*
- 3.3. The Audit Committee approve the Council's Internal Audit Charter (Appendix 2) in accordance with the requirements of the Public Sector Internal Audit Standards.

### **4. Detail**

#### **Internal Audit Strategy 2017/18**

- 4.1. Following a review of the Audit and Investigations Shared Service hosted by the London Borough of Ealing it has been decided that the Council will from early in 2017/18 return to an in house service whilst continuing with the strategic partnership with PricewaterhouseCoopers (PwC) which commenced in June 2016.
- 4.2. This Strategy recognises that the Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The role of Internal Audit is to advise the Council as to whether these arrangements are in place and whether they are operating effectively. The Council's response to Internal Audit activity should lead to a strengthening of the control environment and therefore contribute to the overall achievement of the Council's objectives.
- 4.3. The audit strategy and planning process reflects that the audit environment is constantly changing, requiring continuous review and re-evaluation to ensure that emerging risks are identified and assessed and included as appropriate in the

audit plan. Specifically, recognising the unprecedented challenges facing Public Sector finances, the strategy must have in built flexibility to consider:

- Issues of local significance and importance;
- New areas of activity;
- Changes to models for service delivery and partnership working;
- Changing issues and priorities;
- Greatest risks to achievement of the Council' s objectives; and
- The impact of change on existing control structures.

4.4 The purpose of the audit strategy is to establish an approach that will enable internal audit to be responsive to change and managed in a way which will facilitate:

- An understanding of assurance needs to enable the provision to Members and management of an overall opinion each year on the Council's risk management, control and governance framework, to support the preparation of the Annual Governance Statement;
- Audit of the Council's risk management, control and governance systems through an approach which assesses risks to Council objectives and prioritises audits accordingly;
- The identification of audit resources required to deliver an audit service which meets the PSIAS and achieves the required level of audit coverage to enable an opinion to be given on the Council's control environment;
- The identification of other sources of assurance from other assurance providers which can be relied upon to inform the focus of internal audit activity;
- Co-operation and working protocols with the external auditors, KPMG, and any other relevant review bodies to ensure that assurance functions work effectively together; and,
- Identification of responsibilities for providing assurance where services are delivered in partnership.

4.5 Based on the budget available for internal audit work, the strategy and audit work make provision for:

- Sufficient coverage of all major financial systems to provide the necessary audit assurance;
- New systems and emerging high risk areas;
- Audit input within change programmes;
- Cross cutting reviews for a selection of corporate themes which link to the Corporate Risk Register;
- Schools audit coverage will be a combination of thematic reviews on key risk areas, allowing lessons to be learnt across the entire establishment of schools, and some focused probity work on a sample of schools;
- Support for corporate governance, with particular focus on governance issues identified in the Council's annual governance statement, ensuring that proposed actions are taken;
- Follow up reviews to monitor implementation of audit recommendations;
- An element for contingency to enable the audit service to provide ad hoc advice and to respond to management requests for support.

4.6 The internal audit plan is prepared on the basis of a risk assessment which is then compared to the audit resources available. Given the level of audit resources available, it is vital that audit work is planned and focused to ensure an efficient and effective use of resources directed at those areas of greatest risk to the Council. The audits on the plan will be allocated to the part of the service best equipped to deliver the required outcome and assurance whilst ensuring value for money.

#### **Internal Audit Plan 2017/18**

4.7 The Audit Plan continues to focus upon areas of highest risk and is sufficient to provide Members and management with an independent assurance on the adequacy of the Council's internal control framework.

4.8 The main factors taken into account in compiling the Audit Plan have been:

- Risk areas arising from 2016/17 audit work or fraud investigations;

- A review of audit themes against the Council's risk register and corporate objectives;
- Historic knowledge and experience accumulated in Internal Audit;
- Changes to the control environment or legislative changes;
- The evolving Assurance Map of the organisation that was developed in 2016/17;
- Key governance issues identified within the Annual Governance Statement;
- Concerns and emerging risks as identified by Operational Management;
- Discussions with the Departmental Management Teams, consultation with the Corporate Management Team, Section 151 Officer to ensure the inclusion of key service developments planned to be delivered in 2017/18;
- Assurances requested by Members;
- Reports provided by other assurance providers;
- Liaison with peers across London; and
- Horizon scanning of emerging risks and issues for consideration.

4.9 The draft Audit Plan has been circulated to Senior Management, and discussed with, the Corporate Management Team. It has also been shared with the Council's external auditor, KPMG, to ensure that, where possible, the contents reflect areas where they require audit assurance.

4.4. The draft plan contained in Appendix 1 of this report is based on the delivery of a total of 66 various audit and assurance projects. The plan will be delivered through a mixture of in-house provision and the outsourced Strategic Partner. Some projects will be completed together to gain efficiency. It is a challenging audit plan seeking to maximise the assurances available to Management and Members as well as the value for money provided by the service.

4.5. The part of the plan relating to Brent Housing Partnership (BHP) was subject to approval by their Audit Committee on 8 March 2017. This plan will change in year to reflect changes in risk or to avoid unnecessary work by the team, as required subject to pending decisions regarding the future of BHP.

## **5. Internal Audit Charter**

- 5.1 A new Internal Audit Charter has been produced in accordance with the Public Sector Internal Audit Standards. It provides a detailed outline of the role of Internal Audit and how the Strategy and Plan will be delivered whilst ensuring compliance with the standards. The Charter is contained in Appendix 2 of this report.

## **6. Financial Implications**

- 6.1. The proposed Internal Audit Plan for 2017/18 will be delivered in accordance within the existing approved budget.

## **7. Legal Implications**

- 7.1. All Local Authorities are required to make proper provision for Internal Audit in line with the 1972 Local Government Act and Accounts and Audit Regulations 2011 (as amended). The Public Sector Internal Audit Standards 2013, also require proper planning of audit work.

## **8. Diversity Implications**

- 8.1. None

## **9. Background Papers**

- 9.1. None

## **10. Contact Officer Details**

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