

14 March 2018**Agenda Item: 7****REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT AND
IMPROVEMENT****INTERNAL AUDIT PLAN – 2018/19****Purpose of the Report**

1. To consult with Members on the Internal Audit Plan for the 2018/19 financial year.

Information and Advice

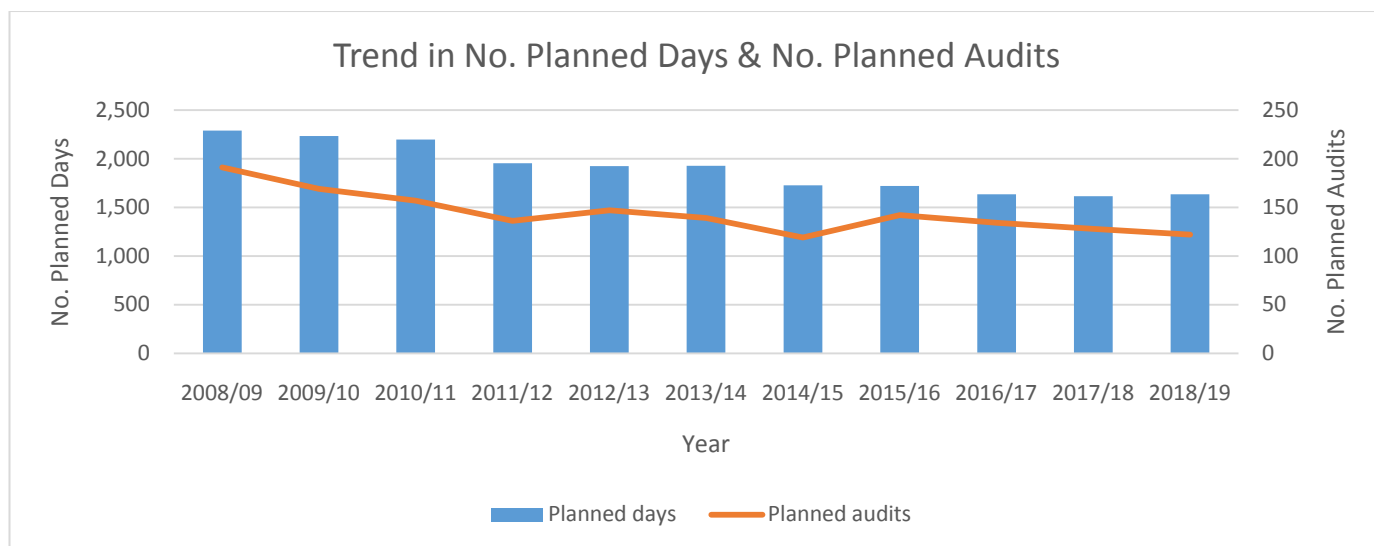
2. Internal Audit is defined as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The role of Internal Audit is to provide management with an objective assessment of whether its systems and controls are working properly. It provides an independent and continuous appraisal of the Authority's activities and in particular focuses on the internal controls established by the organisation's managers.
3. The Public Sector Internal Audit Standards (PSIAS) require the chief audit executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. As part of the planning process, account is taken of external sources of assurance, including the work of external inspectorates. Where audits are planned, pre-audit work will also include discussion with managers over sources of assurance that can be relied upon, to prevent duplication. Members are also aware from the previous meeting in February 2018 that a pilot approach to assurance mapping in 2018/19 will be an important source of information for Internal Audit's plan. As this pilot progresses, any significant implications for Internal Audit's planned coverage next year will be identified.
4. The attached Audit Plan has been compiled in accordance with PSIAS and sets out the proposed coverage of the Authority's systems and procedures which deliver the Council's priorities. The Plan represents the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its accounting records and its system of internal control. The Section's aim is to complete sufficient work to express an overall view on the adequacy and effectiveness of the Authority's internal control systems.

