

## INTERNAL AUDIT — STRATEGIC PLAN 2018-21 AND ANNUAL PLAN 2018-19

### 1. Purpose of Report

This report informs Members of proposed internal audit plans. The 3-year strategic audit plan is updated, jobs and time allocations for 2018-19 audit work are identified, and indicative provisions for the following two years are given.

### 2. Recommendations

Members are asked to approve the strategic internal audit plan for 2018-2021 and the annual plan for 2018-19 (**Appendix 1**).

### 3. Considerations

#### 3.1 Background

3.1.1 Internal audit is an independent and objective internal review and consulting activity within the Council which uses a systematic, disciplined approach to evaluate and improve the effectiveness of the Council's risk management, internal control and governance processes. Internal audit's work is governed by professional standards and by the internal audit charter approved by the Audit and Risk Management Committee in December 2013 as updated to reflect the new Committee name (**Appendix 2**).

3.1.2 Each year the internal audit team has to gather sufficient, relevant and reliable evidence to support a conclusion on the adequacy and effectiveness of the Council's internal control systems. This conclusion is formally reported in an annual controls assurance statement and is referenced in the Council's corporate governance statement (published as part of the statutory accounts).

3.1.3 The internal audit team further meets its remit by co-ordinating the development of risk management in the Council and by undertaking reviews of how well corporate and service risks are being managed.

3.1.4 Internal audit applies its resources to areas of business risk. In identifying priorities for internal audit activity the materiality of financial transactions is a factor, but the maintenance of public confidence in the Council's financial arrangements is equally important. The audit plan therefore has to strike a balance across the full range of activities that the Council is involved in.

#### 3.2 Strategic Plan 2018-21 (Section B of the Appendix)

3.2.1 The strategic plan is updated annually to indicate the availability and use of internal audit resources over three years. The main driver to internal audit's work is the requirement to prepare an annual controls assurance statement. The strategic plan reflects the Internal Audit Manager's assessment of internal control risks in relation to this task.

3.2.2 The available audit days are distributed between three main categories of work. These are: controls assurance on main financial systems; departmental financial systems; and risk management support and audits. An allocation is also made for certifying grants and a small contingency for unplanned audit work is included in the strategic plan.

3.2.3 The resource allocation for 2018-19 is broadly in line with last year's strategic plan, allowing for the roll-over of the Council Tax audit which we were unable to complete in 2017-18 due to staff availability pressure.

3.2.4 The resource allocations for 2019-20 and 2020-21 are indicative figures showing the likely distribution of time based on current knowledge and as such, they may be subject to change.

### 3.3 Annual Plan 2018-19 (section C of the Appendix)

3.3.1 Six main financial systems will be reviewed this year, five of these are in Finance and Procurement Services. The job time budgets have been set in line with the expected scope and complexity of the work required.

3.3.2 In respect of other areas of audit work, the plan is based on the Internal Audit Manager's assessment of current risks in financial administration. The Audit, Risk and Scrutiny Committee will influence the internal audit plan through its discussions at meetings and requests for follow-up work. The Committee's contributions are important as they help ensure the plan is relevant and timely.

3.3.3 The internal audit plan for 2018-19 represents a very full programme of work. No time has been identified for the Committee to allocate but there remains some flexibility to accommodate work requests in the areas of departmental business systems and risk management evaluation work if the Committee wishes to substitute alternative projects. Next year's audit plan will seek to address any new concerns that the Committee develops in the coming months.

3.3.4 The 2018-19 audit plan continues to assign a general resource to support the development and practice of risk management in the Council. This involves organising training, providing advice to service management teams and individual managers, developing and promoting the risk management policy, and co-ordinating the review of the corporate risk register.

3.3.5 Whilst computer access controls, security over backups and confirmation of business continuity plans are routinely included in its main financial systems work, internal audit does not have the technical expertise to undertake advanced computer audit work and no provision for this is made in the audit plans. In prior years a service was procured from a specialist provider and the requirement for such computer audit work is kept under review, recognising that the Council's external auditors carry out some assurance work in this area each year.

