

**13 June 2018****Agenda Item: 13****REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT &  
IMPROVEMENT****REVISED APPROACH TO INTERNAL AUDIT PLANNING****Purpose of the Report**

1. To propose a revised planning approach for Internal Audit.

**Information**

2. It was agreed by Committee at its meeting in March 2018 to consider alternatives to the current annual approach to the Internal Audit Plan and to bring a recommendation through to the July 2018 meeting. Since considerations have been completed earlier than anticipated, a proposal is set out in this report. If approved, this would enable transition to the revised arrangement to commence as soon as possible.
3. The current, annual approach is mapped out in Appendix 1. This shows the consultation process Internal Audit carries out with senior officers in putting the annual plan together, alongside the timing of progress reporting and the other regular reports the Committee receives from Internal Audit during the year. In presenting a draft annual plan for 2018/19 at the March 2018 meeting, some drawbacks with the current approach were flagged up:
  - Each year, the Annual Plan is implemented flexibly to respond to emerging priorities, and this means that, each year, the list of audits delivered by the end of March can be significantly different to those planned for in April. This suggests that a year perennially proves to be too long a period over which the number and focus of internal audit jobs required can be forecast with a reasonable degree of accuracy. As a consequence, the worth and status of the Annual Plan is diminished.
  - The changing composition of the Annual Plan presents difficulties in terms of monitoring the performance of Internal Audit. The Annual Plan set at the start of the year does not represent a realistic and achievable target for the service as, in effect, it becomes a 'moving target' during the year.

For these reasons, it was agreed that an Internal Audit Plan based around a shorter term may prove more attuned to, and formally recognise, the responsive manner in which the service is delivered.

4. Since the meeting in March 2018, the Head of Internal Audit has considered three alternatives to the annual plan: half-yearly; four-monthly; and quarterly. The proposal presented in this report is for a four-monthly plan, to be termed as a 'Termly Plan'. It is considered that this option fits more readily with the established Committee schedule of meetings, and it strikes an appropriate balance in terms of the additional reporting requirements through to the Committee. Appendix 2 sets out the proposed termly approach.
5. The proposal includes a suggested reduction in the frequency of follow-up reports to the Committee on the implementation of agreed management actions arising from Internal Audit reports. Currently, four updates are presented each year, but the proposal is to reduce this to two. When implementing the revised approach to the follow-up of management actions, the previous year's recommendations were brought in to the process. This initial load of actions have now been cleared, and the process is more settled on a routine flow of new actions into and out of the procedure. Coupled with the very positive levels of evidence coming through that actions are being taken, it is suggested that six-monthly updates will provide for an appropriate interval between updates.
6. It should also be noted from Appendix 2 that the revised approach would necessarily require a continuous process to keep the Audit Planning Risk Assessment up to date. It is, of course, best practice that this should be the case, and under the current arrangements for the Annual Plan, emerging risks are evaluated against existing planned work to determine whether a change in the composition of the Plan is warranted. However, this re-evaluation tends to be completed outside of the more formal and documented consultation process that is currently performed just once a year. The termly approach would require that the Planning Risk Assessment is viewed as a live document for the service, continually refreshed and continually used to identify priorities, and so determine where Internal Audit's resources should be deployed for the best impact. A further outcome from this should be that Internal Audit develops even stronger levels of engagement with senior officers and Members. In this way, the relevance and effectiveness of Internal Audit's input should be bolstered, as its service should hopefully be viewed as responsive and up-to-date with the current risk profile of the authority.
7. The Public Sector Internal Audit Standards (PSIAS) require that the Head of Internal Audit presents a formal, annual report on the work of the service each financial year. The current year's annual report is included on the agenda for this June 2018 meeting. Moving to a rolling, termly arrangement would not remove this requirement, therefore Appendix 2 flags up that the scheduled update report from the Head of Internal Audit in July each year would need to incorporate the requirements of the annual report, most notably to deliver an annual opinion on the effectiveness of the Council's arrangements for risk management, governance and control. In order to deliver this opinion, the Head of Internal Audit will need to ensure that, over the course of each financial year, the three termly plans cover a sufficient number of the Council's core systems and procedures. Many of these systems are likely to be picked up through the termly updates to the Audit Planning Risk Assessment. However, as a safeguard, it is proposed that a number of core systems and procedures will be scheduled for coverage on a periodic basis, rather than on a pure risk basis, with all scheduled to be covered at least once in each three year period. The procedures that are proposed to be treated in this way are the following:

- Corporate governance
- Business continuity
- Counter-fraud & counter-corruption
- Health & safety
- Information governance
- Risk management
- Service planning & performance management
- ICT external assurance
- ICT access controls
- ICT networks
- Learning, development & workforce planning
- Budgetary control
- Commissioning
- Employee controls - recruitment, remuneration, attendance management, etc
- Payment card industry (PCI) compliance
- Procurement to Pay
- Accounting clearing house
- Payroll
- Pensions
- Corporate financial management
- Accounts receivable
- Asset management

8. If approved, the proposal is that the revised termly approach should come into force for Term 2 of 2018/19, ie August 2018 to November 2018, and should continue on a rolling, four-monthly basis thereafter. This would mean that the current Term, April 2018 to July 2018, should be considered a transition period. Consultations with senior officers have already commenced concerning priorities for Term 2, and this would enable a formal proposal for a Term 2 Plan to be brought to the July 2018 meeting of the Committee.

### **Other Options Considered**

9. The Head of Internal Audit considered a half-yearly and a quarterly approach and he sketched out the schedule for these options, in the same vein as those presented in Appendices 1 and 2. The Head of Internal Audit did not favour these alternative options, for different reasons:
- Half-yearly – this is judged not to represent a significant enough shortening of the audit planning period, therefore it would be prone to the same drawbacks as the current annual plan, albeit to a lesser degree.
  - Quarterly – this would be difficult to manage from a scheduling point of view, as the demands in terms of the frequency of reports and consultations with senior officers and Members would be overly burdensome.

### **Reason for Recommendation**

10. To formalise and bolster the flexibility with which Internal Audit conducts its work.

### **Statutory and Policy Implications**

11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION**

- 1) Approval is given for the Internal Audit service to convert to a termly, four-monthly plan, to take effect from August 2018.
- 2) A formal proposal for a Term 2 Plan for 2018/19, for the period August 2018 to November 2018, is presented to the Committee at its next meeting in July 2018.
- 3) The current period, April 2018 to July 2018, is considered a transition period, with the outcome of Internal Audit's work in this period being reported through to the Committee.

**Nigel Stevenson**

**Service Director – Finance, Procurement & Improvement**

**For any enquiries about this report please contact:**

Rob Disney

Head of Internal Audit

### **Constitutional Comments (KK 15/5/18)**

12. The proposals in this report are within the remit of the Governance and Ethics Committee.

### **Financial Comments (SES 16/05/18)**

13. There are no specific financial implications arising directly from this report.

### **Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

### **Electoral Division(s) and Member(s) Affected**

- All