

<b>Report of:</b>	Audit & Assurance Manager, Tees Valley Audit & Assurance Services
<b>Submitted to:</b>	Corporate Affairs and Audit Committee 07 March 2019
<b>Subject:</b>	Consultation on Internal Audit Plan 2019/20

**Summary**

<b>Proposed decision(s)</b>
That the Committee notes and comments on the proposed audit themes as set out in Appendix 1 and identifies individual areas where the Committee requires assurance in 2019/20.

<b>Report for:</b>	<b>Key decision:</b>	<b>Confidential:</b>	<b>Is the report urgent?<sup>1</sup></b>
Information	No	No	No

<b>Contribution to delivery of the 2018-22 Strategic Plan</b>		
<b>Business Imperatives</b>	<b>Physical Regeneration</b>	<b>Social Regeneration</b>
By operating to an agreed programme of audits, the work of TVAAS is aimed at assisting the Council in meeting its priorities and managing its risks. It identifies areas for improvement resulting in remedial action being taken where required. The Plan acts as a means of demonstrating that an effective planning process has been undertaken and that internal audit resources will be used effectively.	Internal Audit assists management in delivering the Mayor’s Vision by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.	Internal Audit assists management in delivering the Mayor’s Vision by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.

<b>Ward(s) affected</b>
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None.

### **What is the purpose of this report?**

1. The purpose of the report is to seek Members' views on the priorities for the Internal Audit 2019/20 programme of work.

### **Why does this report require a Member decision?**

2. The Corporate Affairs and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements. TVAAS acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
3. The Audit and Assurance Manager is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
4. PSIAS 2020 states that the internal audit activity plans should be submitted to the Corporate Affairs and Audit Committee for review and approval. In coming to a view on the risks and priorities facing the Council, the opinions of Members of the Committee are requested.

### **Report Background**

5. 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.
6. The Internal Audit Plan, and its consideration by the Corporate Affairs and Audit Committee, is a key element in the annual governance cycle of the Council. Public Sector Internal Audit Standards and the Council's audit charter require the Chief Internal Auditor to compile an indicative audit plan at the start of each financial year. Standard 2020 requires that internal audit plans are communicated to senior management and the Committee for review and approval. In coming to a view on the risks and priorities facing the Council, the opinions of Members of the Corporate Affairs and Audit Committee are requested.
7. The Council's internal audit service is provided by Tees Valley Audit & Assurance Services (TVAAS), a shared service arrangement between Redcar & Cleveland and Middlesbrough Councils. TVAAS provides a wider integrated assurance service for Redcar & Cleveland Borough Council and covers health and safety, risk management and insurance.
8. Each year the Corporate Affairs and Audit Committee agree an Annual Governance Statement, giving assurance that proper governance of operations has been in place throughout the year. Part of that assurance is gained from the work of TVAAS

(Audit and Assurance Team) which is a shared arrangement with Redcar and Cleveland Borough Council. TVAAS acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives.

9. It is important that the Corporate Affairs and Audit Committee drives the scope of the annual internal audit plan before its formal approval so that Members of the Committee are confident that there is adequate audit coverage to be able to give that assurance. Committee Members are therefore encouraged to submit their suggestions as to any areas where they require assurance.
10. **Appendix 1** provides a summary of the key themes in which the Plan aims to provide assurance and some possible audit assignments that have already been identified based on consultation to date. Where applicable, **Appendix 1** demonstrates the links between the planned audits and the Council's Strategic Plan and how the assurance work will be aimed at supporting the Mayor's Vision 'Fairer, Safer, Stronger' and the Council priorities of Physical Regeneration, Social Regeneration and delivering its Business Imperatives. Links are also made with the Council's strategic risk register where applicable.
11. It is important to note that consultation is ongoing and that the assignments included in **Appendix 1** are likely to change once all DMTs, external audit and LMT have been consulted and all comments collated and considered. A revised draft of the Plan will be agreed with the Strategic Director of Finance, Governance and Support before being re-presented to LMT and then, as a final and more detailed version, to the next meeting of this Committee. The detailed Plan will set out the list of audits and the planned number of days in total and for each assignment. Once agreed, progress against the Plan will then, as always, be reported to Members by the Audit and Assurance Manager throughout the financial year.
12. The work carried out by TVAAS is aimed at providing independent assurance to the Council's senior officers, elected members and members of the public that the key risks faced by the Council, to the achievement of the Mayor's Vision, are being managed effectively and that appropriate safeguards are in place for public funds and assets. Many of the audits will involve sample testing and discussion with officers across all directorates of the Council to be able to provide assurance at a corporate level whilst several audits will be specific to one directorate. The overall Internal Audit Plan needs to contain sufficient coverage to enable the Audit and Assurance Manager to provide an annual overall opinion as to the adequacy and effectiveness of the Council's governance, risk and internal control arrangements.
13. Due to the cost savings that the Council has had to make across all services, the overall budget for internal audit has reduced since the implementation of the shared service. It is vital therefore that the internal audit resource is focussed on the areas of highest priority and risk to the Council. This means that the highest proportion of audit days will be allocated to providing assurance on corporate governance themes; those areas relevant to the Council's Improvement Plan; material financial systems and key risk or priority areas specific to directorates.
14. It is anticipated that close liaison with the Leadership Management Team, elected Members, external audit and service managers will produce audits that will add value to the Council's operations and will address the management of key risks. Each assignment will be included on the Plan for one of more of the following reasons:

