

Internal Audit Plan: 2019/20



	Table of Contents
-	A quick guide to the audit planning process
-	A glossary of terms
1	Introduction
2	Assessing the effectiveness of risk management and governance
3	Assessing the effectiveness of the system of control
4	Assessment of assurance need methodology
5	The assessment of audit assurance needs
6	Developing an internal audit plan
7	Considerations required of the Audit and Risk Assurance Committee, council management and the Section 151 Officer
8	Information to support the internal audit plan
9	Internal audit plan

A Quick guide to the audit planning process

Step 1 – Audit universe/auditable areas and the council's scorecard priorities

Identify the audit universe (i.e. a list of themes and areas that may require auditing) using a variety of methods:

- Areas of potential risk identified through a variety of sources (including the strategic risk register) as having the potential to impact upon the council's ability to deliver its Vision 203 objectives and its statutory responsibilities, captured through a strategic risk register.
- Mandatory areas, such as the key financial systems work we do to help inform and support the work of the external auditors, grant claim certification etc.
- Areas where we use auditor's knowledge, management requests and past experience etc.



Step 2 – Ranking

Score each auditable area as high, medium or low assurance need using, where appropriate, the CIPFA scoring methodology: materiality/business impact/audit experience/risk/potential for fraud.



Step 3 – Three-year view

High need areas will be reviewed annually, medium need usually once in a three-year cycle, while a watching brief will remain on the low need areas.



Step 4 – Next year's plan

List the themes/areas and where appropriate the types of work that will be undertaken in 2019/20 in the internal audit plan.

A Glossary of Terms

Governance

The arrangements in place to ensure that the council fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.

Control environment

Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the Vision 2030 objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the council and the reporting of financial management; and
- the performance management of the council and the reporting of performance management

System of internal control

The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Risk management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

Risk based audit

An audit that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks
- identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- determines an appropriate strategy to test the effectiveness of controls i.e. through compliance and/or substantive testing; and
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment

Audit and Risk Assurance Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

Internal audit

Definition of internal auditing:

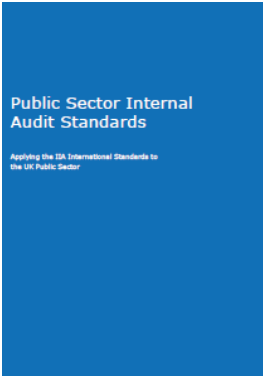
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management,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

Source: Public Sector Internal Audit Standards

Assurance

A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the council's policies, processes and controls and the second being managers' own checks of this first line.

Internal Audit standards



The Internal Audit team comply with the standards as laid out in the Public Sector Internal Audit Standards.

The Three Lines of Defence model



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1 Introduction

The purpose of internal audit is to provide the Section 151 Officer and the Audit and Risk Assurance Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the councils agreed objectives. To provide this opinion, we are required to review annually the risk management and governance processes within the council. We also need to review on a cyclical basis, the operation of internal control systems within the council. Internal audit is not a substitute for effective internal control. The proper role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.

There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The council has an internal audit charter which was approved by the Audit and Risk Assurance Committee and defines the activity, purpose, authority and responsibility of internal audit, and establishes its position within the council. This document sits alongside the charter and helps determine how the internal audit service will be developed.

The purpose of this document is to provide the council with an internal audit plan based upon an assessment of the council's audit needs. The assessment of assurance need exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the council which are assessed as generating the greatest risk to the achievement of its objectives.

2 Assessing the effectiveness of risk management and governance

The effectiveness of risk management and governance will form part of our individual reviews, in order to gather evidence to support our opinion to the council. This opinion is reflected in the general level of assurance given in our annual report and where appropriate within separate reports in areas that will touch upon risk management and governance.

