

## Internal Audit Plan 2018/2019

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Cabinet Member: Cllr David Hall– Cabinet Member for Resources and Economic Development

Division and Local Member: All

### **1. Summary/link to the County Vision**

- 1.1. Delivery of the County Vision and Business Plan requires strong internal controls across all areas. The Internal Audit Plan is one of the key mechanisms by which the County Council derives its necessary assurance that systems and controls are working effectively.
- 1.2. The proposed Internal Audit Plan for 2018/2019 has gone through a number of officer review processes, such as Governance Board, in order to concentrate resources on those areas where there is particular risk to service delivery.
- 1.3. The internal audit service provided by the South West Audit Partnership Limited (SWAP), works to a Charter that defines its roles and responsibilities, and also the roles and responsibilities of the County Council's managers as they relate to internal audit.

### **2. Issues for consideration**

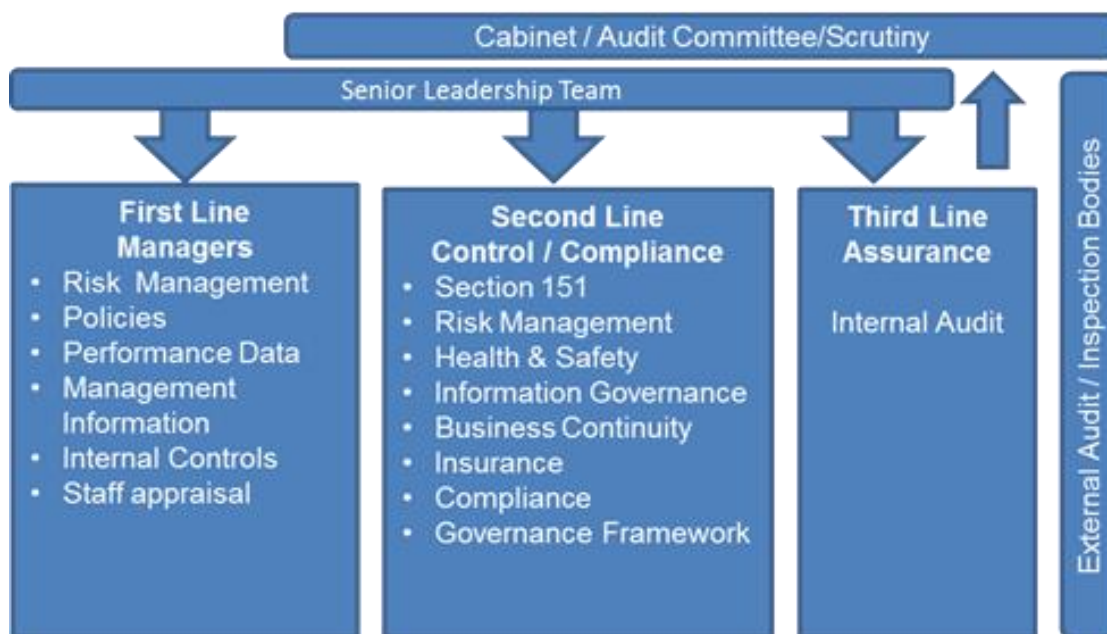
- 2.1. Members are asked to approve the Internal Audit Plan for 2018/2019 (attached as Appendix A), and re-approve the Internal Audit Charter (attached as Appendix B).

### **3. Background**

- 3.1. The Accounts and Audit Regulations require Somerset County Council to have “an adequate and effective system of internal audit” in accordance with “proper internal audit practices”. Responsibility for this rests with the section 151 officer, which at Somerset is the Director of Finance, Legal and Governance. Day-to-day contact with SWAP in delivery of the Internal Audit Plan is delegated to the Strategic Manager – Financial Governance.

- 3.2.** Internal audit (delivered independently through SWAP) is an essential part of the County Council’s governance arrangements. SWAP provide us with independent and objective assurance, systematically evaluating our controls and risks, and contribute towards the proper economic efficient and effective use of our resources (CIPFA). Essentially, our internal auditors should be seen as an aid to members and management to carry out their own respective functions.

There is sometimes a reference to internal audit being the “last line of defence” for an organisation. This is represented below, and it also included our Risk Management Strategy document.



At the end of the financial year, in addition to individual audit reports, we will receive an overall Annual Report and Opinion that will be a key source of evidence for our published Annual Governance Statement.

- 3.3.** “Best practice” also states that an appropriate Committee scrutinises and approves the Internal Audit Plan, and reviews and approves the Charter annually.
- 3.4.** As with 2017/2018, we have a total of 1,400 days available for the internal audit plan. The Chief Executive of SWAP has confirmed that this level is adequate for SWAP’s ability to carry out its statutory role, and would allow the internal auditor to give a formal opinion as usual on our system of internal controls.

It is worth remembering however, that this does not preclude, (in any way), the County Council from asking SWAP to undertake further work, such as grant claims and advice, which could be treated as a chargeable service outside the Internal Audit Plan itself. Nor would this preclude officers from commissioning urgent work from SWAP, if we need specialist assistance, e.g. for any fraud or corruption investigation.

Additional days were added to the 2017/2018 complement by the Director of Finance, Legal and Governance to allow for further investigative work to continue, and to ensure that the Plan itself could still be delivered.

- 3.5.** Best practice for internal audit plans is that they concentrate on the highest risks that a local authority faces at any given time, and there are a number of generally acknowledged factors to consider in setting an internal audit plan.

Amongst these, in particular for Somerset, officers would consider that such key audit risks are currently as follows:-

- An organisation's risk management framework.
- The level of transformational change being undertaken.
- The level of commissioning that is undertaken.
- Informational governance and IT risks.

