

# The Internal Audit Strategy Statement & Annual Plan 2016/17

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## Introduction

1. The Internal Audit & Risk Service for Gateshead Council plays an essential role in supporting the Council to achieve its objectives and outcomes. The Annual Audit Plan for 2016/17 has been formulated from a review of the major risks that the Council faces. The plan therefore focuses on areas where we can add the most value and provide assurance that the Council's risks are being properly managed. The Service's objective is to promote and champion sound governance and effective and efficient internal controls throughout the Council and to provide objective assurance by ensuring key business controls are operating as planned and value for money is being achieved to support delivery of the Council Plan and Vision 2030.
2. The Council's internal audit function is provided by the Internal Audit & Risk Service which is based within the Corporate Finance Service within Corporate Resources.

## Purpose

3. This document sets out Internal Audit's Strategy and Annual Audit Plan for Gateshead Council for the financial year 2016/17.
4. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
  - Meet the requirements of the Public Sector Internal Audit Standards (PSIAS) that require the Chief Internal Auditor to produce a risk based annual plan taking into account the need to give an independent annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control;
  - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015;
  - Ensure effective audit coverage and provide a mechanism to deliver independent and objective assurance in particular to the Audit and Standards Committee and Senior Managers.
  - Identify the key risks facing the Council that could prevent it from achieving its objectives and determine the corresponding level of audit resources required to assess mitigating controls.
  - Add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money.
  - Support the Strategic Directors of Corporate Resources and Corporate Services and Governance in fulfilling their obligations as the Council's Section 151 and Monitoring Officers respectively.

## Key Outputs Statement

5. The Internal Audit & Risk Service will deliver key responsibilities as follows:
  - To provide ongoing assurance to management on the Council's control environment comprising systems of governance, risk management and internal control;
  - To support the Council's values and expected standards of behaviour;
  - To be responsive to transformational change and service demands;
  - To work together with the Council's external auditors to ensure reliance can always be placed on audit work where appropriate;
  - To continue to develop joint working relationships with other related regional and national groups and bodies;
  - To embed the integration of internal audit work with governance and service improvement and produce a clearly co-ordinated risk-based approach to the audit of business systems across the Council;
  - To ensure agreed management actions to audit recommendations made are fully implemented;
  - To deliver the statutory requirements of the Accounts and Audit Regulations 2015;
  - To continue to develop and have a lead role in the Council's corporate governance arrangements including their review and the production of the Annual Governance Statement;
  - To provide an effective corporate counter fraud & corruption service and response in accordance with the Council's Counter Fraud & Corruption Policy and the Local Government Fraud Strategy - "Fighting Fraud and Corruption Locally".

## Key Characteristics of the Annual Plan

6. Having regard to the current risk profile of the Council, the following main areas have been included in the Annual Plan for 2016/17:

### Scale and Pace of Change

7. The scale and pace of change of the financial challenge continues to have a significant impact on the Council. Changes have taken place in the Council's structure with ongoing activity to identify and deliver savings across all areas of Council services including a significant Change Programme. The implementation of changes and public service reform with a reduced workforce and reduced funding, whilst delivering business as usual and achieving priorities remains a key challenge and risk for the Council during 2016/17 and beyond.
8. Internal Audit cannot manage risks directly; however, it can play an important role by developing a flexible audit approach and a dynamic plan to address emerging risks as well as those risks yet to be identified. This is particularly relevant for 2016/17 as changes are agreed through the Change Programme with detailed work ongoing to confirm how these will be delivered.

9. As such, there are areas where Internal Audit work cannot be fully defined at this stage but where allocation of resources are required to help support good governance, risk management and control. Rather than define specific audits, the plan includes allocations of work which will be applied to specific aspects of audit activity throughout the year based on on-going consultation with Service Directors to reassess key risks. Examples include call-off hours allocated to each Strategic Group, the Change Programme and the Digital Strategy.
10. Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The significant reduction in the workforce for example provides a potential for breakdown in controls as well as an opportunity to consider alternative more efficient ways of organising people, systems and processes without impacting negatively on the control environment. To reflect this, the draft plan includes time for advice and consultancy and developing systems support to officers to support and challenge them in the establishment and development of their systems of governance, risk management and internal control. An important distinction is that Internal Audit's work will be challenging and advisory, rather than design of controls which are a management responsibility.
11. The plan also includes time for audits brought-forward from 2015/16 for completion in early 2016/17 to allow for the finalisation of workload that spanned year-end.
12. The challenge is to ensure that there is a balance between responding to these risks and ensuring that there is sufficient coverage of key systems. The Audit Plan must balance the need to:
  - Provide assurance on the effectiveness of internal controls operating within the Council.
  - Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
  - Allow for the Internal Audit Service to offer advice and guidance on control and efficiency issues.
  - Investigate suspected or detected frauds or irregularities.
  - Provide time to allow the Internal Audit Service to carry out unplanned or consultancy work requested by Service Directors.
13. The continued pace of change across the Council requires assurance that is prioritised and timely and the plan must provide for this assurance to enable remedial action or controls to be implemented in a timely manner. Based on experience and feedback from Service Directors, there is a need for shorter, more focused and practical audits in areas of emerging risk. Regular attendance at Group Management Teams and close liaison with Business Partners will facilitate a continuous review process to ensure the plan remains relevant.

