

South Lakeland District Council
Audit Committee
21st July 2016
INTERNAL AUDIT ANNUAL PLAN 2016-17

PORTFOLIO:	Not applicable
REPORT FROM:	Shelagh McGregor – Assistant Director Resources & Section 151 Officer
REPORT AUTHOR:	Peter Harrison – Director TIAA Limited
WARDS:	Corporate matter
KEY DECISION:	Not applicable

1.0 EXPECTED OUTCOME

1.1 Internal Audit is required, under the mandatory Public Sector Internal Audit Standards (PSIAS), to prepare an annual risk based audit plan for approval by the Audit Committee.

2.0 RECOMMENDATION

2.1 It is recommended that the Audit Committee:

- (1) Approves the Internal Audit Annual Plan 2016-17 which is attached at Appendix 1.**
- (2) Approves the Internal Audit Charter which is attached at Appendix 2.**

3.0 BACKGROUND AND PROPOSALS

3.1 The Chartered Institute of Internal Auditors describes internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. Internal audit helps the Council to achieve its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.”

3.2. The Accounts and Audit Regulations requires the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Proper Practices are now defined within the Public Sector Internal Audit Standards (PSIAS) which became mandatory for all UK public sector internal auditors from 1st April 2013.

- 3.3. The PSIAS affirm the need for annual risk based audit plans to be developed in order that the Head of Internal Audit can form an annual opinion on the Council's systems of risk management, governance and internal control.
- 3.4. The draft Internal Audit Annual Plan attached at Appendix 1 has been prepared following review of corporate documents including the Council's Corporate Risk Register, corporate plans and recent internal audit coverage. There has also been consultation with the Council's senior management team, whose input has helped to determine those areas where it is considered that Internal Audit can add the greatest value.

4.0 INTERNAL AUDIT SERVICE DELIVERY

- 4.1. The PSIAS require that the Internal Audit plan sets out a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.
- 4.2. Internal Audit for South Lakeland District Council is delivered by TIAA Limited under a contractual arrangement for three years commencing 1st April 2016.
- 4.3. Internal Audit supports the delivery of the Council Priorities as set out in the Council Plan by providing independent assurance over the arrangements in place across the Council to deliver priorities and objectives.
- 4.4. It is a requirement of the PSIAS that the Council has an Internal Audit Charter which has been approved by senior management and the Audit Committee. The Charter, which is attached as Appendix 2, sets out the arrangements for the delivery of the Internal Audit service to South Lakeland District Council (the Council).

5.0 ROLES OF MANAGEMENT AND OF INTERNAL AUDIT

- 5.1. It is the role of management to establish effective systems of governance, risk management and internal controls in order to:
- safeguard the Council's resources and prevent fraud;
 - ensure the completeness and reliability of records;
 - monitor adherence to laws, regulations, policies and procedures;
 - promote operational efficiency demonstrate the achievement of value for money; and
 - manage risk.
- 5.2. It is the responsibility of management to establish the checks and balances needed to confirm that their systems are working effectively, that all information within them is accurate, that they are free from fraud or error.
- 5.3. Internal audit's role is to provide assurance that management are undertaking the appropriate checks over their systems to confirm that they are working effectively. It is not the role of internal audit to re-perform management's checks or to undertake such checking on management's behalf.

- 5.4 In order to safeguard its independence, Internal Audit does not have any operational responsibilities and is not responsible for any of the decision making, policy setting or monitoring of compliance within the Council.

6.0 INTERNAL AUDIT RESOURCES

- 6.1 The Director of Resources (S151 Officer) has contracted with TIAA Limited to deliver 190 days of Internal Audit time in 2016-17. This is deemed a sufficient number of audit days in which to provide an opinion on the systems of governance, risk and internal control in line with the PSIAS and in order to support the preparation of the Annual Governance Statement.
- 6.2 The PSIAS also reflect the requirement for internal audit plans to be flexible in order to respond to new and emerging risks to the organisation. The Plan will be subject to regular review to ensure it remains appropriate and may be subject to revision. In this event, revisions would be considered and agreed by the Assistant Director of Resources and reported to the Audit Committee, including the need for any additional audit resources if appropriate. Any request for significant consulting activity by Internal Audit would be approved by the Audit Committee in line with the requirements of the PSIAS.

