

INTERNAL AUDIT PLAN 2015/16

Purpose of the Report

1. This report presents the Committee with the Internal Audit Plan for 2015/16 and the Internal Audit Charter.

Executive Summary

1. The report at appendix A gives a background to the audit plan and the revised approach to internal work during 2015/16. To further assist members, slides have been included in appendix B and a presentation will be given at the committee to explain the new approach.
2. The Internal Audit Charter sets out then operational relationship between the Council and the South West Audit Partnership. This governs and guides the operational work of the Internal Audit service in delivering against the plan. The Charter was last approved by the Audit Committee in 2014 and is reviewed each year to confirm it remains accurate and up to date.

Proposal

3. Members are asked to scrutinise the Internal Audit Plan for 2015/16 and the Internal Audit Charter.

Reasons for Proposals

4. To ensure an effective Internal Audit function and strong control environment.

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Unpublished documents relied upon in the preparation of this Report: None.

Appendices: A – Internal Audit Annual Plan Report 2015/16
B – Slides (to be presented at Committee) explaining approach
C – Internal Audit Charter

APPENDIX A



Wiltshire Council

Internal Audit Plan 2015/16

Content

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Our audit activity is split between:

- **Combined Assurance**
- **Operational Audits**
- **Key Control Audits**
- **Governance, Fraud & Corruption Audits**
- **IT Audits**
- **Special Reviews**

Role of Internal Audit and Audit Work

The Internal Audit service for Wiltshire Council is provided by South West Audit Partnership (SWAP). SWAP is a Local Authority controlled company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The Partnership is also guided by the Internal Audit Charter approved by this Committee.

Internal Audit provides an independent and objective opinion on the Authority's governance, risk and control environment by evaluating its effectiveness. In order to achieve this, the audit activity is split across the review categories listed to the left.

Background

It is recommended by the Public Sector Internal Audit Standards that organisations nominate a 'Board' to oversee (monitor and scrutinise) the work of Internal Audit. As such, in addition to senior management oversight, this Council has determined that, the Audit Committee will undertake this function. The plan is presented later in this report and represents the internal audit activity for the 2015/16 financial year.

It should be noted that plan days are only indicative for planning our resources. At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. Any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council. The plan is pulled together with a view to providing assurance to both officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. As with previous years the plan will have to remain flexible as new and emerging risks are identified. Any changes to the agreed plan will only be made through a formal process involving the Associate Director, Finance (Section151).

The Annual Plan

History of Annual Audit Planning

In most recent years the annual plan has been arrived at by a risk assessment of the audit universe, discussions with management about their service risks and key financial control audits to support the opinion of the External Auditor.

Whilst this approach has worked in the past, the environment for both local authorities and an internal audit service that adds value has changed. Austerity measures have led to an unprecedented transformational change agenda that has picked up pace and as a result services are changing rapidly. This in turn means that organisational risks, as well as being identified have to be managed within an increasing risk appetite so that decisions on effective service delivery are based on informed risk management.

Approach to Annual Audit Planning 2015/16

Due to the rapid pace of change and a reduction in audit resource that is line with our other Partners, the approach to planning requires fundamental change. Discussions with the S151 Officer and Corporate Directors have led us to agree that audit planning should take consideration of the three lines of defence model. This concept is introduced in more detail below ,but working with this model we intend to identify all streams of assurance whether internal or external that contribute to the Councils' overall risk, governance and control framework. As a result of this work we believe that Internal Audit resource can be directed at the most high risk areas, not just known risks but risks that were previously unknown but identified through this process. It is recognised that this is a subtle but necessary change to the use of internal audit resource. In the first year there will be an emphasis and high resource need on getting the process working and mapping the assurance framework. Management at all levels will need to assist with the process but Internal Audit will co-ordinate the work. Internal Audit will also work together more closely with the Risk Management team to ensure that their work is complimentary and that there is no duplication.

