

Appendix A

Strategic Statement Supporting 2017/18 Audit & Assurance Plan

1. Introduction & Purpose

- 1.1 Under the Accounts and Audit Regulations 2015 the Council is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account compliance with the Public Sector Internal Audit Standards (PSIAS).
- 1.2 The PSIAS define Internal Auditing 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 evaluate and improve the effectiveness of risk management, control and governance processes.’
- 1.3 The PSIAS require the Head of Audit & Assurance to prepare an annual risk-based internal audit plan which takes into account the requirement to produce an annual internal audit opinion. This opinion statement is a key contributor to the Annual Governance Statement which the Chief Executive and Leader are required to sign off alongside the final accounts each year.
- 1.4 The annual programme of audit work, as defined within this annual audit plan, is the basis on which the Head of Audit & Assurance forms an annual audit opinion on the Council’s risk, control and governance frameworks.

2. Scope and Independence

- 2.1 In line with the requirements of the PSIAS, the Head of Audit & Assurance is responsible for the effective review of all aspects of risk, governance and internal control throughout the full range of the Council’s activities.
- 2.2 Audit and Assurance will remain independent of the activities that it audits to ensure internal auditors perform their duties in accordance with the statutory guidance, and relevant codes of ethics, and to ensure impartial, objective and effective professional judgements. Internal auditors have no operational responsibilities within the Council. Audit & Assurance has the right of access to all information and records held by the Council and may seek explanations on any matters from any officer or Member of the Council without fear or favour.

3. Standards and Ethics

- 3.1 All internal audit work will be delivered in line with the requirements of the PSIAS.

- 3.2 The Standards contain a mandatory Code of Ethics for all internal auditors in UK public sector organisations. Individual members of Audit & Assurance are also bound by the codes of ethics of their respective professional institutes. They are also required annually to declare that they comply with the Council's Code of Ethics for Internal Audit and that they have no conflicts of interest.

4. Internal Audit Planning Strategy

- 4.1 The key principles of Audit & Assurance's approach to audit planning are:

- to deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations (2015).
- to meet the requirements of the PSIAS (2013) by producing a risk based audit plan which takes into account the Council's organisational strategies, objectives, risks and priorities.
- to focus assurance effort on the most important issues for the Council, by assessing critical business processes and principal risks, at both strategic and operational levels.
- to support the Director of Finance & IT and Director of HR, Legal & Corporate Services in fulfilling their obligations as the Council's Section 151 and Monitoring Officers respectively.
- to liaise with the external auditor, Grant Thornton, to coordinate the approach and scope of work so that they can place reliance on the work of Audit & Assurance in delivering their own programme of work.
- to add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money and promoting organisational improvement.
- to consult with key stakeholders to ensure provision of an appropriate level of assurance within the available resource, accepting that not all requests can or will be met.
- to provide sufficient flexibility to allow the plan to evolve to meet any significant emerging risks during the year and to respond where appropriate to management requests for assistance, advice and consultancy.

5. Internal Audit Planning Methodology

- 5.1 The approach to audit planning for 2017/18 has been a risk based approach in line with the requirements of the PSIAS and has been prepared following consultation with senior management to establish the key risks areas faced across the Council. Consideration has also been given to the areas identified within the Corporate & Departmental Risk Register, the Departmental Management Accountability Framework Exception Reports, and review of the outcomes of previous audits, together with cumulative audit knowledge and experience. Potential audit areas (the Audit Universe) have been identified and risk assessed against the following criteria:

- Materiality;
- Legal, Political and Reputational risk;

- Management priority;
- Internal Control, governance and previously identified issues;
- System stability; and
- Time since previous audit review.