## 2016/17 Annual Planning Process

14. The approach to audit planning in the Council for 2016/17 has been based on the following:

- The Council's priorities;
- The risks documented in the Council's strategic and operational risk registers;
- Consultation with Service Directors and the external auditors;
- Changes in legislation;
- The scope of planned external audit work;
- The implications of external inspection reports;
- Findings and outcomes from audit and investigation work in 2015/16 and earlier years;
- Consultation with colleagues across the region;
- Time elapsed since the previous audit; and
- The availability of resources.

15. The audit plan has been mapped to the Strategic Risk Register. As reported elsewhere on the agenda, this is being reviewed to ensure it is relevant and covers all the key risks facing the Council. Once this is finalised, the audit plan will be revisited to ensure appropriate coverage of strategic risks.

16. Once this information has been analysed the perceived level of risk for each audit area is assessed based on thirteen areas taking into account such factors as materiality, complexity, potential for fraud and sensitivity. Based on a score derived from these assessments audits are categorised as either high, medium or low priority which dictates where they will be audited within a 3-year cycle. High priority areas are audited on an annual basis. On completion of each audit, the risk profile is revisited to ensure it remains up to date.

17. The audit plan for 2016/17 is based on resources of 12.3 full time equivalent employees (FTE) (12.4 FTE's for 2015/16). Auditor's time has been allocated on the basis of an estimate of 69% productive hours after allowing for non-productive time including annual leave, sickness absence and training.

18. On this basis, the plan for 2016/17 has been broken down into 16,435 productive hours (16,745 productive hours for 2015/16) as shown below in paragraph 22.

### Plan Structure

19. Based on the above, the Chief Internal Auditor considers that assurance is best obtained through a combination of different "types" of audits. This is not an uncommon approach but reflects a changing emphasis for the approach to the plan tailored to the specific needs of the Council during a period of significant change.

20. There are five different types of audit activity in the plan:

- **Assurance review** – to provide assurance that systems and controls are operating as intended and defined by risk profiles of each audit area. The risk based approach also takes into consideration the views of Service Directors.
- **Advice and Consultancy** – early involvement of Internal Audit in new initiatives, ways of working or systems, particularly through periods of significant change, can help to maintain a robust control environment.
- **Key systems** – assurance on core financial systems that are considered high risk requiring regular assurance. This work is important in providing annual assurance to the Council and to support the requirements of the Council’s external auditors.
- **Grant Certification** – assurance on grant returns and compliance with grant determinations.
- **Investigation** – proactive and reactive audit work on counter fraud and irregularity issues.

21. A balanced approach of using different types of audit and other work is considered the most effective way to deliver the Strategy for Internal Audit.

## Plan Content

22. Following the planning process outlined above and the principles of the PSIAS, a draft plan has been developed. As outlined, the plan needs to remain flexible and will be subject to continuous review in consultation with Service Directors and the Audit and Standards Committee. A summary of the draft plan is shown below with further detail in Appendix 1.

<b>Groups and Services</b>	
Care, Wellbeing and Learning	1,714
Communities and Environment	1,662
Corporate Resources	1,085
Corporate Services and Governance	802
Office of the Chief Executive	1,075
Schools	959
Key Systems	1,914
<b>Corporate</b>	
Counter Fraud	1,100
Grant Certification	425
Audit Planning and Management	1,435
<b>External Bodies</b>	
Gateshead Housing Company	1,575
Northumbria Police	2,690
<b>Total Productive</b>	<b>16,435</b>
Non-productive	7,304
<b>Total Hours</b>	<b>23,739</b>

<b>Audit Type</b>	<b>Audit Hours</b>
Advice and Consultancy	1,670
Assurance Review	5,876
Key Systems	1,864
Grant Certification	425
Investigation	900
Audit Planning and Management	1,435
Non-productive	7,304
<b>Total Council Plan</b>	<b>19,474</b>
<b>External Bodies</b>	
Gateshead Housing Company	1,575
Northumbria Police	2,690
<b>Total Hours</b>	<b>23,739</b>

23. Audit Planning and Management covers other audit activities including involvement in corporate initiatives, preparation of audit committee reports, audit planning, preparation of the Annual Governance Statement, liaison with the external auditors and development and support for new financial and internal audit management systems.