### 3.4 Approval of Plans and Performance Management Reporting

3.4.1 The job time budgets for work in the 2018-19 plan and indicative allocations for the following two years are set out in the **Appendix** (sections C and D). Members are asked to approve or adjust these as applicable.

3.4.2 Analysis of time variations against jobs in due course will allow internal audit to further refine its estimating and management processes, which is a continuous improvement activity.

3.4.3 Internal audit will report back the Committee on its progress towards completing the annual plan during the year. Members have previously agreed to receive interim reports at six and nine months as well as the final outturn report in Spring 2019.

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3.4.4 In terms of performance measures, internal audit reports formally on a number of these, as follows:

Annual

- Relative cost of internal audit, benchmarked against other authorities
- Efficiency of adherence to annual plan, benchmarked against other authorities
- Reporting outputs achieved against annual plan
- Adherence to reporting targets

Interim

- Progress against plan
- Job time actual against budget
- Performance against actions identified in audit reports.

### 3.5 Staffing Complement

3.5.1 The Council set a savings target of £25,000 against internal audit's staffing budget for 2017-18 as part of its decisions in February 2017. An application under ERVS is currently being progressed and is expected to be agreed. In anticipation of this the staffing resource used to calculate the internal audit plan for 2018-19 and beyond is based on 4 fte posts (down from 4.6 fte).

3.5.2 Historically the internal audit team at Dumfries & Galloway Council has been smaller in size than most other mainland Authorities but recent changes elsewhere have lessened this difference.

3.5.3 The Internal Audit Manager is professionally obliged to draw the Committee's attention to any restriction in capability that arises from a shortfall in resources allocated to internal audit. I am pleased to confirm that I have no concerns in this respect for 2018-19.

## **4. Governance Assurance**

4.1 The remit of the Audit, Risk and Scrutiny Committee has been set by the Council. In adopting the recommendation to approve the audit plans and receive progress reports, the Council will be acting within its legal powers.

4.2 The internal audit plan has been drawn up by the Internal Audit Manager based on his assessment of risk and professional judgements and no other officers were formally consulted in the preparation of the report.

## **5. Impact Assessment**

As this report does not propose a change in policy/strategy/plan/project, it is not necessary to complete an Impact Assessment.

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**Author(s)**

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**Approved by**

<b>NAME</b>	<b>DESIGNATION</b>
<b>Rhona Lewis</b>	<b>Head of Legal and Democratic Services</b>

**Appendices - 2**

Appendix 1 - Internal Audit Strategic Plan 2018-21 and Annual Plan 2018-19

Appendix 2 – Internal Audit Charter

**Background Papers**

Previous reports to Audit and Risk Management Committee at

<http://egenda.dumgal.gov.uk/aksdumgal/users/public/admin/kab71.pl>

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**INTERNAL AUDIT —  
STRATEGIC PLAN 2018-2021 AND AUDIT PLAN 2018-19**

**A. Resource Availability**

1. Working days available annually:			
52 weeks x 5 working days =	260		
Less public holidays and leave =	39		
Less sickness contingency =	<u>5</u>		
	216	x 4 staff =	864
2. Indirect time			
General support, management and service development			280-
Training and professional development			<u>20-</u>
3. Annual audit days			<u>564</u>

**B. Strategic Plan Resource Allocation (days)**

Work Type	2018-19	2019-20	2020-21
Main financial systems: Assurance audits for key corporate systems	280	240	245
Departmental financial systems: Audits of controls operated by Services	115	140	140
Risk management programme:			
Policy development, training, advice and co-ordination of the corporate risk register	20	30	25
Audit reviews of the management of key risks and of corporate issues linked to risks	115	120	120
Grants programme: Audit certificates for EU funded grants	14	14	14
Contingency for unplanned work	20	20	20
<b>TOTAL</b>	<b>564</b>	<b>564</b>	<b>564</b>

