



AUDIT COMMITTEE

28 02 2018

Subject Heading:

Internal Audit Strategy and Charter and 2018/19 Plan

SLT Lead:

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Policy context:

To inform the Committee of the proposed audit plan for 2018/19

Financial summary:

There are no financial implications arising from approving the audit plan/strategy. It is expected that the costs of implementing both will be contained within the oneSource revenue budget for internal audit.

Communities making Havering

[X]

Places making Havering

[X]

Opportunities making Havering

[X]

Connections making Havering

[X]

SUMMARY

The Public Sector Internal Audit standards refer to the need to produce a risk-based Internal Audit Plan. This should take into account the requirement to produce an annual internal audit opinion and report that can be used by each Council to inform the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work.

The report sets out the approach to producing the draft Internal Audit plan and invites comment from Members.

RECOMMENDATIONS

1. To approve the indicative draft 2018/19 audit plan and Internal Audit Charter and Strategy.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

1. Introduction

- 1.1 The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) and other guidance.
- 1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a simple framework for understanding the role of Internal Audit in the overall risk management and internal control processes of an organisation:
 - First line – operational management controls
 - Second line – monitoring controls, e.g. the policy or system owner / sponsor
 - Third line – independent assurance

The Council's third line of defence includes Internal Audit, who should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

- 1.3 An independent Internal Audit function will, through its risk-based approach to work, provide assurance to the Council's Audit Committee and senior management on the higher risk and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.
- 1.4 The work of Internal Audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the Annual Governance Statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.

2. Internal Audit Plan

- 2.1 To develop the 2018/19 audit plan, officers within the Assurance Service have been involved in discussions with the Section 151 Officer and with members of the Senior Leadership Team (SLT) to review risks in their areas. The Mazars horizon scanning document, which discusses national and pan-London local government risks, has also been reviewed to assist in identifying common risk and audit themes and used to inform these discussions. This, along with management requests and audit cumulative knowledge and experience, has formed the basis of the plan.
- 2.2 A combined plan has been compiled for the three oneSource member councils. This has identified some common audit themes, allowing for improved efficiencies in terms of delivery across boroughs where there are common risks. However, each borough has its own unique objectives and therefore, audits will be conducted individually, where appropriate.
- 2.3 It is proposed that the 2018/19 plan is flexible to allow for changes in the risk and operational environment in which the Council operates. As such, the draft plan as presented here is a longlist of the high and medium risk audit areas, covering the range of Council activities which, in conjunction with management, have been assessed as requiring assurance at this point in time. The number of audits on the longlist totals 895 audit days, which exceeds the budget available by around 100 days. This overstatement is deliberate as the list of audits will be refined in discussion with senior management as the financial year progresses. The Audit Committee will be informed of all changes to the plan at the regular progress updates during the year.
- 2.4 The draft plan has been discussed with individual Directors and formally agreed by SLT on 6th February 2018.
- 2.5 Work is also underway to refresh the Council's corporate risk register. Any significant changes in the strategic risk environment will also be reflected in the plan.
- 2.6 Attached as Appendix 1 is the Internal Audit Plan for Havering. The Plan is exclusive of Counter Fraud investigations but there is a provision for Internal Audit staff to support Counter Fraud work across the three authorities on system related work.

3. Internal Audit Charter and Strategy

- 3.1 The work of the oneSource Internal Audit Team is underpinned by the Internal Audit Charter and Strategy. This is attached as Appendix 2 and has been revised and updated (and will continue to be revised as the oneSource shared service develops). This defines Internal Audit's purpose, authority and responsibility, in accordance with the UK Public Sector Internal Audit Standards. It establishes Internal Audit's position within the three Member Councils and clarifies reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of Internal Audit activities.

3.2 The Charter and Strategy also covers the role of the Head of Assurance and Internal Audit staff, and identifies the nature of professionalism, skills and experience required.

Appendix 1 Internal Audit Plan 2018/19 for LB Havering
Appendix 2 Internal Audit Charter and Strategy 2018

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising from approving the plan. The financial implications arising from implementation of the plan are predominantly staffing costs and associated resources. It is expected that costs will be contained within the oneSource shared budget for internal audit and any variance will be reported and addressed through budget monitoring processes.

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks and ultimately good governance. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated.

Legal implications and risks:

There are no apparent risks in noting the content of the report. Failure to effectively manage risks is likely to have legal consequences.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

Accounts and Audit (England) Regulations 2015
Public Sector Internal Audit Standards
Local Government Application Note
Horizon Scanning – Challenges and Opportunities 2016 and 2017 (Mazars)