## How the service will be provided

24. Internal audit provision is delivered by the in-house team supplemented by a joint working arrangement with Newcastle Council for ICT auditing. This arrangement will be kept under review on an annual basis.

25. In order to deliver the Annual Audit Plan at the required quality and professionalism, the team undertaking internal audit activity have the required mix of skills and experience. All internal audit staff are either fully qualified CCAB Accountants, qualified Association of Accounting Technicians or studying for professional qualifications.

26. Professional judgement has been applied in assessing the level of resources required to deliver the Annual Audit Plan. The level of resource applied is a product of:

- The complexity of the areas to be reviewed;
- Factors such as number of locations, number and frequency of transactions; and
- Assurance that can be brought forward from previous audits and other internal and external reviews carried out.

27. Staff development needs are continually assessed to ensure that the optimal level and mix of skills required to deliver a highly professional and added value internal audit function is maintained.

## Performance Management

28. The standards for 'proper practice' in relation to internal audit are laid down in the PSIAS and compliance with these professional standards will be ensured through a combination of internal and external reviews of compliance and quality. The outcome of external assessment against PSIAS was reported to the Audit and Standards Committee on 26 January 2015. A number of actions were identified and will be continuously reviewed and reported to the Audit and Standards Committee. Further examples include:

- Internal self assessments by the Chief Internal Auditor.
- Customer satisfaction questionnaires.
- Annual CIPFA benchmarking information.
- External assessment every 5 years by a recognised, qualified and independent assessor.

29. To achieve the planned coverage for 2016/17, deliver a high standard of customer care and demonstrate effectiveness of the service, the internal audit function has well established internal performance targets based on best professional practice. The following indicators will be reported to the Committee:

Performance Indicator	Target
Productive (Chargeable) time as a % of overall time	69%
Number of planned audits completed  Whilst this will be measured, the approach to the plan in 2016/17 is flexible and continuous review of the risks may mean changes are required to redirect resources to emerging risks	90% (annual)
Actual hours against planned hours achieved in 2016/17	97.25%
Number of audit recommendations implemented: High Medium	100% 90%
Audits completed within agreed time (budgeted hours)	90%
Customer satisfaction: Issued Returned Average score (maximum 4)	100% 100% 3.4 (85%)
Average cost per chargeable day	Lower than average



## Appendix 1

<b>Care, Wellbeing and Learning</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy		50
	<b>Total Advice and Consultancy</b>		<b>50</b>
<b>Assurance Review</b>	Youth Offending Team	Low	40
	Youth and Community Learning	Medium	100
	Fostering Services	High	80
	Children's Care Homes	Medium	40
	Primary Care Contracts	New	100
	Adoption Services	High	80
	Safeguarding - Adult Services	High	100
	Adaptations	Medium	100
	Promoting Independence Centres	Medium	30
	Annual Governance Statement Follow Up	High	30
	Social Enterprises	Low	70
	Direct Payments and Individual Budgets	High	100
	Pooled Budgets and the Better Care Fund	New	150
	Inspection Team	Medium	100
	Independent Supported Living Schemes	Low	50
	Public Health - Commissioning of Internal Services	New	100
	Commissioning Adult Services	High	100
	Commissioning of Children's Services	High	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2015/16		144
	<b>Total Assurance Review</b>		<b>1,664</b>
<b>Total Audit Hours</b>			<b>1,714</b>

<b>Communities and Environment</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy		50
	<b>Total Advice and Consultancy</b>		<b>50</b>
<b>Assurance Review</b>	Economic Growth	New	60
	Commercial Contracts	New	120
	Licencing	Low	100
	Trading Standards Annual Accounts	High	25
	Transport Strategy	Medium	75
	Waste Collection and Disposal	Medium	100
	Facilities Management	New	50
	Housing Company Monitoring	Medium	70
	Council Housing	Medium	70
	Commercial house building	Medium	50
	Resilience Planning	Low	40
	Services to Schools	Low	60
	Hire of Plant and Equipment	Low	70
	Quality Inspection	Low	30
	Vehicle Trackers	New	60
	Repairs and Maintenance contract	New	100
	Capacity Building Fund	New	75
	Volunteering	Low	60
	Housing Joint Venture	New	70
	Trading Company	New	80
	Audit Follow Up Contingency		50
	Audits brought forward from 2015/16		197
	<b>Total Assurance Review</b>		<b>1,612</b>
<b>Total Audit Hours</b>			<b>1,662</b>