5. The Annual Plan is based on an Audit Needs Assessment to identify the priorities for audit coverage. Each area of activity in the Council is assessed in terms of the following factors:
- Value and volume of transactions involved with the activity
 - The known level of internal control in place (from previous audits)
 - The value of cash and bank transactions
 - The relative complexity of the activity
 - Whether the activity is stable or subject to change
 - How sensitive the activity is for the Council among its key stakeholders
 - The number of sites where the activity is carried out
 - The number of years since the previous audit
- Using an established system of scoring and weighting the above factors, the Needs Assessment arrives at a high/medium/low risk-rating for each area of activity.
6. The outcomes of the Audit Needs Assessment, and the proposed audit coverage, were discussed between January and March 2018 at departmental leadership teams and with the Corporate Leadership Team. As part of this, more detailed consultations took place with Service Directors and their management teams.
7. This work of Internal Audit is important in enabling the County Council's External Auditors to form a view on the overall adequacy of the Council's financial controls, which in turn supports their assessment of whether the County Council's annual statement of accounts gives a "true and fair view". The work is also a key contributory factor in the preparation of the Council's Annual Governance Statement, and it will make a significant contribution to the assurance mapping process in 2018/19.
8. A detailed breakdown of the 2018/19 Plan is shown in **Appendix 1**, and in summary below.

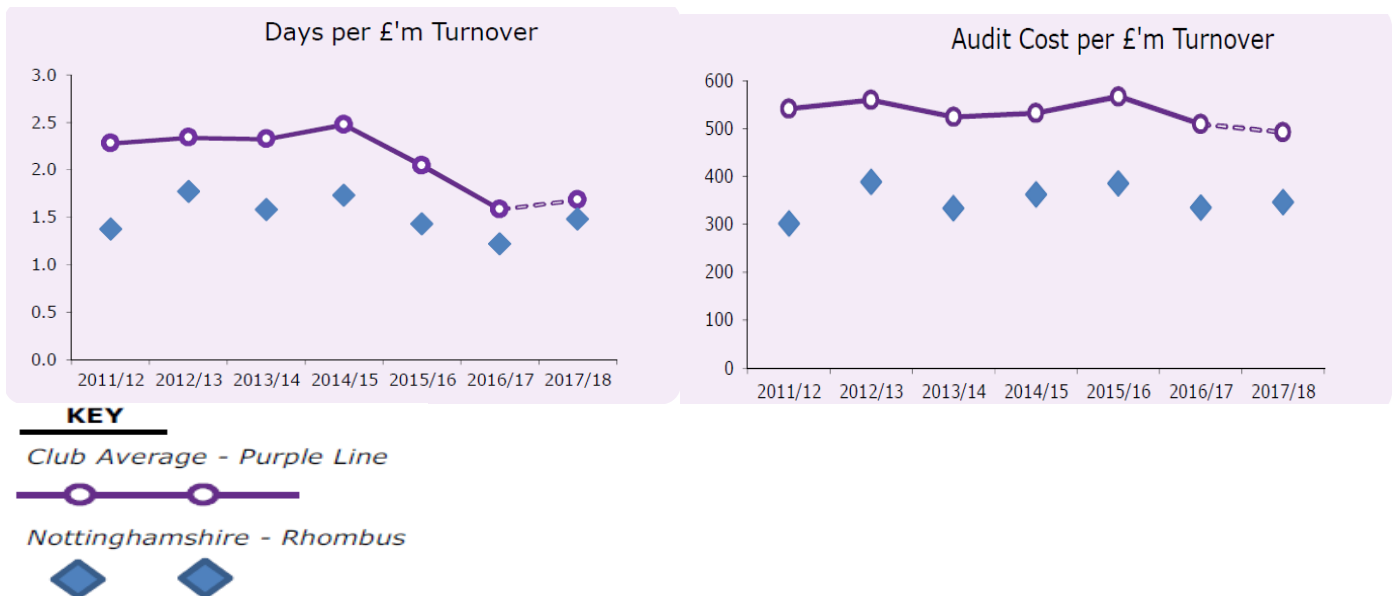
Department	Days	Number of Audits			
		High Priority	Med Priority	Other	Total
Council-wide	346	11	2	4	17
Children & Families	123	1	6	1	8
Adult Social Care & Health	265	3	13	-	16
Place	177	6	3	4	13
Resources	245	10	5	-	15
Contingency (for investigations)	150				
Total County Council (excl. schools)	1306	31	29	9	69
Schools (estimated buy-back & follow-up audits)	327		53		53
Total County Council	1633	31	82	9	122
External Clients (Notts Fire & Rescue Service)	102				
Grand Total	1735				