5.2 The annual plan is produced from the Audit Universe and prioritised (Level 1-6) to the level of risk associated with each issue. The priorities have been determined as follows:

- Priority 1 (highest): A corporate risk, strategic governance or fundamental control review, not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. Or a grant claim certification, which must be endorsed by internal audit to comply with the funding requirements of central government departments. (Red)
- Priority 2: A significant departmental risk, governance, control or improvement issue identified by Directors and/or their departmental management teams not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. (Brown)
- Priority 3: A significant departmental risk, governance or control issue identified from a review of corporate/departmental risk registers, MAF returns or Council minutes not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. (Orange)
- Priority 4: Other departmental risk, governance or control issue not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 2 years. (Yellow)
- Priority 5: Other departmental risk, governance or control issue not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 3 years. (White)
- Priority 6 (lowest): Departmental risk, governance or control issue removed, no longer applicable or not auditable (Green)

6. Key Challenges & Opportunities

- 6.1 Transformation of services throughout the Council continues to result in significant changes to the control framework, and risks can increase as experienced staff leave the organisation and new and innovative ways of working are developed and implemented. We need to be aware of the challenges that face the Council and maintain awareness of these risks. The audit plan has been developed to provide assurance that basic governance and control arrangements continue to operate effectively, minimising the risks of misappropriation, loss and error.
- 6.2 To add value, Audit & Assurance needs to take into account the key changes affecting the Council. Consequently, the specific challenges and opportunities facing the Council at the current time have been considered as part of the planning strategy. Those which are considered to have a high strategic risk are discussed below together with an outline

of how the internal audit programme will contribute to the Council's assurance requirements.

Welfare Reform:

- 6.3 The impacts of Welfare Reform are expected to continue through 2017/18. The main risks associated with this are the set up and administration of the different strands of the reforms as well as the potential adverse impact on beneficiaries. The Audit Plan includes time for counter fraud activity to demonstrate the implementation of the Counter Fraud Strategy 2016/21 through the completion and review of fraud risk registers and both proactive and reactive counter fraud initiatives. The Audit Plan also provides for a review of Housing Benefits to cover the assessment and testing of control procedures following the transfer of Benefits services back to the Council.

Local Government Finance

- 6.4 Under the Localism Act 2011 proposals for local business rate retention came into effect from April 2013. The Government is currently developing mechanisms to move to a 100% Business Rates Retention scheme by 2020 which will fundamentally change the funding levels for every Council beyond that date. In addition, as a consequence of the recent revaluation exercise, the total rates payable in the Borough will decrease with effect from 2017/18. However, as agreed at the time the Business Rates Retention mechanism was introduced, in order to ensure the impact of revaluation is neutral on local authorities. In order to maximise both council tax and business rate income, the Council needs to ensure it has robust collection procedures. The 2017/18 Audit Plan includes reviews of business rates and council tax arrangements, following the transfer back of Revenue services to the Council during 2016/17.

Health Reform

- 6.5 Central government is continuing with its proposals for greater integration between health and social care in order to find ways to tackle unsustainable increases in service demand in future years. The Care Act 2014 has led to changes in the funding of social care, which will lead to changes in the assessment process. Internal audit resources will be involved reviews of adult social care assessments, governance arrangements for the social determinants of health fund, the Volunteering/Demand Management Strategy and preparedness for the new joint Ofsted/Care Quality Commission inspection regime for children's Special Educational Needs and Disability (SEND).

Education Reform

- 6.6 There have been changes in national legislation over recent years which have given schools increased freedoms which will potentially impact on the business model for the existing educational support services offered by the Council. The Government is also started the first stages for the introduction of a new national funding formula for schools, which will mean that all schools will receive a consistent and fair share of the schools budget. This will potentially lead to a reduction in funding for some schools. Reviews of the Council's maintained schools will continue

to provide assurance that the school budgets are being adequately and effectively managed.

Growth Agenda

- 6.7 The Council is committed to delivering a more prosperous Borough and recognises that only by delivering higher rates of economic growth, whilst improving opportunities and the quality of life for residents, will the Borough's future be secured and sustained. The Local Strategic Partnership Board (LSP) Plan for Prosperity sets out how the Council intends to secure greater prospects for the Borough over the next six years. The planned audit work for 2017/18 will include a review of the LSP Growth Strategy governance framework.

Capital Investment

- 6.6 The Council's capital programme includes major commitments, which require strong project management and effective monitoring to ensure they are achieved on time and within budget. Failure to deliver against externally funded schemes could lead to potential overspends, which could impact on the overall future capital programme and the Council's ability to win future funding bids. There will be a project management review to consider arrangements for managing the Growth Deal funding that the Council has received, as well as the Heritage Lottery Funded project for Blakey Moor. Provision has also been included for a review of MOSAIC (the new Adult Social Care system).