<b>Corporate Resources</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy		150
	Agresso Cloud	New	40
	Digital Change	New	150
	<b>Total Advice and Consultancy</b>		<b>340</b>
<b>Assurance Review</b>	Wireless Security	New	80
	Data Centre Maturity	New	80
	Digital Gateshead Programme	New	80
	Network Design	New	80
	Joint Finance-Care Packages	Medium	40
	Fees and Charges	High	40
	Insurance	Medium	70
	School Budget Support	Low	50
	Trinity Square	New	60
	Audit Follow Up Contingency		50
	Audits brought forward from 2015/16		115
	<b>Total Assurance Review</b>		<b>745</b>
<b>Total Audit Hours</b>			<b>1,085</b>

<b>Corporate Services and Governance</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy		50
	<b>Total Advice and Consultancy</b>		<b>50</b>
<b>Assurance Review</b>	Elections	Medium	60
	Litigation	Medium	60
	Training and Development	Low	50
	Bereavement Services	Low	70
	Corporate Procurement	Medium	100
	Property Management	Medium	30
	Corporate Asset Management	Medium	80
	Mayor's Charity Fund	High	15
	Complaints	Low	60
	Health and Safety	Low	60
	Audit Follow Up Contingency		50
	Audits brought forward from 2015/16		117
	<b>Total Assurance Review</b>		<b>752</b>
<b>Total Audit Hours</b>			<b>802</b>

<b>Office of the Chief Executive</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy		50
	Change Programme: - Ways of Working - Trading - People - Place - General/Cross-cutting	New	150 150 150 150 150
	<b>Total Advice and Consultancy</b>		<b>800</b>
<b>Assurance Review</b>	Communications	Medium	60
	Performance Indicators and Data Quality	Low	60
	Partnership Arrangement	High	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2015/16		5
	<b>Total Assurance Review</b>		<b>275</b>
<b>Total Audit Hours</b>			<b>1,075</b>

<b>Schools</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	Advice and Consultancy		130
	<b>Total Advice and Consultancy</b>		<b>130</b>
<b>Assurance Review</b>	School Audits	Low	530
	Audit Follow Up and Additional Contingency		200
	Audits brought forward from 2015/16		99
	<b>Total Assurance Review</b>		<b>829</b>
<b>Total Audit Hours</b>			<b>959</b>

<b>Key Systems</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy		50
	<b>Total Advice and Consultancy</b>		<b>50</b>
<b>Key Systems</b>	Corporate Payroll and Human Resources	High	150
	Corporate Debtors and Income	High	120
	Corporate Creditors	High	120
	NNDR and Council Tax	High	150
	BACS Bureau	High	40
	Council Tax and Housing Benefits	High	150
	Budgetary Control	High	40
	Main Accounting System	High	70
	Capital Accounting System and Programme	High	80
	Risk Management and Business Continuity	High	150
	Counter Fraud Arrangements	High	80
	Housing Revenue Account (HRA)	High	80
	Treasury Management	High	50
	Annual Governance Statement Assurances	High	100
	VAT Arrangements	High	40
	Service Debtors	High	80
	Service Creditors	High	80
	Audit Follow Up Contingency		50
	Audits brought forward from 2015/16		234
	<b>Total Key Systems</b>		<b>1,864</b>
<b>Total Audit Hours</b>			<b>1,914</b>

<b>Counter Fraud</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	Advice and Consultancy		200
	<b>Total Advice and Consultancy</b>		<b>200</b>
<b>Investigation</b>	National Fraud Initiative	High	250
	Proactive Counter Fraud Work	High	150
	Investigations	High	500
	<b>Total Investigation</b>		<b>900</b>
<b>Total Audit Hours</b>			<b>1,100</b>

<b>Grant Certification</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Grant Certification</b>	Grant Certification Contingency	High	150
	School Fund Audit Certification	High	275
	<b>Total Grant Certification</b>		<b>425</b>
<b>Total Audit Hours</b>			<b>425</b>