7.0 CATEGORIES OF INTERNAL AUDIT WORK

- 7.1 **Corporate Reviews** – these are reviews which are strategic in nature or which cut across the entire Council. These reviews are designed to provide assurance that the Council has effective governance and risk management arrangements to mitigate strategic risks.
- 7.2 **Departmental Risk-Based Audit Reviews** – these reviews have been identified in consultation with senior management and following review of corporate plans and the Corporate Risk Register. These reviews are spread across service areas following a risk assessment to ensure that Internal Audit resources are targeted at the areas where the greatest benefit will be achieved.
- 7.3 **Financial System Reviews** – A three-year programme has been devised which will ensure that each main financial system is reviewed in depth at least once every three years.
- 7.4 **Governance System Reviews** – a provision is included for cyclical reviews of key governance systems. These are performance management, risk management and compliance with local code of corporate governance.
- 7.5 **Computer Audit** – the Plan includes provision for computer audit work which will provide assurance over the technical controls in place for key IT systems and processes.
- 7.6 **Audit Management, Advice and Guidance** – capacity has been built into the Plan for audit management, planning and reporting. This also includes some provision for formal advice and guidance to all services across the Council.

7.7 The follow up of previous audit requirements is a key requirement of the Public Sector Internal Audit Standards to provide assurance on the successful implementation of agreed recommendations. Where an audit has received a lower level assurance rating (i.e. partial or limited assurance) in the previous year, Internal Audit will now undertake a formal follow up of the management actions which have been undertaken to address the agreed audit recommendations; this will include formal interviewing, audit testing and reporting to provide senior officers and members with the required independent assurance that key areas for improvement address have been addressed.

8.0 ALTERNATIVE OPTIONS

8.1 The production of a risk based audit plan is a key requirement of the PSIAS. There are no alternative options.

9.0 LINKS TO COUNCIL PRIORITIES

9.1 Internal Audit supports the delivery of the Council Priorities as set out in the Council Plan by providing independent assurance over the arrangements in place across the Council to deliver priorities and objectives.

10.0 IMPLICATIONS

10.1 Financial and Resources

10.1.1 There are no direct financial implications to this report. The Audit Plan can be delivered within the agreed Internal Audit contract fee.

10.2 Human Resources

10.2.1 There are no direct staffing implications arising from this report.

10.3 Legal

10.3.1 There are no legal implications arising from this report.

10.4 Health, Social, Economic and Environmental

Have you completed and Health, Social, Economic and Environmental Impact Assessment?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If you have not completed an Impact Assessment, please explain your reasons.	This proposal is considered to be neutral in terms of Health, Social, Economic and Environmental impacts.	

10.5 Equality and Diversity

Have you completed an Equality Impact Analysis?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If you have not completed an Impact Assessment, please explain your reasons.	This proposal is considered to be neutral in terms of Equality and Diversity impacts.	

10.6 Risk

Risk	Consequence	Controls required
<p>Internal Audit coverage does not address the high risk areas of Council activity.</p> <p>Non-delivery of the agreed Audit Plan.</p> <p>Unplanned work which arises in year which requires audit attention.</p>	<p>The Council does not receive adequate assurance over the internal control environment.</p> <p>The Council would be more vulnerable to risk.</p> <p>Potential breach of the statutory requirement to maintain an adequate and effective system of internal control.</p>	<p>Risk based annual audit planning.</p> <p>Regular progress reporting to senior management and Audit Committee each quarter.</p> <p>A degree of flexibility in the Plan to accommodate unplanned work.</p>

CONTACT OFFICERS

Peter Harrison, Director, TIAA Limited.

Telephone: 07970 376542. Email: peter.harrison@ttaa.co.uk

APPENDICES ATTACHED TO THIS REPORT

Appendix No.	
1	Internal Audit Annual Plan 2016-17
2	Internal Audit Charter

TRACKING INFORMATION

Assistant Director	Portfolio Holder	Solicitor to the Council	SMT	Scrutiny Committee
07/07/2016	n/a	n/a	07/07/2016	n/a
Executive (Cabinet)	Committee	Council	Section 151 Officer	Monitoring Officer
n/a	21/07/2016	n/a	07/07/2016	07/07/2016
Human Resource Services Manager	Leader	Ward Councillor(s)		
n/a	n/a	n/a		