7. Categories of Internal Audit Work

- 7.1 The overall opinion on the Council's control framework is derived from a range of Audit & Assurance work over a number of areas. The work of the service is broadly categorised as follows:
- Planning – a risk based internal audit plan will be created on an annual basis which will incorporate key risk areas within the Council, in line with strategic and operational risk registers, and the Council's Risk Management Policy.
 - Risk-based system audits – one of the main ways that Audit & Assurance will form a view on the overall control system is by carrying out reviews of the component systems and processes (e.g. using process maps that identify risks and controls; drafting system notes) established within respective business entities. These are commonly known as risk-based system audits and will allow Audit & Assurance to assess the effectiveness of internal controls within each system in managing business risks, enabling a view to be formed on whether reliance can be placed on the relevant system. This approach will enable resources to be used in an efficient way, whilst maximising the benefit which can be derived from it.
 - Compliance / regularity / establishment / school audits – these audits are intended to assess if systems are operating properly in practice. They are typically site-based (establishment) and focus on the propriety, accuracy and completion of transactions made. The term 'site' includes departments, services or devolved units. The audits may focus on specific systems or cover transactions in all major systems (not necessarily just financial systems). This will also provide

information and evidence about the extent, in practice, of compliance with organisational policies, procedures and relevant legislation.

- Key Control Testing – a variation on compliance audit but focusing on a small number of material or ‘key’ controls that provide assurance on the completeness and adequacy of the Council’s accounts. This can provide the basis for external audit to place reliance on the work of Audit & Assurance.
- Procurement – This will use the risk based methodology to assess compliance with the Council’s corporate procurement strategy and the Constitution, with reference, in particular, to major contracts.
- Service Reviews / Value for Money – these reviews will use the risk-based methodology, working often in a multi-departmental team, to review specific processes. Value for money will be a consideration in both these and more general audit reviews.
- Control Risk Self Assessment – facilitating the review by services of their own risks and controls in a structured way, for example, via questionnaires or workshops. This can service both the requirements for assurance or as consultancy.
- Systems Development Audit – phased review of developing plans and designs for new systems and processes aimed at identifying potential weaknesses in control during the development stage, thus minimising the need for re-working.
- Counter Fraud – preventing, detecting and investigating fraud and corruption is, ultimately, a responsibility of management – as part of management’s general responsibility for the integrity of the Council’s activities. Most cases of fraud and corruption exploit the same weaknesses in systems that, in other circumstances, might have led to nothing more than a mistake. Internal audit will assist management by:
 - verifying management’s arrangements for ensuring systems are secure against fraud and corruption and report on any weaknesses;
 - investigate, using the fraud response plan, cases where there is evidence of fraud and irregularity;
 - when requested, undertake investigations into suspected or alleged fraud or corruption. These will be conducted in accordance with statutory requirements, e.g. Police and Criminal Evidence Act, Regulation of Investigatory Powers Act, Data Protection Act, by appropriately trained staff;
 - review weaknesses revealed by instances of proven fraud or corruption, including review of National Fraud Initiative (NFI) data matches to ensure that appropriate action is taken to strengthen internal control arrangements;
 - verify that the risk of fraud and corruption is specifically considered in the Council’s overall risk management process; and
 - develop counter fraud awareness and understanding of fraud risk.
- ICT Audit – specialist review of the control of hardware, software and the ICT environment to evaluate fitness for purpose and security of the ICT environment. These reviews will be conducted by in house staff being trained in the technical IT aspects.
- Consultancy – Audit & Assurance can also provide independent and objective services, including consultancy and fraud-related work. These

services apply the professional skills of Audit & Assurance through a systematic and disciplined approach and may contribute to the opinion, which Internal Audit provides on the control environment.

