

The Internal Audit Strategy Statement

& Annual Plan 2017/18

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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 2017/18 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 2017/18.
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; and
 - Support the Strategic Directors of Corporate Resources and Corporate Services & 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 the review and the production of the Annual Governance Statement; and
- 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 2017/18:
 - 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 2017/18 and beyond.
 - 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 2017/18 as changes are agreed through the Change Programme with detailed work ongoing to confirm how these will be delivered.
 - 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 and the Change Programme.
 - 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.

- The plan includes more time this year to reflect the work the Corporate Counter Fraud Team will be doing in relation to developing and embedding the Council's counter fraud arrangements and also work to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.
- The plan also includes time for audits brought-forward from 2016/17 for completion in early 2017/18 to allow for the finalisation of workload that spanned year-end.
- 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:
 - a. Provide assurance on the effectiveness of internal controls operating within the Council.
 - b. Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
 - c. Allow for the Internal Audit Service to offer advice and guidance on control and efficiency issues.
 - d. Investigate suspected or detected frauds or irregularities.
 - e. Provide time to allow the Internal Audit Service to carry out unplanned or consultancy work requested by Service Directors.
- 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. Close liaison with Business Partners who regularly attend Group Management Team meetings will facilitate a continuous review process to ensure the plan remains relevant.

2017/18 Annual Planning Process

7. The approach to audit planning in the Council for 2017/18 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 2016/17 and earlier years;
 - Consultation with colleagues across the region;
 - Time elapsed since the previous audit; and
 - The availability of resources.

8. 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.
9. 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 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.
10. The audit plan for 2017/18 is based on resources of 13.5 full time equivalent employees (FTE) (11.7 FTE's for 2016/17). Auditor's time has been allocated on the basis of an estimate of 73% productive hours after allowing for non-productive time including annual leave, sickness absence and training.
11. On this basis, the plan for 2017/18 has been broken down into 18,789 productive hours (16,435 productive hours for 2016/17) as shown below in paragraph 15.

Plan Structure

12. 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.
13. 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.
 - **Counter Fraud**– proactive and reactive audit work on counter fraud and irregularity issues.

14. 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

15. 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 B.

Groups and Services	Audit Hours
Care, Wellbeing and Learning	1,595
Communities and Environment	1,840
Corporate Resources	1,835
Corporate Services and Governance	1,115
Office of the Chief Executive	596
Schools	900
Key Systems	2,068
Corporate	
Counter Fraud	2,750
Grant Certification	350
Audit Planning and Management	1,410
External Bodies	
Gateshead Housing Company	1,690
Northumbria Police	2,640
Total Productive	18,789
Non-productive	7,091
Total Hours	25,880

Audit Type	Audit Hours
Advice and Consultancy	450
Assurance Review	7,431
Key Systems	2,068
Grant Certification	350
Audit Planning and Management	1,410
Counter Fraud	2,750
Non-productive	7,091
Total Council Plan	21,550
External Bodies	
Gateshead Housing Company	1,690
Northumbria Police	2,640
Total Hours	25,880

16. 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

17. 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.
18. 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. In addition, during 2017/18 officers involved in Counter Fraud work will be training to achieve accreditation as CIPFA Counter Fraud Specialists.
19. 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.
20. 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

21. 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 the most recent 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.
22. To achieve the planned coverage for 2017/18, 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 on a quarterly basis:

Performance Indicator	Target
Productive (Chargeable) time as a % of overall time	73%
Number of planned audits completed Whilst this will be measured, the approach to the plan 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 year	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 B

Care, Wellbeing and Learning			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		50
	Total Advice and Consultancy		50
Assurance Review	Youth Offending Team	Low	40
	Youth and Community Learning	Medium	100
	Early Years	Medium	70
	Children with Disabilities	Medium	70
	Primary Care Contracts	New	100
	Safeguarding	High	100
	Shopping and Meals Service	Medium	50
	Day Centres for Adults with Disabilities	Medium	70
	Care Call	High	120
	Connexions	Low	70
	Pooled Budgets and the Better Care Fund	New	150
	Services to Schools	New	60
	Independent Supported Living Schemes	Low	50
	Public Health - Commissioning of Internal Services	High	100
	Commissioning Adult Services	High	100
	Commissioning of Children's Services	High	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		145
	Total Assurance Review		1,545
Total Audit Hours			1,595