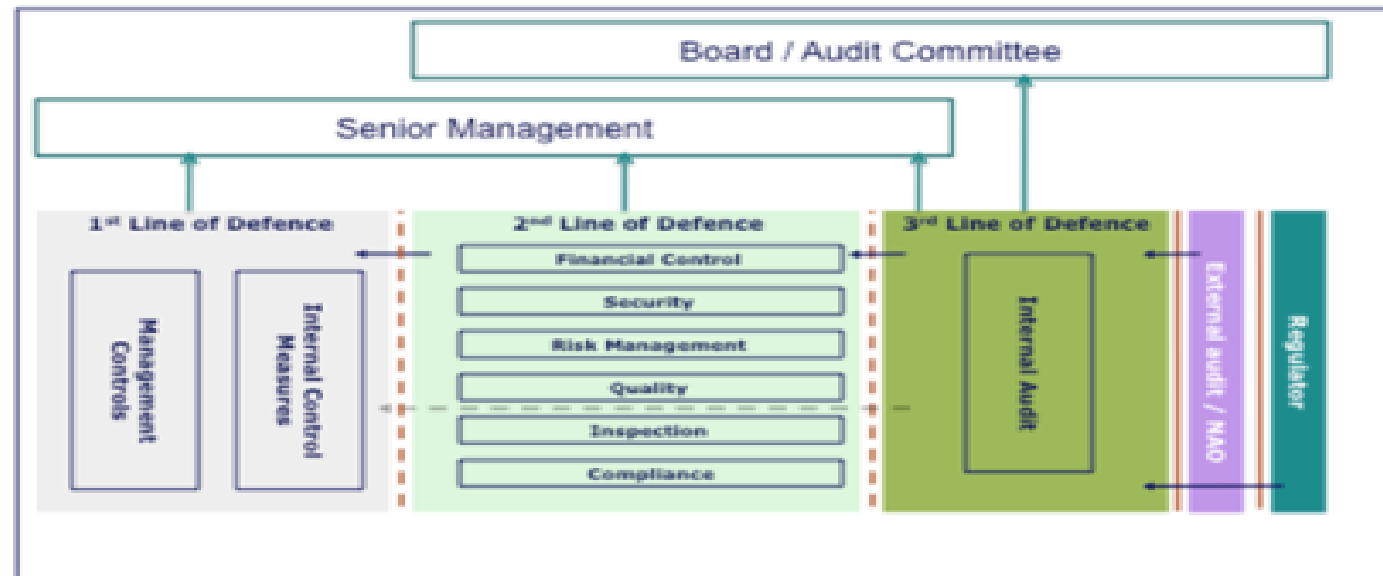
The Annual Plan

Three Lines of Defence

This model operates within most organisations and shows the 3 lines of defence that should be operating:

1. 1st Line of Defence – Functions that own and manage risks
2. 2nd Line of Defence – Functions that oversee risk
3. 3rd Line of Defence – Functions that provide independent assurance

Three lines of defence model



Other Key Areas in Compiling the Plan

Other Key Factors

There are other key factors within the annual planning process that should not be overlooked and these will also form part of the overall plan for 2015-16:

Risk Assessment of Audit Universe

A complete risk assessment of the audit universe will be undertaken using the Local Government Classification scheme. This will in part help address concerns about unidentified risk areas.

Key Financial Control Work

Whilst the External Auditors, KPMG no longer direct the work undertaken by Internal Audit, they do still place reliance on the work that has been undertaken. There is still an agreed working protocol in place that covers key financial control work but it is for Internal Audit to undertake an assessment of what work is to be carried out. This is done by reviewing previous findings from audit work and also considering any changes to the control environment e.g. changes to systems or key personnel.

Follow up work

Internal Audit are required to follow up “partial” opinion audits and also to ensure that agreed management actions are implemented. Regular reports are brought to the Audit Committee to update members on progress.

Area of audit	Scope of work	Budget 2015/16	Budget 2014/15
Key Financial Controls	Review of Financial and I.T. Controls to provide assurance for the statement of accounts: To cover: <ul style="list-style-type: none"> • Accounts Receivable • Accounts Payable • Banking • Budgetary Control • Capital • General Ledger • Housing and Council Tax Benefits • Payroll • Pensions • Treasury Management 	105,000	105,000
ICT	Review of High Risk ICT Areas to support controls audit: <ul style="list-style-type: none"> • ICT Healthcheck to then develop the detailed ICT plan 	35,000	54,000
Key Project Audits	To be agreed, developed and continually reported back to Committee: <ul style="list-style-type: none"> • Development Control • Asset Disposal and Management • Care Placements 	100,000	150,000
Assurance Mapping	Phase 1 governance and risk review of service areas and Output Report of recommended further operational review audits	80,000	0

Area of audit	Scope of work	Budget 2015/16	Budget 2014/15
Operational Reviews	Resulting from Phase 1 Assurance Mapping per above	25,000	80,000
Corporate Risk Areas	Area identified as high corporate risk audit reviews determined following risk assessment of audit universe:	40,000	50,000
Schools	Individual and Themed School Reviews	30,000	44,000
Fraud audits	Provision of Investigatory Work	15,000	27,000
Advice	Audit advice, contingency and audit committee.	25,000	40,000
Follow Up Reviews	Follow up Partial Assurances	25,000	30,000
		480000	580000



SWAP

SOUTH WEST AUDIT PARTNERSHIP

Delivering Audit Excellence

APPENDIX B

South West Audit Partnership

Internal Audit Plan 2015 to 2020: Combined Assurance

Introduction

- How has Internal Audit Changed?
- How have authorities changed? There is Potentially Greater Risks – Less Controls
- So where do Senior Leaders and IA get Assurance in this new world?