- Follow up audits – these are designed to test the implementation and effectiveness of previous audit recommendations.
- Evidence – all audit findings, conclusions and recommendations will be evidenced on file. Relevant details on which findings and recommendations are based will also be supported by evidence held on file within the Internal Audit section.
- Use of Technology – Internal Audit will employ relevant technology where appropriate when testing systems and when producing working papers and reports. Additionally Internal Auditors will be alert to IT risk in relations to technology utilised within systems under review.

8. Reporting Arrangements

8.1 At the conclusion of each audit assignment, a draft report is issued to the appropriate manager within the Council. A management action plan is included within the report, which summarises the recommendations arising. Management should agree these actions, allocate responsibilities and timescales for implementation.

8.2 Recommendations included in the report are classified as follows:

- Must** Critical in that failure to address the issue or progress the work will lead to one of the following occurring: loss, fraud, impropriety, poor value for money or failure to achieve against organisational objectives. Examples include failure to comply with legislation or organisational policy or procedures. *Remedial action must be taken immediately.*
- Should** Not critical but failure to address the issue or progress the work could impact on operational objectives and should be a concern to senior management. *Prompt specific action should be taken.*
- Consider** Areas that individually have no major impact on achieving objectives or on the work programme, but where combined with others could have an effect at the process level which could give cause for concern. *Specific remedial action is desirable.*

8.3 For the risk, control and governance audit reviews, which support the Head of Audit & Assurance's annual audit opinion the final report will provide an assurance level. This will be measured to cover (i) the control environment following an assessment of internal controls and (ii) compliance following testing to measure application of controls. The levels of assurance provided in the audit report are as follows:

Assurance Level	Control Environment	Compliance
Substantial	There are minimal control weaknesses which present very low risk to the control	The control environment has substantially operated as intended although some minor

	environment.	errors have been detected.
Adequate	There are some control weaknesses which present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited	There are significant control weaknesses which present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No	There are fundamental control weaknesses which present an unacceptable risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

8.4 For the consultancy reviews, where Audit & Assurance is providing independent advice and support to departments during the implementation of new systems and procedures an opinion may be provided, which reflects progress on these developments. This opinion may contribute to the Head of Audit & Assurance's annual audit opinion.

8.5 A final report containing management responses to any issues identified is subsequently distributed to:

- The Director responsible for the area reviewed;
- The Director of Finance & IT (Section 151 Officer);
- The Deputy Chief Executive (Limited Assurance Reports Only); and
- Grant Thornton (the Council's external auditor) (Limited Assurance Reports Only).

9. Monitoring Arrangements.

9.1 The Audit & Assurance Plan will be monitored via monthly progress meetings between the Audit & Assurance management team, regular meetings with the Director of Finance & IT and external audit. Periodic updates will also be provided to the Directorate Management Teams along with individual reports to relevant Senior Managers.

9.2 The plan reflects the assurance need, however, it is recognised that priorities may be subject to change. In addition to the contingency that is available, we accept that there may be a need to amend our planned audits so that we continue to reflect the needs of the Council. We will discuss minor changes with the Director of Finance & IT. Any significant matters that impact upon completion of the plan or require substantial changes will be reported to Management Board and to the Audit & Governance Committee.

9.3 Report recommendations from individual audits are followed up to ensure they have been implemented as agreed. This arrangement allows progress against the plan to be discussed, management actions

confirmed, and ensures audit resources are directed towards priority areas. It is the responsibility of management to ensure that all agreed actions arising from an audit report are implemented in accordance with the timetable agreed in the management action plan included in the audit report.

- 9.4 Where we issue a *limited* or *no* assurance report we will undertake “standard” follow ups after 3 months. For all other assurance reports we will undertake a “standard” follow up after 6 months. Where we have particular concerns about the implementation of recommendations we will undertake further “physical” follow up exercises where documentation will be reviewed and further testing undertaken.
- 9.5 In addition summaries of finalised Audit & Assurance reports are presented to the each Audit Committee meeting to provide an update of audit coverage and to outline the key issues arising from this work. This also includes information on the implementation of recommendations.
- 9.6 The performance of Audit & Assurance will be measured against a suite of performance measures and reported on a quarterly basis to Audit Committee through the progress & outcomes report. The defined targets included within the Finance & IT Department’s Business Plan for Audit & Assurance in 2017/18 are:

Achievement:

- a) delivery of priority 1 audit plan topics: 100%
- b) percentage of planned assignments completed within budget: 90%
- c) percentage of final reports agreed within deadline: 90%
- d) follow ups undertaken within deadline: 90%

Quality:

- a) percentage of agreed recommendations implemented: 90%
- b) percentage of client’s satisfied with the Service : 75%
- c) percentage compliance with PSIAs: 95%.

