INTERNAL AUDIT — STRATEGIC PLAN 2016-19 AND ANNUAL PLAN 2016-17

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 2016-17 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 2016-2019 and the annual plan for 2016-17 (**Appendix**).

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.

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 leading on 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 2016-19 (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 Chief Internal Auditor's assessment of internal control risks in relation to this task.

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

3.2.3 The resource allocation for 2016-17 has been adjusted from last year's strategic plan and allows a larger programme of departmental financial systems work.

3.2.4 The resource allocations for 2017-18 and 2018-19 are indicative figures showing the likely distribution of time based on current knowledge and as such, they may be subject to change. Members will wish to note that the allocation for grants work has been reduced on the assumption the Council's new external auditors will not be looking for this support from internal audit in future years.

3.3 Annual Plan 2016-17 (section C of the Appendix)

3.3.1 Three core financial systems will be reviewed in 2016-17 plus we have added an audit of capital budgeting as a follow-on to last year's revenue budgeting work. Creditors will now be reviewed over a 2-year span because there are five different systems which can originate payments and a balance needs to be struck with other work. 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 Audit & Risk Management Committee influences the internal audit plan through its discussions at meetings and requests for follow-up work. The first three audits in the departmental financial systems list have been requested by the Committee. These contributions are important as they help ensure the plan is relevant and timely.

3.3.3 As a result of last year's decisions there has been less opportunity to identify a block of time for the Committee to allocate in 2016-17. However there remains scope to accommodate work requests in the areas of departmental business systems and risk management evaluation work if the Committee wishes to substitute alternative projects.

3.3.4 The 2016-17 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 In respect of the grants programme work included in the plan, the time covers the specific support work agreed between the Council and PwC along with preparation of an annual report for LEADER which is a condition of the EU funding.

3.3.6 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.

3.4 Approval of Plans and Performance Management Reporting

3.4.1 The job time budgets for work in the 2016-17 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. The Committee has previously agreed to receive interim reports at six and nine months as well as the final outturn report in Spring 2017.

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 internal audit recommendations.

3.5 Staffing Complement

3.5.1 The work to deliver the internal audit plan in this report will be performed using existing budgetary resources (4.6 fte staff). Historically the internal audit team at Dumfries & Galloway Council has been smaller in size than many other mainland Authorities but recent changes elsewhere have lessened this difference.

3.5.2 The Chief Internal Auditor 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 2016-17.

4. Governance Assurance

4.1 The remit of the Audit and Risk Management 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 Chief Internal Auditor based on his assessment of risk and professional judgements and no other officers were 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.

Author(s)

NAME	DESIGNATION	CONTACT DETAILS
Kevin Geraghty	**Chief Internal Auditor**	**01387260179**

Approved by

NAME	DESIGNATION
Lorna Meahan	**Director Corporate Services**

Appendices - 1
Appendix - Internal Audit Strategic Plan 2016-19 and Annual Plan 2016-17

Background Papers
Previous reports to Audit and Risk Management Committee at
http://egenda.dumgal.gov.uk/aksdumgal/users/public/admin/kab71.pl

APPENDIX

INTERNAL AUDIT —
STRATEGIC PLAN 2016-2019 AND AUDIT PLAN 2016-17

A. Resource Availability

1. Working days available annually:

52 weeks x 5 working days =	260		
Less public holidays and leave =	39		
Less sickness contingency =	5		
	216	x 4.6 staff =	993

2. Indirect time

General support, management and service development	280-
Training and professional development	23-

3. Annual audit days 690

B. Strategic Plan Resource Allocation (days)

Work Type	2016-17	2017-18	2018-19
Main financial systems: Assurance audits for key corporate systems	190	230	235
Departmental financial systems: Audits of controls operated by Services	235	215	220
Risk management programme:			
Policy development, training, advice and co-ordination of the corporate risk register	40	50	45
Audit reviews of the management of key risks and of corporate issues linked to risks	120	150	145
Grants programme: Verification of grant claims prior to certification by external audit and confirmations for other EU funded grants	90	25	25
Contingency for unplanned work	15	20	20
TOTAL	690	690	690

C. Annual Plan for 2016-17

Job	Plan Days	
Main financial systems programme:		
Payroll	50	
Pensions admin	35	
Creditors (part)	55	
Capital budgetting	25	
2015-16 follow-ups	25	
		190
Departmental financial systems programme:		
Travel expenses – policy compliance	25	
Tendering of building work	35	
Procurement (purchase compliance)	35	
Home care payments (real time monitoring)	35	
Payment cards for personal budgets	35	
Pre-school education – payments to providers	35	
School transport payments	35	
		235
Risk management programme:		
Supporting the further development of risk management at corporate, service and project levels	40	
Specific risk issues:		
Homelessness: risks from changes to Benefit Regulations	35	
Housing Services: substandard accommodation	30	
Capital project over-run (Langholm Primary School)	30	
National Fraud Initiative 2016-17	25	160
Grants programme:		
Housing benefit subsidy claim	25	
Other grant claim verification work:		
Bus service operator's grant	10	
Education maintenance allowances reclaim	10	
Social Work criminal justice grant	15	
National non-domestic rates claim	25	
EU LEADER programme annual certification	5	90
Contingency		
Unplanned audit work	15	15
TOTAL		690

D. Indicative Programme for 2017-19

2017-18	2018-19
Main Financial Systems	
Creditors (part) (55) Housing Benefit and Council Tax Reduction (50) Council Tax (45) Non-Domestic Rates (25) Income Management (30) 2016-17 follow-ups (25)	Sundry Debtors (55) Banking Arrangements (30) Treasury Management (35) Accounting (40) Revenue Budgetting (40) 2017-18 follow-ups (35)
Departmental Financial Systems To be based on internal audit's assessment of control risks	
(215)	(220)
Risk Management Support	
(50)	(45)
Risk Audits To be drawn from current Risk Registers	
(150)	(145)
Grants Programme	
Confirmations for EU grants (25)	Confirmations for EU grants (25)
Contingency for unplanned audit work	
(20)	(20)