How has Internal Audit Changed?

- Moved to focus on risks
- Wider than just financial risks
- Has to add value to and be part of management
- Do engage on audit plan setting (but service led?)

But IA is:

- Not there to duplicate controls
- Not there to compensate for no controls

Managers have a role to play that isn't responding to Action Plans

How have authorities changed?

Its potentially a riskier environment, so must manage

- Less money & Fewer staff
- Greater reliance on IT
- Greater public demand, expectation & press inspection
- Greater openness of data
- External monitoring
- Greater partnership working

So do IA add value?

- Some signs, but need to change further
 - Carlton's and Vice Chair's comments at last Audit Committee
 - Contribute to savings
 - Be a true partnership and management tool
- So how will we do that?

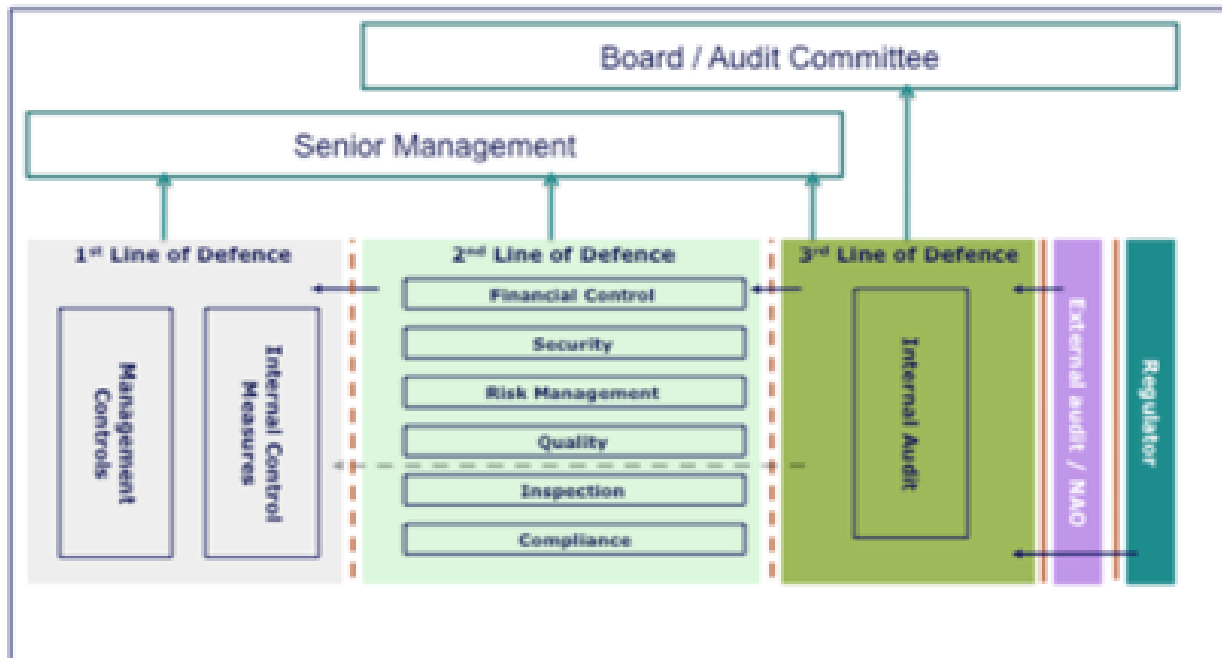
So what do we need to do to make the next step change?

- Shared risk & control assurance map
- Take time to map year 1
- Managers own the process and results with IA
- Output then Focused Audits

Note – the Finance controls testing is a statute requirement and to some degree sit outside of this

So how do we make the step change - Assurance Mapping the Governance, Risk and Control Framework

Three lines of defence model



1st Line of Defence

Management Controls

Formed by managers and staff who are responsible for identifying and managing risk as part of their accountability for achieving objectives.

2nd Line of Defence

Functions that Oversee Risk

Provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk.

