

CAERPHILLY COUNTY BOROUGH COUNCIL**INTERNAL AUDIT SERVICES****ANNUAL AUDIT PLAN 2016/17****1. Purpose of the Report**

The purpose of the report is to outline the intended allocation of audit time for the financial year ending 31st March 2017.

2. Introduction

2.1 The Public Sector Internal Audit Standards and the Council's own Financial Regulations require that an annual Audit Plan should be prepared to ensure that there is an effective and efficient use of audit resources. The 2016/17 Annual Plan is broadly based on an on-going assessment of risk which makes use of data gathered from various sources including senior management, Heads of Service and Members. The purpose of an annual plan is to outline the resources available and set out the intended allocation of audit time for the forthcoming year. Actual work carried out will be regularly assessed against the Plan.

2.2 During the coming year as the Authority continues to review its operations, its methods of delivery and its performance, the delivery of the internal audit service will flex to accommodate changes to service delivery models and to take account of emerging risks as the Authority reshapes itself. This process will not be confined to the coming year and the level and impact of any flexing cannot be gauged at the present time, however as identified in previous annual plan reports to the Audit Committee resource priority will always be given to high risk areas, new or existing.

2.3 In addition to the Authority wide landscape changes, the internal audit service is in the process of re-aligning its approach in response to the requirements of the new Public Sector Internal Auditing Standards and the developing risk management and governance agendas.

2.4 It is considered that changes or adjustments to either service delivery or coverage will have to be introduced on a rolling basis with a view to maintaining the level of service and keeping operational disruption to a minimum. The effect of this being that the 2016/17 plan will continue to evolve over time as the effect of increased engagement and profile filters through.

3. Staffing

3.1 The establishment level of the Internal Audit Section for 2016/17 is 8.2 FTE's which continues to be in line with the Welsh average.

4. Plan

- 4.1 An outline of the 2016/17 Annual Audit Plan showing the audit days allocated to the main service areas is attached as Appendix A. In preparing the Plan, due consideration has been given to previous years' coverage, emerging issues and any "local factors" as well as acknowledging themed areas that are linked to priorities highlighted in the Auditing Standards.

In addition to the above due regard has been made to the following:

4.2 Systems

- 4.2.1 System audits continue to receive a high level of resource allocation with certain high risk corporate systems being reviewed on an annual basis, either by undertaking a full audit or carrying out an "overview" of system controls. This allocation also allows the expansion of the service into cross cutting reviews and specific risk or business related projects as identified on an ongoing basis.
- 4.2.2 As the service widens its scope of coverage into areas such as assisting on whistleblowing and other investigations and supporting working groups looking at safeguarding and externally funded grant arrangements etc. audit value is gained which contributes to the overall assurance process. Likewise the numerous grants that now require internal audit review are also used to feed the assurance process.
- 4.2.3 Throughout the year Internal Audit staff will continue to have a role to play in both advising on the introduction of new systems and in undertaking regularity checks to ensure that the risks inherent in systems are minimised.
- 4.2.4 Internal Audit will liaise with the Council's external auditors in order to ensure that fundamental systems receive adequate coverage and to prevent duplication of effort.
- 4.2.5 A total of 697 audit days are therefore allocated to systems audit/reviews.

4.3 Establishments

- 4.3.1 The majority of council establishments continue to receive a visit over a three to five year period and a more structured approach to establishment audits has been established to ensure that audit resources are deployed where most benefit can be achieved. It is intended to review the focus of these audits and consider alternative approaches that incorporate a greater link with the governance and risk agendas. This review will take place throughout the year as part of the drive to change the focus of the service. A rolling visiting schedule covering all establishments has been set up, and a schedule of visits relating to 2016/17 is shown as Appendix B.

4.3.2 In addition to ensuring that the link between the establishments and the “corporate centre” are strengthened, it is hoped that the more structured approach to establishment audits will continue to:

- highlight the need for probity in financial administration;
- deal with problems where advice and assistance are required;
- identify any significant areas where procedures are weak;

and, on a more positive note, continue to promote best practice across a wide range of establishments.

4.3.3 A total of 345 audit days have been allocated to this area.

4.4 Contract Audit

4.4.1 The move to a more pro-active system based approach to contract auditing will continue and will be further developed by moving the focus to auditing schemes as they progress. The more traditional approach of auditing contractors' final accounts will continue and information obtained via the final account audits will be used to complement the systems work.

