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## **INTERNAL AUDIT PLAN 2016/17**

To: **Governance and Audit Committee: 15<sup>th</sup> March 2016**

By: **Director of Corporate Resources and S151 Officer**

Subject: **REPORT OF THE HEAD OF THE AUDIT PARTNERSHIP INTERNAL AUDIT PLAN FOR 2016/17**

Classification: **Unrestricted**

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**Summary:** This report includes the Audit Charter for the East Kent Audit Partnership which sets out the overarching aims and strategy for the Internal Audit Service together with the draft plan of work for the forthcoming 12 months for approval.

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### **1.0 Introduction and Background**

- 1.1 The purpose of the Council's Governance and Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.2 In accordance with current best practice, the Governance and Audit Committee should "review and assess the annual internal audit work plan". The purpose of this report is help the Committee assess whether the East Kent Audit Partnership has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with the professional standards for Internal Auditors.

### **2.0 Audit Charter**

- 2.1 The Audit Charter is an important document setting out the expectations of how the Internal Audit function will be delivered. Not only does having a Charter and keeping it up to date assist the Council in complying with best practice, but by considering the Audit Charter, the Governance and Audit Committee is also demonstrating its effectiveness by ensuring that these mechanisms are in place and are working effectively.
- 2.2 The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership; it goes on to set out the Terms of Reference, Organisational Relationships and Independence, Competence and Standards of Auditors, the Audit Process and in providing an Internal Audit function to the partner councils; as well as the resources required across the four partnership sites and details how the resource requirements will be met.
- 2.3 The Audit Charter is attached as Annex A to this report. It is essentially the 'Why' and 'How' the East Kent Audit Partnership will provide the Internal Audit Service.

### **3.0 Audit Plan**

- 3.1 The Audit Plan for the year 2016 to 2017 is attached as Annex B and has the main components to support the Audit Charter. The plan is produced in accordance with professional guidance, including the PSIAS 2013. A draft plan is produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc. Then following discussions with senior management account of any changes within the Council over the last 12 months, and foreseen changes over the next have been made.
- 3.2 The plan has then been further modified to reflect emerging risks and opportunities identified by the Chief Executive, Directors, and the link to the Council's corporate plans and corporate risk register. This methodology ensures that audit resources are targeted to the areas where the work of Internal Audit will be most effective in improving internal controls, the efficiency of service delivery and to facilitate the effective management of identified risks.
- 3.3 There are insufficient audit resources to review all areas of activity each year. Consequently, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a three-year cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a three-year strategic plan has been included.
- 3.4 To comply with the best practice, the agreed audit plan should cover a fixed period of no more than 1 year. Members are therefore being asked to approve the 2016/17 plan at the present time, and the 2017/18 plan and 2018/19 plan are shown as an indicative plan only, to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle. If it is approved a number of audits will fall outside of the rolling three year plan, these are listed at the foot of Annex B, and total 33 days.
- 3.5 The plan has been prepared in consultation with the Directors and the Council's statutory s.151 Officer. The plan is also designed to meet the requirements expected by the External Auditors for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2015/16 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require to be able to place assurance on the annual governance statement.
- 3.6 The risk assessment and consultation to date has resulted in;
- 86% Core Assurance Projects - the main Audit Programme
  - 3% Fraud Work – fraud awareness, reactive work and investigating potential irregularities
  - 0% Corporate Risk – testing the robustness of corporate risk mitigating action
  - 11% Other Productive Work – Corporate meetings, follow up, general advice, liaison
- Total number of audits 27.

For 2016/17 the days available for carrying out audit is 300 days. When compared to the resources available and working on the basis that the highest risk areas should be reviewed as a priority, the EKAP has sufficient resources to review all of the high risk areas and all of the medium risk areas this equates to 27 audits.

3.7 There are 33 days required to backfill the audits that are outside of the strategic cycle. In 2014/15 the s.151 Officers agreed that savings achieved in the delivery of the EKAP service should be used to address the shortfall in the strategic plan, and deliver as many reviews as possible. Thus any financial savings are converted into audit days and identified areas for review agreed with the s.151 Officer in the quarterly meetings as the year unfolds. This will strengthen the Internal Audit coverage and Members will have greater assurance that the systems of internal control are being regularly reviewed.

#### 4.0 **Benchmarking the level of Internal Audit Provision.**

4.1 Members should have regard to how audit resources within the Council compare to other similar organisations when considering the adequacy and effectiveness of the internal audit plan. The results of benchmarking show that the average number of internal audit days provided by district councils within Kent is circa 400 days annum. The audit plan of Thanet District Council of 300 days plus their share of the EKS and East Kent Housing audit plans totals 380. The Thanet plan is therefore 5% less than the Kent average.

#### 5.0 **Head of Internal Audit's Opinion of the 2016/17 Internal Audit Plan.**

5.1 This report is presented to Members by the Council's Corporate Director whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.

5.2 Whilst it is recognised that resources are tight, there is no contingency built into the plan for any urgent unforeseen work and there are a small amounts of audits that have fallen outside of the three year strategic cycle; it is the professional opinion of the Head of the East Kent Audit Partnership that the draft 2016/17 internal plan presented for Members consideration represents an effective internal audit plan which ensures reasonable coverage of the vast majority of the Council's operations within a three year period. The Head of the East Kent Audit Partnership recommends that Members either approve the 2016/17 internal audit plan as drafted or that they recommend to Cabinet that additional resources are allocated to bring the plan up to the Kent average. This would require an additional 20 days per annum, which at an estimated cost per audit day of £300 would cost £6,000 per annum.

#### 6.0 **Corporate Implications**

##### 6.1 **Financial Implications**

6.1.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2016/17 budget and are detailed in the attached report.

##### 6.2 **Legal Implications**

6.2.1 The Council is required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972) to have an adequate and effective internal audit function.

##### 6.3 **Corporate Implications**

6.3.1 Under the Local Code of Corporate Governance accepted by Cabinet, the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit.

## **7.0 Recommendation**

7.1 That Members approve the Council's Charter for a period of 3 years from 2016-17.

7.2 That Members approve the Council's Internal Audit Plan for 2016/17

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### ***Annex List:***

Annex 1	Audit Charter
Annex 2	Thanet District Council draft 2016/17 Internal Audit Plan and 3 year strategic plan

### ***Background Papers:***

<b>Title</b>	<b>Details of where to access copy</b>
Internal Audit Annual Plan 2015/16	Previously presented to and approved at the 17 <sup>th</sup> March 2015 Governance and Audit Committee meeting.
Internal Audit working papers	Held by the East Kent Audit Partnership.