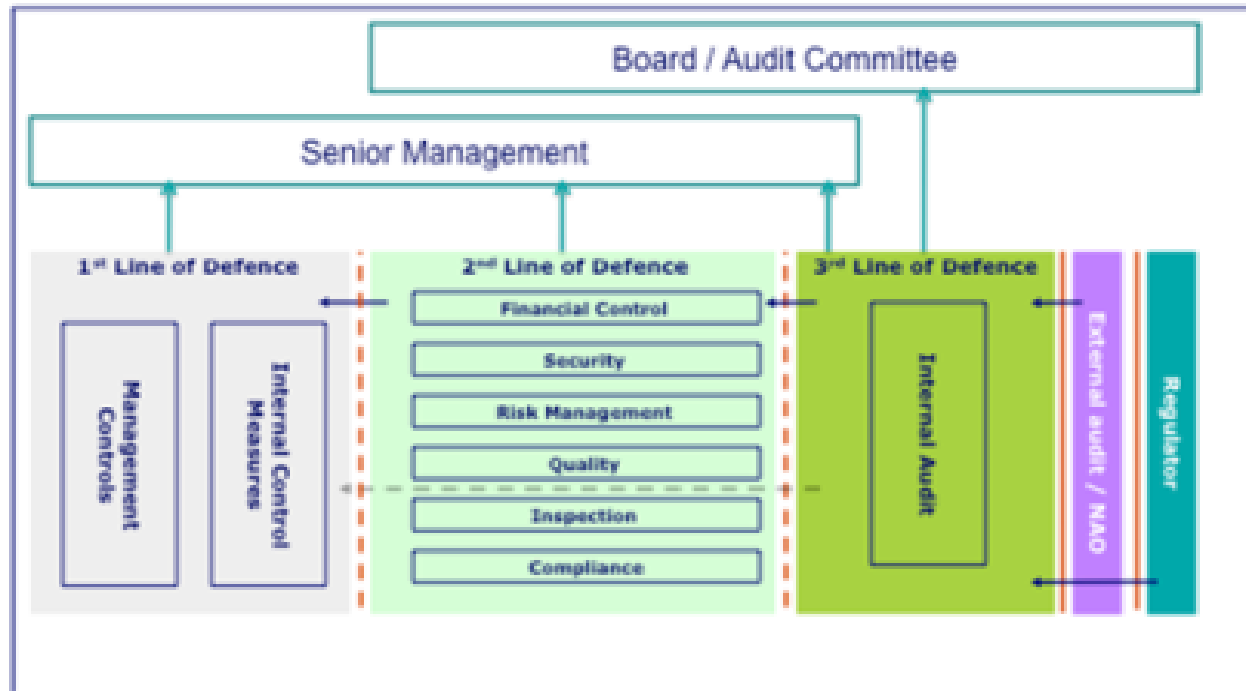
3rd Line of Defence

Internal Audit (Independent and Objective)

Sitting outside the risk management processes of the first two lines of defence, its main roles are to ensure that the first two lines of are operating effectively and advise how they could be improved.

Assurance Mapping Governance, Risk and Control Framework

Three lines of defence model



Advantages

- Reduction in number of Audits / Assurance Fatigue
- Eliminates Silo's in Assurance
- Promotes efficient use of assurance resources
- Desire to decrease overall costs of assurance
- Management Buy In
- Health Check rather than “heart check”

Mapping Assurance Activities

- Significant risk category
- Management role responsible for the risk (risk owner)
- Inherent risk rating
- Residual risk rating
- External audit coverage
- Internal audit coverage
- Other assurance provider coverage

Risk Maturity

The degree of risk maturity can fundamentally affect the ability of internal audit to adopt risk based internal auditing and undertake effective assurance mapping.

How risk mature is your organisation?

Combined Assurance Planning

- Time in plan to map assurance activities at service level.
 1. The Healthy Organisation KLOE will support this
 2. Outputs: This will lead to the identification of gaps for further coverage, either IA or Management
- Pilot in Children's Safeguarding and A.N.Other
- Map across other SWAP authorities

Combined Assurance Planning Approach

Research by IIA summarises “combined assurance can be seen as a road to good overall organisational governance in the eyes of stakeholders and their representatives”.

Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within the Wiltshire Council, and to outline the scope of internal audit work.

Approval

This Charter was approved by the Audit Committee on 11th March 2014 and is reviewed each year to confirm it remains accurate and up to date.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Associate Director, Finance as S151 Officer in consultation with the Chief Executive of SWAP.

Role of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management¹

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council's Chief Executive/Leader and the Audit Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

¹ In this instance Management refers to the Corporate Leadership Team

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for Wiltshire Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP and the Director of Planning also report to the Associate Director, Finance as Section 151 Officer, and reports to the Audit Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Wiltshire Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Wiltshire Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned;
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy;
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay

- the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
- management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Corporate Director. SWAP will report at least four times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Associate Director, Finance as S151 Officer and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive / Directors of SWAP have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Council's Corporate Directors or the External Audit Manager.

Revised March 2015