- 9.7 The extent of audit work performed during the year, managers’ acceptance of audit recommendations and the subsequent improvements in controls and processes enable a formal opinion to be prepared by the Head of Audit & Assurance as to the quality of the overall internal control environment. This formal opinion will be presented to members within the Annual Internal Audit Report and this formal opinion feeds directly into the Annual Governance Statement.

10. Audit & Assurance Resources

- 10.1 As at 1 April 2017 Audit & Assurance had a staffing structure devoted to the delivery of the Audit & Assurance Plan, which comprises of 5.4 full-time equivalent (FTE) posts (previously 7.15 FTE posts in 2016/17):
- 1 Head of Audit & Assurance (0.70 FTE)
 - 2 Principal A & A Officers (2.0 FTE)
 - 2 A & A Officers (2.0 FTE)
 - 1 Apprentice (0.7 FTE)

10.2 The qualifications, experience and specialisms of the staff occupying the current staffing structure are as follows:

Name	Qualifications	Experience	Specialism
Colin Ferguson Head of A & A	ACCA	34 years	Strategic Risk & Governance Audit
Chris O' Halloran P A & A Officer	PIIA	7 years	Counter Fraud Contract Audit
Andrew Tordoff P A & A Officer (starts 1 May 2017)	HND in Accounting Foundation Diploma in Business Analysis	17 years	IT Audit Risk & Governance Audit
Ilyas Ismail A & A Officer	AAT	10 years	IT Audit, Risk & Governance Audit
Catherine Bibby A & A Officer	Honours Degree	3 year	Risk & Governance Audit
Joseph Toth Apprentice	Accounting Degree	18 months	Risk & Governance Audit

PA&A - Principal Audit & Assurance

ACCA - Association of Chartered Certified Accountants

CIPFA - Chartered Institute of Public Finance & Accountancy

PIIA - Practitioner of the Institute of Internal Auditors

AAT - Association of Accounting Technicians

HND - Higher National Diploma (equivalent to 2 years at University)

10.3 Currently, this establishment is regarded as adequate for the Council's needs in ensuring that it meets the requirements of the Accounts and Audit Regulations. There will, however, often be significant changes affecting either what the Council does or how it arranges delivery to fulfil its statutory obligations. The impact on the Audit & Assurance function of such changes will be reviewed, each year, so that Members can assess the adequacy of its resource needs.

10.4 Staff training (both induction and professional) will continue to be a major factor in the Team's Business Plan in 2017/18. In particular, ensuring that the standards demanded by the PSIAS are maintained. The competency framework has been developed in the Audit & Assurance Manual so that all staff can be assessed periodically against a pre-defined standard and training needs identified. There is a training plan which is linked to both performance appraisals and the Team's own development needs. The professional training that has been proposed for inclusion in the Finance & IT Department's training plan is as follows:

Name	Professional Training	2016/17 Commitment
Ilyas Ismail	CIPFA	25 days
Catherine Bibby	AAT	30 days

- 10.5 A resource calculation was undertaken to determine the number of days available for the various types of audit work. The resource calculation is shown below with 2015/16 figures for comparison.

Category	2017/18	2016/17
Total available days	2060	2,610
Deduct: annual leave, sickness & bank holidays.	(352)	(505)
Deduct: non-productive time (management meetings, team meetings, attendance at external meetings, training, planning etc.)	(318)	(405)
Deduct: non-audit time (counter fraud, insurance/risk, financial support etc.)	(714)	(883)
Days available for Audit & Assurance reviews	676	817

- 10.6 The days available for Audit & Assurance reviews have been allocated to the priority 1, 2 and 3 audit planning levels (see section 5.2, above) for the following corporate and departmental areas (See Appendix B).