3 Assessing the effectiveness of the system of control

To be adequate and effective, management should:

establish and monitor the achievement of the council's objectives and facilitate policy and decision making

identify, assess and manage the risks to achieving the council's objectives

ensure the economical, effective and efficient use of resources

ensure compliance with established policies, procedures, laws and regulations

safeguard the council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and

ensure the integrity and reliability of information, accounts and data

These objectives are achieved by the implementation of effective management processes and through the operation of a sound system of internal control. The annual reviews of risk

management and governance will cover the control environment and risk assessment elements, at a high level.

The internal audit plan contained within this report is our assessment of the audit work required to measure, evaluate and report on the effectiveness of risk management, governance and internal control.

The framework of assurance

The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation, will comprise a variety of sources and not only the work of Audit Services.

However, Audit Services holds a role within the council as the only independent source of assurance on all internal controls. The work of Audit Services is therefore, central to this framework of assurance. Therefore, Audit Services attempt to acquire an understanding not only of the council's risks and its overall whole control environment, but wherever possible, all sources of assurance.

In this way, Audit Services will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance. This role includes responsibility both for attempting to assess the assurance available to the council from other sources, whether internal or external, and for implementing a plan of internal audit work to obtain the required assurance.

Audit Services report to the Audit and Risk Assurance Committee, which is responsible for assessing the quality of the assurance available to the council and concerns itself with the adequacy and effectiveness of the council's internal control environment as assessed.

This document is, in the large part, risk-based and reflects the requirement for assurance (as well as current audit knowledge and the requirement to follow up earlier work). This plan includes work undertaken directly by Audit Services, but will also, wherever possible, take into account and recognise assurance work undertaken by other parts of the council or by external organisations as captured in the council's strategic assurance map, the adequacy of which will be assessed on an on-going risk basis.

The annual internal audit report to the council will include an opinion on the overall adequacy and effectiveness of the council's control environment, and will, where appropriate, include reference to the assurance made available to the council by other providers as well as Audit Services.

4 Assessment of assurance need methodology

Internal audit should encompass the whole internal control system and not be limited only to financial control systems, the scope of internal audit work should reflect the core objectives of the council and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the council's objectives.

Activities that contribute significantly to the council's internal control system, and also to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks not to try and measure the level of risk in activities, but to assign a relative assurance need value. The purpose of this approach is to enable the delivery of assurance to the council over the reliability of its system of control in an effective and efficient manner.

We have undertaken the assessment using the following process:

- We identified the core objectives and ambitions of the council and, where available, the specific key risks associated with the achievement of those objectives.
- We then identified the auditable areas that impact significantly on the achievement of the control objectives.
- We assigned assurance need values to the auditable areas, based on the evidence we obtained.

The plan is drawn out of the assessment of audit need. The proposed plan covering the period 2019/20 is detailed towards the back of this document.

5 The assessment of audit assurance needs

Identifying the ambitions of the Vision 2030 and the associated risks



The key risks to the council in meeting its Vision, as identified through its risk management process, at the time this plan was prepared, were:

Risk
Children’s social care
Demand for children’s social care
Emergency planning
Business continuity management
Compliance with Data Protection Act 2018 and General Data Protection Regulations
CONTEST
Funding and resource allocation
Health and social care reforms
School place planning
Cyber security
Land sales and other matters
Apprenticeship levy
Maximising opportunities from the West Midlands Combined Authority
Vision 2030
Delayed transfer of care
Commonwealth games aquatic centre
Peer review recommendations

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Better Care Fund and Public Health Grant

These risks are then used, where appropriate, to drive a significant part of the internal audit plan.

Identifying the “audit universe”

To undertake the assessment, it is first necessary to define the audit universe for the council. The audit universe describes all the systems, functions, operations and activities undertaken by the council. Given that the key risk to the council is that it fails to achieve its core objectives and ambitions, we have identified the audit universe by determining which systems and operations impact upon the achievement of the Sandwell Vision and the management objectives above. These auditable areas include the control processes put in place to address the key risks.

Assessing the risk of auditable areas

Risk management is the process of identifying risks, evaluating their probability and potential consequences and determining the most effective methods of controlling or responding to them. The aim of risk management is to contribute to continued service improvement through improved risk-taking activities, reducing the frequency of loss events occurring, and minimising the consequences if they do occur.