4.4.2 Internal Audit staff will continue to work closely with staff from Procurement Services to promote a high level of contract compliance throughout the Council. It is also anticipated that during 2016/2017 resource will continue to be focussed on ensuring the successful implementation of revised Standing Orders and Financial Regulations and there will also be ongoing coverage and support of the arrangements in respect of the WHQS works due to the ongoing recognition of the inherent risks to a satisfactory conclusion of the scheme.

4.4.3 A total 155 days have been allocated to the audit and review of contract systems and procedures.

4.5 Computer Audit

4.5.1 Reliance on IT systems continues to be a critical factor to the ongoing success of the Authority. As most systems and processes are IT based the ongoing systems reviews are being updated to include an element of what was previously considered to be IT Audit. The less technical IT systems reviews have been merged into the systems work stream and existing work programmes will be adjusted to cover the new approach.

4.5.2 During the year as specific issues arise or additional risks are identified consideration will be given to how best to build these into the ongoing plan as would be the case for all emerging issues.

4.5.3 Audit work will still be undertaken to review and report on the central controls for those areas that are within scope of the BSI accreditation.

4.6 Corporate/Other

- 4.6.1 An action plan review process is in place to monitor the implementation of agreed actions as the final part of the audit cycle. This work is regarded as additional to the actual audit as it provides assurance on a corporate basis that agreed recommendations are being implemented by managers. Additionally in order to provide reports to, and address any issues emanating from, the Audit Committee, a time allocation has been included.
- 4.6.2 The Internal Audit Section also co-ordinates and contributes work in respect of the National Fraud Initiative, the production of the Annual Governance Statement and the periodic reviews of Standing Orders for Contracts and Financial Regulations.
- 4.6.3 A total of 113 days have been included in the Plan to cover such topics.
- 4.6.4 In anticipation of “unplanned” issues arising during the year, such as special investigatory work, and work brought forward from the previous year, days have been allocated as a general contingency. This approach should reduce problems with audits having to be postponed or cancelled and make the audit plan more aligned to actual eventualities. A total of 80 days (5%) has been allowed for this.

4.7 Non-Audit Days

- 4.7.1 Certain tasks are carried out by the Internal Audit Section that despite providing a valuable insight into emerging issues do not technically fall within the precise definition of internal auditing. For ease of administration and corporate benefit these tasks are at the present time carried out by internal audit staff.
- 4.7.2 The following list is indicative of those tasks:
- Co-ordination / monitoring of anonymous letters received.
 - Returned cheques - control and administration.
- 4.7.3 A total of 140 days have been allocated to these tasks.

4.8 Overheads

- 4.8.1 For 2016/17 the allocated overhead is 621 days. The largest element of this figure relates to bank holidays and annual leave which in total stands at 289 days. The remaining balance consists mainly of managerial provisions but some indicative figures include a training provision of 20 days, a sickness provision of 32 days, an audit planning provision of 50 days, a time recording provision of 20 days.

5. **Summary**

- 5.1 The report has dealt with the allocation of audit resources and highlighted the main areas of coverage.
- 5.2 The plan continues to reflect a proactive and constructive approach to Audit matters.
- 5.3 The desire to “continually improve” will have an impact on the way audit functions in that there is a continuous need to ensure that we provide a service of the highest quality at the most competitive cost.
- 5.4 In the coming months efforts will continue to build on existing practices and procedures in order to meet the requirements of the new auditing standards and the service will be working with the Audit Committee to reset the focus of the audit coverage and realign the direction of travel to improve the service to meet the constantly changes demands placed upon it.
- 5.5 Additionally consultation will take place with audit “clients” and our External Auditors throughout the year and their views and future requirements will be taken on board in the ongoing development of audit service provision.
- 5.6 Audits which due to unforeseen reasons were not carried out in the previous year have been re-assessed and prioritised and if considered appropriate have been included in the Plan. Similarly, areas for audit included in the 2016/17 Annual Plan which, due to unforeseen circumstances, are not audited within the forthcoming year will be assessed for inclusion in future year plans. The Plan must therefore be viewed as a fluid document which not only addresses traditional or historic areas but is also able to respond to new or emerging issues.

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