### C. Annual Plan for 2018-19

Job	Plan Days	
Main financial systems programme:		
Council Tax	50	
Sundry Debtors	55	
Banking Arrangements	30	
Treasury Management	35	
Accounting	40	
Revenue Budgetting	40	
2017-18 follow-ups	<u>30</u>	280
Departmental financial systems programme:		
School Electricity Charges	30	
Use of Purchase Cards by Schools	40	
Employee Expenses	<u>45</u>	115
Risk management programme:		
Supporting the further development of risk management at corporate, service and project levels	20	
Specific risk issues:		
Business Continuity	35	
Off-payroll employees (IR35)	35	
Benefits in kind from use of vehicles	<u>45</u>	135
Grants programme:		
EU LEADER programme annual certification	<u>14</u>	14
Contingency		
Unplanned audit work	<u>20</u>	20
<b>TOTAL</b>		<b>564</b>

## D. Indicative Programme for 2019-21

2019-20	2020-21
<b>Main Financial Systems</b>	
Payroll (60) Pensions Admin (40) Payables - Central Creditors, PECOS, Mosaic (80) Capital Budgetting (35) 2017-18 follow-ups (25)	Housing Benefit and CTR (45) Council Tax (45) Non Domestic Rates (35) Income Management (25) Creditors (PMIS & Total Repairs) (70) 2018-19 follow-ups (25)
<b>Departmental Financial Systems</b>	
(140)	To be based on internal audit's assessment of control risks (140)
<b>Risk Management Support</b>	
(30)	(25)
<b>Risk Audits</b>	
(120)	To be based on emerging risks (120)
<b>Grants Programme</b>	
Confirmations for EU and other grants (14)	Confirmations for EU and other grants (14)
<b>Contingency for unplanned audit work</b>	
(20)	(20)

**DUMFRIES & GALLOWAY COUNCIL —  
INTERNAL AUDIT CHARTER**

- 1. Rationale**
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- 11. Continuous Improvement**

**1. Rationale**

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- Internal Audit is an independent and objective internal review and consulting activity within the Council.
- Its function is to use a systematic, disciplined approach to evaluate and improve the effectiveness of the Council's risk management, internal control and governance processes.
- It exists to help the Officer designated under Section 95 of the Local Government (Scotland) Act 1973 fulfil his duty to secure the proper administration of the Council's business affairs.

**2. Authority and Independence**

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- Internal Audit acts with the full authority of the Council.
- Internal Auditors have an unrestricted right of access to all information, people, records and assets connected with the Council and its agencies. Auditors are entitled to seek any explanations they think necessary for the purposes of audit work and must be given the requested information in full.
- Internal Auditors are to have no other executive responsibilities so they maintain operational independence from what they audit.
- Internal Audit sets its own work programme and it reports in its own name without being influenced by its employing Department's interests.
- The Chief Internal Auditor is free to bring any audit matter to the attention of the Chief Executive of the Council and the Chair of the Audit, Risk and Scrutiny Committee.

**3. Remit**

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- Internal Audit's remit extends to the entire control environment of the Council and is not limited to financial controls.
- Internal Audit will review management's achievement of the following business objectives:-
  - Effective and efficient operations
  - Reliable internal and external reporting
  - Compliance with laws, regulations and internal policies.
- Internal Audit will report on whether or not the Council can be reasonably sure these objectives are being met based on the controls that are in place.
- Internal Audit is not responsible for the design, establishment or operation of controls. This is management's responsibility.
- Internal Audit will work with managers to identify controls and may make recommendations for improvement. However managers can choose to accept the risks associated with a control issue or to implement a different solution. Internal Audit's sole responsibility is to report its findings and disclose any matters of concern which remain unaddressed.