Source: Sandwell MBC Corporate Risk Management Strategy

There are a number of key factors for assessing the degree of risk within the auditable area. These have been used in our calculation for each auditable area and are based on the following factors:

Risk
Business impact
Materiality
Audit experience
Potential for fraud and error

Deriving the level of assurance need from the risk values

In this model, the overall scores are translated into an assessment of assurance need. The risk ratings used are high, medium or low to establish the frequency of coverage of internal audit.

6 Developing an internal audit plan

The internal audit plan is based on management's risk priorities, as set out in the council's own risk analysis/assessment. The plan has been designed to, wherever possible, cover the key risks identified by this risk analysis.

In establishing the plan, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable themes and areas will be subject to audit. This ensures that key risk themes and areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.

It is recognised that a good internal audit plan should achieve a balance between clearly setting out the planned audit work and retaining flexibility to respond to changing risks and priorities during the year. Traditionally Audit Services produced quite detailed internal audit annual plans identifying all the individual audits planned for the year, and this approach does have the advantage of providing a clear route map to the end of year opinion. However, as the year progresses, it is likely that the risks and organisational priorities will change, resulting in changes to the plan. This is an issue within the local authority environment at this moment, due to the pace of change and high level of uncertainty affecting the risk environment. Therefore, for this year we are again keeping the audit plan more open than previously, and, where appropriate, the new plan reflects themes and types of work rather than individual audits. More detailed working plans will be maintained operationally within Audit Services. This approach should hopefully result in a more realistic and flexible plan.

Auditor's judgement will be applied in assessing the number of days required for each audit identified in the plan.

The assessment of assurance need's purpose is to:

- determine priorities and establish the most cost-effective means of achieving audit objectives; and
- assist in the direction and control of all audit work

This approach builds upon and supersedes previous internal audit plans.

Included within the plan, in addition to audit days for field assignments are:

- a consultancy allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested
- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to recommendations agreed by management during the prior year; and
- an audit management allocation, which is used for management, quality control, client and External Audit liaison and for preparation for, and attendance at various meetings including the Audit and Risk Assurance Committee etc.

7 Considerations required of the Audit and Risk Assurance Committee, council management and the Section 151 Officer

Are the objectives and key risks identified consistent with those recognised by the council?

Does the plan include all the themes which would be expected to be subject to internal audit?

Are the risk scores applied to the plan reasonable and reflect the council?

Does the plan cover the key risks as they are recognised?

Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?

8 Information to support the Internal Audit Plan

Resources required

It is envisaged that approximately 750 audit days will be required to deliver the audit plan.

Communication of results

The outcome of internal audit reviews is communicated by way of a written report on each assignment undertaken. However, should a serious matter come to light, this will be reported to the appropriate level of management without delay.

Staffing

Where appropriate, audit staff are either professionally qualified, or sponsored to undertake relevant professional qualifications. All staff are subject to an appraisal programme, which leads to an identification of training needs. In this way, we ensure that the team is suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

Quality assurance

Our processes comply with appropriate the Public Sector Internal Audit Standards, and, where required, working papers and reports are subject to thorough review by professionally qualified audit and accountancy staff.