Schools			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	Advice and Consultancy		100
	Total Advice and Consultancy		100
Assurance Review	School Audits	Low	520
	Audit Follow Up and Additional Contingency		200
	Audits brought forward from 2016/17		80
	Total Assurance Review		800
Total Audit Hours			900

Communities and Environment			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		50
	Total Advice and Consultancy		50
Assurance Review	Commercial Contracts	High	80
	Licencing	High	100
	Trading Standards Annual Accounts	High	25
	Transport Strategy	Medium	75
	Waste Collection and Disposal	Medium	100
	Facilities Management	Medium	50
	Business Centres	Low	100
	Travelling Community Caravan Site	Low	60
	Car Parking	Medium	80
	Transport	Medium	80
	Grounds Maintenance	Low	100
	Resilience Planning	Low	40
	Quality Inspection	Low	30
	Vehicle Trackers	Low	60
	Pre-contractual Procedures	High	140
	Post-contractual Procedures	Low	100
	Waste Management Partnership	High	70
	Libraries	Low	70
	Trading Standards and Food Safety	Low	40
	Leisure Centres	High	120
	Catering	Low	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		120
	Total Assurance Review		1,790
Total Audit Hours			1,840

Office of the Chief Executive			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		50
			50
Assurance Review	Equalities	Low	90
	Performance Indicators and Data Quality	High	60
	Change Programme	High	200
	Partnership Arrangement	High	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		46
	Total Assurance Review		546
Total Audit Hours			596

Corporate Resources			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		150
	Total Advice and Consultancy		150
Assurance Review	ICT Active Directory	New	90
	ICT Risk Management	New	90
	ICT Cloud Computing Management	New	90
	ICT Patch/Release Management	New	90
	Exchequer Services	Medium	90
	PCI Compliance	Medium	70
	Members Allowances	Medium	50
	Assessments	Medium	100
	Customer Services	Medium	60
	HR Support	Low	80
	Protection of Property	Low	100
	Leasing	Medium	50
	Major Projects	Medium	80
	Housing Revenue Accounts	High	80
	Insurance	Medium	100
	Trading Companies	High	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		315
	Total Assurance Review		1,685
Total Audit Hours			1,835

Corporate Services and Governance			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		50
	Total Advice and Consultancy		50
Assurance Review	Elections	Medium	60
	Litigation	Medium	60
	Redeployment and Redundancy	Low	80
	Recruitment and Appointment Process	Low	80
	Bereavement Services	High	70
	Corporate Procurement	Medium	100
	Property Management	Medium	80
	Print Point	Medium	60
	Governance Arrangements	Medium	80
	Corporate Asset Management	Medium	80
	Charitable Trust Funds	Medium	50
	Mayor's Charity Fund	High	15
	Registration Services	Medium	70
	Data Protection	High	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		30
	Total Assurance Review		1,065
Total Audit Hours			1,115

Key Systems			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		50
	Total Advice and Consultancy		50
Key Systems	Corporate Payroll and Human Resources	High	110
	Corporate Debtors and Income	High	120
	Corporate Creditors	High	120
	NNDR and Council Tax	High	150
	Council Tax and Housing Benefits	High	150
	Main Accounting System	High	70
	Capital Accounting System and Programme	High	80
	Risk Management and Business Continuity	High	150
	Service Payroll and Human Resources	High	100
	Counter Fraud Arrangements	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 2016/17		488
	Total Key Systems		2,018
Total Audit Hours			2,068

Grant Certification			
Audit Type	Audit Area	Risk	Hours
Grant Certification	Grant Certification Contingency	High	150
	School Fund Audit Certification	High	200
	Total Grant Certification		350
Total Audit Hours			350

Counter Fraud			
Counter Fraud			
	Fraud Investigation	High	2,000
	Fraud Awareness	High	200
	Counter Fraud Development	High	200
	National Fraud Initiative	High	250
	General Advice	High	100
Total Hours			2,750

Non-productive			
Non-productive			
	Leave (annual, public holidays, sickness etc)	n/a	4,646
	Training and Development	n/a	1,200
	Staffing and Supervision	n/a	1,245
Total Hours			7,091