#### **4. Standards**

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- The work of Internal Audit will be governed by the Public Sector Internal Audit Standards (PSIAS) and related Local Government Application Note, which are acknowledged as mandatory.
- For the purpose of the PSIAS the “board” is generally the Audit, Risk and Scrutiny Committee of the Council, and “senior management” is the Corporate Management Team.
- Internal Audit will also seek to work to the principles and standards outlined in the current Code of Practice for Internal Audit in Local Government published by CIPFA, where these have not been subsumed in the PSIAS.
- Internal Audit staff are also required to take account of the seven principles of public life identified by the Nolan Committee in their conduct.
- Internal Audit will use the published CIPFA Audit Manual as its core document and will supplement this with procedure notes as required.

#### **5. Responsibilities of Members and Senior Management**

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- The role of the Audit and Risk Management Committee of the Council is to oversee and review the activities of Internal Audit.
- The Head of Paid Service is responsible for setting the employment terms of Internal Audit staff, for appointing them and for establishing the arrangements for their individual performance appraisal.
- The Council’s S95 Officer has no line management responsibilities for Internal Audit in the current management structure of the Council but a professional accountability on the part of Internal Audit exists.

#### **6. Responsibility for Fraud**

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- Responsibility for preventing, detecting, and investigating fraud rests with management.
- Internal Audit will contribute to anti-fraud activity. Auditors will be alert to the possibility of fraud when carrying out their work, will follow up anything that looks suspicious and will report to management where they believe fraud has occurred.
- In the ordinary course of its work Internal Audit will consider the adequacy and effectiveness of controls to assist management in preventing and detecting fraud.
- Advice on the investigation of fraud or other financial irregularities will be given to management at their request.
- Internal audit must be notified by management of all suspected or detected instances of fraud, corruption or impropriety so it can assess the impact on the control environment achieved by management.

**7. Method of Working**

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- Internal Audit's objective is to obtain sufficient, relevant and reliable evidence to support an annual Control Assurance Statement.
- It will achieve this by testing for the continuous operation of key controls in corporate financial systems and by evaluating control arrangements in other areas of business risk. It may also seek assurances on controls from management.
- The Chief Internal Auditor will advise the Audit and Risk Management Committee if s/he considers the section has insufficient resources to fulfil its responsibilities.
- Internal Audit does not have the specialised skills needed to undertake computer audits and may procure services from an external source to identify the audit need and undertake appropriate work.

**8. Performance Measures**

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- Internal Audit will primarily be assessed on its delivery of work against that set out in the annual internal audit plan. Interim progress reports will be submitted to the Audit and Risk Management Committee after 6 and 9 months and an outturn report at the year end.
- The Audit and Risk Management Committee will also be appraised of the annual performance measures for Internal Audit as recommended by the Best Value Working Group of CIPFA Directors in Scotland, along with any other performance measures which may be developed.
- The Council's external auditors will review and report regularly on their evaluation of Internal Audit as part of their work programme.

**9. Reporting**

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- Internal Audit will report to the S95 Officer its findings on any significant control or assurance issue immediately such a conclusion is reached.
- Internal Audit will report its findings and recommendations on business risk issues to senior managers on completion of the work.
- Internal Audit will remit all finalised reports to the Audit, Risk and Scrutiny Committee prior to wider publication and make the full text of its reports available to all Members through the Council's intranet.
- Internal Audit will report annually to the Audit, Risk and Scrutiny Committee on its overall conclusion as to what assurance can be had from the internal control arrangements established by management.

## **10. Working Relationships**

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- Auditors will seek to foster positive relationships with all of their contacts by being objective and working in a professional manner.
- Internal Audit will maintain confidentiality and respect service interests insofar as they remain compatible with its reporting duty.
- Internal Audit will make its plans and the results of its work available to the Council's external auditors and may agree to undertake work at the request of external audit to secure efficiency in the audit process as a whole.

## **11. Continuous Improvement**

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- Internal Audit will constantly seek to review its programmes and procedures and identify opportunities for improvement.
- Publications will be reviewed to identify best practice and innovation in the practice of internal auditing for local introduction.
- Auditors will participate in working parties and actively maintain contacts with audit colleagues from other organisations in order to learn from them.