9. As can be seen from the table, a total of 1,735 days are planned for 2018/19 of which 1,633 (94%) will be spent on the Authority's systems and procedures. The remaining 102 days will be spent on external contracts, providing an internal audit service to Nottinghamshire Fire and Rescue Service. The costs incurred in delivering external contracts are fully recovered. Progress against the plan will be reported to the Governance & Ethics Committee and the Corporate Leadership Team on a regular basis.

10. With regard to schools, Nottinghamshire’s Scheme for Financing Schools requires all local authority maintained schools to have an internal audit once every five years. In 2018/19, a total of 54 schools are due an internal audit. The Council’s Internal Audit Service offers to deliver these audits on a buy-back basis, and the final buy-back rate only becomes clear towards the end of March. At this stage, therefore, the planned resource requirements for schools are based on estimates, plus the number of follow-up visits due in 2018/19 to track agreed actions in schools for which only limited assurance was provided from the 2017/18 audits.
11. The Audit Plan is implemented flexibly, and will continue to change to ensure that any emerging priorities during the year are addressed. As indicated above at paragraph 3, there is the particular potential for this to be a factor in 2018/19 due to the assurance mapping pilot. In recognition of this, the Chairman of the Governance & Ethics Committee and the Head of Internal Audit have recently discussed the drawbacks of the current annual planning approach, most notably in relation to the difficulties it presents for performance monitoring. An annual plan is proving too long a term over which the number and focus of internal audit jobs required can be can forecast with a reasonable degree of accuracy. A plan on based around a shorter term may prove more attuned to the responsive manner in which the service is delivered. A revised approach will be considered further with the Chairman, with a view to presenting a proposal to the Committee in July 2018.
12. The chart below shows the trend in the number of planned days (blocks) and the number of planned audits (trend line) in recent years. The plan for 2018/19 shows a similar number of days and jobs to that in 2017/18.



13. The Plan should maintain the extent of audit coverage of the Council’s activities at a comparable level to previous years. The Section participates in the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking club for internal audit services. Extracts from the latest benchmarking report for 2017 show the Council’s Internal Audit Section is below the comparator average both in terms of the number of days per £1m of expenditure and in terms of the cost of the Internal Audit service per £1m of the Council’s turnover.



Other Options Considered

14. The Council is required under statute to maintain an adequate and effective internal audit service. The production of a risk-based plan is an important element of PSIAS. The standards and statutes are not prescriptive in terms of the content of the plan. The proposal in this report represents the Head of Internal Audit’s assessment of the required coverage for the Council in 2018/19.

Reason/s for Recommendation/s

15. To propose the planned coverage of Internal Audit’s work in 2018/19 and to provide Members with the opportunity to make suggestions for its content.

Statutory and Policy Implications

16. 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. Individual audits in the proposed Audit Plan may potentially have a positive impact on many of the above considerations.

RECOMMENDATION

1) That Members endorse the planned coverage of Internal Audit’s work in 2018/19, and the proposal for a revised approach to planning to be presented to the Committee in July 2018.

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For any enquiries about this report please contact:

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Constitutional Comments (KK 27/02/2018)

17. The proposal in this report is within the remit of the Governance and Ethics Committee.

Financial Comments (RWK 26/02/2018)

18. There are no specific financial implications arising directly from the report.

Background Papers

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.