- 3.6.** There is always a need for flexibility within our Plan:-

- i) Some service areas report concerns during the year that require audit support as a matter of priority. Often, these are requests for assistance from the relevant SCC officer or Senior Leadership Team. This engaged with internal audit is highly encouraged.
- ii) Some audits become unnecessary because another agency is undertaking similar work in the service area, and we can place reliance on their reporting without committing SWAP resources.
- iii) Some audits become untimely and need to be moved around the Plan – for example either delaying them until new processes or IT systems or new legislation has taken place.
- iv) SWAP has been asked to support our anti-fraud work, where we need specialist support for investigations.

The Strategic Manager – Financial Governance has delegated authority to amend the programme at the individual audit level, and any changes to the Plan are reported at the next quarterly Audit Committee.

- 3.7.** The Charter sets out the responsibilities between auditors and management, to ensure that the audit work can be provided effectively and efficiently. There are no changes to responsibilities in the Charter proposed for 2018/2019, as both officers and SWAP believe that it fully meets the expected public sector audit standards for internal audit work.

It is worth remembering that the Charter still gives the Internal Auditor absolute and unequivocal rights of reporting access to wherever in the organisation he or she deems appropriate given the nature of whatever the audit work reveals.

In addition to the Charter, there is also an operational working agreement between SCC and SWAP in the event that an audit is not being progressed sufficiently because of failures of officers who are clienting the audit to act in a timely manner.

There is an escalation process in place if this occurs, with the Strategic Manager – Financial Governance required to unblock the audit, with further referral to the relevant Senior Leadership Team member as a next resort. There is also a formal requirement with SCC's Financial Procedures that SCC officers respond to internal audit in a timely manner.

**3.8.** Somerset County Council has developed a number of criteria that are applied in setting the Internal Audit Plan, which have proved useful in proposing which audits are undertaken. Effectively, by applying these, we are seeking to take a risk-based approach to inclusion. Key criteria are:-

- Do not automatically include “more of the same” audits in each annual plan. Where we have strong assurance from previous internal audits, such as “Substantial Assurance” in the previous plan, or where we have had repeated “Reasonable Assurance” over a period of time, we will place reliance on that opinion.
- Target the maximum resource possible (140 days) towards specialist IT audit work, particularly in light of many of the “Partials” that Audit Committee has seen in recent years. (Members are reminded that the 10% included in the Plan is the most we can include under the agreement with SWAP).
- Target more resources to areas going through major changes in terms of service delivery and structure, as these changes carry inherent risk.
- Target more resources towards larger areas of expenditure within SCC, particularly where they are under significant demographic and budgetary pressures.
- Target work around fraud and governance in line with previous audit reports on these areas, national trends and emerging fraud risks.
- Acknowledge that Grant Thornton will still take assurance from good Internal Audit, but not place reliance on their work and so we can reduce financial systems audits accordingly (where we have had recent strong previous assurance, as above).
- Continue the relationship between Internal Audit resources and Risk Management, with close monitoring of risks through JCAD and management reporting back to Audit Committee following any Partial audits.
- Have enough resources set aside for Follow Up audits to ensure that remedial management actions are completed, in order to provide the Audit Committee with the necessary assurance. (This is critical given the strong approach taken by the Audit Committee on Partials).
- Not to audit areas where others are already providing both good governance and good assurance, such as capital accounting.
- Time audits to be most effective, whether it be in regards to auditee availability, other reviews taking place, or changes within the service itself, such as implementation of new IT systems or processes.
- Maintain and review an active “reserve” list as the year progresses, to allow the Plan to be flexible as necessary and to minimise any loss of days’ service.
- Where possible, to require services who are receiving grants and where the grant needs auditing to pay SWAP directly for the work outside the Audit Plan programme. (This was agreed as an approach by the Audit Committee when a reduction in days was necessary in 2016/2017. It was felt that the service receiving the benefit should pay and that many grants specifically allow for audit costs).
- To incorporate directions from Audit Committee that have arisen from the review of Partials or other agenda items, where members are not comfortable that they have sufficient assurance that areas of the County Council have good governance.
- To take on the views of the Senior Leadership Team and other key officers

as to areas in their service areas where they have concerns or would appreciate audit guidance

- To reduce non-opinion work and concentrate on work that supports the Annual Opinion and risk management approach. (The default is that an audit is an opinion audit unless SWAP and SCC agree otherwise. There is a convention that the first time SWAP review an area, perhaps at a management request, it can be treated as advice and guidance for improvement, but thereafter it is automatically an opinion audit).
- To include the Healthy Organisation report on a bi-annual basis. (The Healthy Organisation report is a substantial piece of work across eight key corporate governance themes - Corporate Governance; Financial Management; Risk Management; Performance Management; Commissioning and Procurement; Programme and Project Management; Information Management; and People and Asset Management. This is a key review carried out across the SWAP partnership to help ensure that there is an adequate governance framework in place. It is proposed that this is run on a 2 year cycle, one year to review and one year for SCC to respond. The Healthy Organisation approach won the inaugural Innovation In Audit award from CIPFA. The Chief Executive is the audit sponsor).

#### **4. Consultations undertaken**

- 4.1. Our SWAP audit lead has spoken to all key senior officers on a 1-2-1 basis about what they would want to see in the Audit Plan, including looking at forthcoming legislative and service provision changes that will affect the controls. The Internal Audit Plan now includes a column that notes the audit sponsor.

#### **5. Implications**

- 5.1. Once the plan has been approved, the Audit Committee will continue to monitor delivery of the Internal Audit Plan, and to review the audit report recommendations, as it has done to date, to ensure that it is delivered to the appropriate standards.

#### **6. Background papers**

- 6.1. Previous SWAP reports to Audit Committee.

**Note** For sight of individual background papers please contact the report author