Council Wide areas



Auditable Area	Purpose
Risk Management	To provide on-going support, advice and challenge to the risk management process at strategic, programme and directorate level across the council.
Assurance Mapping	To carry put a high-level and ongoing mapping exercise, linking assurances from various sources to the strategic risks that threaten the achievement of the council's outcomes and objectives. This will play a key part in informing the Annual Governance Statement.
Annual Governance Statement	To prepare the council's Annual Governance Statement, including the issue and review of the Member's and Director's Assurance Statements.
National Fraud Initiative	In accordance with Cabinet Office requirements, to lead on the council's NFI data matching exercise.
Fraud Investigations	As required by the council's Financial Regulations and on behalf of the Section 151 Officer – the carrying out of investigations into areas of suspected fraudulent activity across the council.
Counter Fraud Activities	Where appropriate, to undertake a series of council wide pro-active fraud activities, including the maintenance of key anti-fraud policies and procedures, targeted testing of areas open to potential fraud, maintenance of the council's fraud risk register, hosting fraud awareness seminars and surgeries, hosting and chairing the Midland's regional fraud group and national benchmarking exercises.
Value for Money Reviews	During the year discussions will be held with senior management regarding the identification of potential value for money areas, where Audit Services could be of assistance in performing value for money reviews or offering advice.
Follow up of Agreed Actions	The follow up of key internal audit recommendations made across the council in 2018/19.
Development and Advice	To provide ongoing general controls advice and assistance where required.
Consultancy	To provide advice and guidance on special projects, unplanned and ad-hoc reviews as necessary.
Management	Day to day management of the internal audit, risk management and counter fraud service, quality control, client and External Audit liaison and preparation for and attendance at various Member and Senior Officer meetings.
Audit and Risk Assurance Committee	Preparation and presentation of papers for the committee. Providing training to committee members as and when required and leading on the committee's self-assessment exercise and skills audit.

9 Internal Audit Plan - 2019/20




Strategic Risk Areas

- Funding and resource allocation
- Vision 2030
- Cyber security
- Compliance with Data Protection Act 2018 and GDPR



Key

-  Red: high assurance requirement.
-  Amber: medium assessment requirement.


Finance

<p>Key Financial Systems – A series of reviews on the high-level financial system controls, to support and help inform the work of the External Auditors, to include:</p> <ul style="list-style-type: none"> • Accounts Payable • Accounts Receivable • Budgetary Control • Treasury Management • Benefits • Capital Accounting • Housing Rents • Payroll • General Ledger • Council Tax 	
<p>Certifications – Assurance over grants and other certifications including the Carbon Reduction Commitment and the Local Government Pension Scheme.</p>	
<p>Schools – A review of the governance and financial procedures at primary and secondary schools on a cyclical basis for council maintained schools.</p>	

ICT and Human Resources

<p>ICT – Assurance over the risk management process within ICT including the management of the 'Cyber Security' risk.</p>	
<p>Human Resources - A review of aspects of operational HR activities council wide and supporting developing processes.</p>	

Governance

<p>Information Governance – Assurance over key controls, focusing upon how the council responds to the implementation of GDPR.</p>	
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Strategic Risk Areas

- Children's social care
- Demand for children's social care
- School place planning
- Apprenticeship levy
- Health and social care reforms
- Delayed transfer of care
- Better Care Fund and Public Health Grant

Children's Services

Further Education Funding – to review that the funding is used in accordance with the grant criteria.

R

Adult Services

To review the controls over Personal Budgets and Direct Payments.

R

Disabled Facilities Grant certification.

A

A review of the awarding, use and monitoring of Voluntary Sector and Hardship grants.

A

Public Health

NHS Health Check – to review that the contract specification for the provision of health checks by external providers is being monitored.

R

Strategic Risk Areas

- Emergency planning
- Business continuity management
- Land sales and other matters
- Maximising opportunities from the West Midlands Combined Authority
- Commonwealth games aquatic centre

Regeneration and Growth

Disposal of Land – Ongoing review of the processes in place to ensure that the council obtains the best consideration for any land and property disposals and complies with the new protocol.

A

Corporate Landlord – A rolling programme of audit work to evaluate the procedures followed, focussing on compliance within approved legislation and council procedures.

A

Neighbourhoods and Communitiies

To provide advice, support and assistance on the Welfare Reform group.

A

Housing Revenue Account – To review expenditure and income controls confirming compliance with Financial Regulations, Procurement and Contract Procedure Rules and polices.

A

Fees and Charges – A review of the process and procedure for fees and charges.

A

A series of continuous reviews on the council's arrangements with Riverside, and Boscobel and Cotterills Farm TMO's, on behalf of the directorate

A

Other key areas – A plan of further possible audit coverage will be reviewed on an ongoing basis throughout the year.

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