- It is on the strategic or directorate risk registers or it relates to a key priority in the Council's Strategic Plan;
- It is a national risk or issue or there has been a major change in legislation;
- The area has been subject to considerable change or restructure;
- It has been specifically requested by a Member, director or head of service;
- Previous audit work has identified the area as a known concern requiring further review;
- Audit work has been deferred from a previous year and is still considered to be of sufficient risk to require a review;
- It is a material financial system to the Council and therefore internal audit assurance is required on a regular basis due to materiality. These audits tend to cover systems where the volume and value of transactions processed are significant and where, the impact would be considerable if controls were to fail.
- It is an internal audit role or task required for compliance with Public Sector Internal Auditing Standards.

15. Hot topics for internal auditors for 2019 have been identified via in depth interviews with chief audit executives across different European countries and across a range of sectors. Some of the hot topics have been on the Council's radar/audit plan or risk register for some time thereby demonstrating that previous audit plans have had a relevant focus. Although the content of the Plan is still to be finalised, it is likely that the key areas of focus will be on the following 'hot topics' for all heads of audit:

- Data protection and strategies post GDPR;
- Digitalisation and automation;
- Sustainability, the environment and social ethics;
- Anti-bribery and anti-corruption compliance;
- Communications: protecting brand and reputation;
- Workplace culture: discrimination & staff inequality;
- Risk governance and controls.

16. Any internal audit plan needs to continue to retain some flexibility so that it can respond to management requests, changes in priorities and new or emerging risks. Therefore, the plan is designed to be responsive in nature and all efforts will be made to maximise coverage to provide the most effective service possible that focuses on those key issues facing the organisation throughout the year. As always, the Plan includes contingency time to be allocated to events as they emerge during the year e.g. suspected frauds and special investigations.

#### **What decision(s) are being asked for?**

17. That the Corporate Affairs and Audit Committee notes and comments on the proposed audit themes as set out in **Appendix 1** and identify areas where they require assurance in 2019/20.

## **Why is this being recommended?**

18. Internal audit standards and the Council's internal audit charter require the compilation of a proposed audit plan prior to the commencement of each financial year. The Plan must be based on key risks and priorities facing the Council and should consider the views of Members of the Corporate Affairs and Audit Committee.
19. Internal Audit assists management in delivering the objectives of the Council by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.

## **Other potential decisions and why these have not been recommended**

20. Consultation with Members on the content of the annual programme of work is a key requirement of Public Sector Internal Audit Standards therefore the only alternative would be not to consult with Members which is not recommended.

## **Impact(s) of recommended decision(s)**

21. By operating to an agreed programme of audits, the work of TVAAS is aimed at assisting the Council in meeting its priorities and managing its risks. It identifies areas for improvement resulting in remedial action being taken where required. The Plan acts as a means of demonstrating that an effective planning process has been undertaken and that internal audit resources will be used effectively. Internal audit standards and the Council's internal audit charter require the compilation of a proposed audit plan prior to the commencement of each financial year. The Plan must be based on key risks and priorities facing the Council and should consider the views of Members of the Corporate Affairs and Audit Committee.

## ***Legal***

22. The work of TVAAS is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). The Audit and Assurance Manager is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
23. Internal audit is a statutory requirement in a local authority. The Council has delegated the delivery of this responsibility to the Strategic Director for Finance, Governance & Support.

## ***Financial***

24. The number of days is based on the estimated productive days per member of the Team taking into account known and estimated absences and commitments. Redcar & Cleveland Borough Council charges Middlesbrough Council for the provision of an internal audit service. Charges are based on a daily charge rate linked to the grade of staff involved in the audit work applied to the actual days worked. The overall annual budget for internal audit is circa £180K.

## **Policy Framework**

25. The Corporate Affairs and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements. TVAAS acts as an assurance function providing an independent and objective opinion to the organisation on the entire control and policy environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

## **Equality and Diversity**

26. There are no direct implications from this report on equality and diversity although aspects of the proposed internal audit work may involve a review of issues affecting equality and diversity.

## **Risk**

27. Internal audit and assurance work is aimed at providing assurance that the key risks faced by the Council are being managed effectively and that appropriate safeguards are in place for public funds and assets. As such, internal audit work contributes to providing assurance on the mitigation controls for many of the risks included on the Council's risk registers, both strategic and directorate. Internal audit work particularly links into risk reference O8-054 which relates to having adequate governance processes in place.

## **Actions to be taken to implement the decision(s)**

28. Any requests for additional assurance or clarification by Members of the Committee will be considered for inclusion in the final version of the Plan for 2019/20.

## **Appendices**

Appendix 1 – 2019/20 Proposed Themes for Internal Audit review

## **Background papers**

29. No background papers other than published works were used in the preparation of this report.

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