

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 22 March 2016
Report for: Approval
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Service – Internal Audit Operational Plan 2016/17

Summary

The purpose of the report is to provide, at a high level, the proposed Internal Audit Operational Plan for 2016/17.

Recommendation

The Accounts and Audit Committee is asked to approve the 2016/17 Internal Audit Plan.

Contact person for access to background papers and further information:

Name: Mark Foster – Audit and Assurance Manager
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Background Papers:

None

Internal Audit Operational Plan 2016/17 – Audit and Assurance Service

1. Introduction

- 1.1 The 2016/17 Internal Audit Operational Plan identifies the work to be undertaken by the Audit and Assurance Service during the year. This report describes its method of compilation and presents, at a high level, the 2016/17 Plan for approval.

2. Background

- 2.1 Each year the Audit and Assurance Service produces a report setting out its annual plan for approval by CMT and the Accounts and Audit Committee. Subsequent updates are then provided to CMT and the Accounts and Audit Committee through the year highlighting work undertaken and progress against key areas of the Plan. Actual work undertaken during the year against work planned is set out in the Annual Internal Audit Report.
- 2.2 In accordance with the Accounts and Audit Regulations 2015, it is a requirement that the Council “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.” The Audit and Assurance Service must undertake its work in accordance with the Public Sector Internal Audit Standards which have been in place since April 2013.
- 2.3 The Service’s approach to undertaking internal audit work is set out in the Internal Audit Charter and Strategy documents. These were previously approved by CMT and the Accounts and Audit Committee in March 2014 and revised versions have been provided for approval in March 2016.

3. Compilation of the Plan

- 3.1 The Operational Plan is produced to take into account coverage of risks and associated controls in place. An important consideration is that the Operational Plan should include good coverage across Council services and systems. Ongoing financial challenges faced by the Council highlight the need to ensure that effective governance and internal control arrangements are in place, risks are managed and value for money is sought.
- 3.2 A number of factors are taken into account in compiling the Operational Plan based on both statutory obligations, the objectives of the Council and an assessment of risks. Factors such as materiality, business risks, inherent risks and time since the area was last reviewed are taken into account.

- 3.3 New developments such as changes in legislation and council responsibilities are considered in planning work. Current developments across the Council are taken into account in planning and scheduling work. For 2016/17 for instance, time has been set aside for the audit review of governance and monitoring arrangements established for the Council's One Trafford Partnership with Amey. Time will also be set aside for liaison with other Audit teams within Greater Manchester Councils to consider respective roles in respect of GM wide issues.
- 3.4 Corporate Directorates provide input to the plan through liaison with the Audit and Assurance Service throughout the year and through information provided such as through risk registers, action plans, self-assessments and control / governance issues raised.
- 3.5 The Service has a number of obligations to take into account in producing the Plan. This includes the need to set aside time to meet the requirements of the Accounts and Audit Regulations by facilitating the production of the Authority's Annual Governance Statement. The Service also co-ordinates the update of the Council's Strategic Risk Register.
- 3.6. Plans take into account other audit, assurance or development work being undertaken in particular areas. This includes for instance work by the External Auditor and other developments across the Council. Time is also allocated to follow up on control issues previously raised in 2015/16, including previous audit review work, to assess progress in implementing action plans, particularly where significant areas for improvement in controls have been identified. In 2016/17 for example, Audit review work in relation to budgetary control will include following up on issues previously raised and reported on in respect of the Budget Monitoring Action Plan.
- 3.7 A specific category of audit time is also included to reflect the requirement for internal audit checks of information supporting particular grant claims.
- 3.8 The amount of time available to undertake the annual plan is identified, and individual areas of work selected on the basis of risk until available time has been utilised. A contingency is also held to allow for unforeseen circumstances.
- 3.9 For reporting and monitoring purposes the plan is divided into a number of categories. Whilst the plan is divided into these categories it should be noted that there are significant areas of overlap between them and assurance gathered from one source could apply to another. For instance, whilst there is a block of time allocated to procurement and value for money, such issues will also be covered to some degree within other areas of the plan such as reviews of fundamental systems; anti-fraud and corruption work and reviews of schools and other establishments.

- 3.10 Assumptions in respect of available audit days are considered to provide the total planned days. For 2016/17, there are 1080 available days (compared to 960 in 2015/16 which was less than 2016/17 given vacancies at the time). Total staffing amounts to 7.83 Full time equivalent staff. In the last quarter of 2015/16, there were 6.83 staff actually in post. The post which was vacant during the period is to be filled from April 2016 following a recent appointment having been made. Two other staff in the team, however, are to retire in March and April 2016 respectively (with a recruitment process currently underway in respect of one of these posts). The Plan has been produced on the assumption that two new audit staff will be in place by Quarter two of 2016/17. Available days will be further reviewed at the end of June 2016 taking into account resources actually available.
- 3.11 There are a variety of activities undertaken to fulfil the Audit Plan and in addition to conducting internal audit reviews which result in the issuing of audit opinion reports, work may also include providing input to project / working groups, providing guidance and advice, and developing or providing input to council policies and procedures. The Service also facilitates the production of a number of corporate reports presented to the Accounts and Audit Committee.
- 3.12 The report does not include reference to all work to be undertaken during the year. As issues are raised or areas of risks are identified on an ongoing basis, other areas are included through the year and existing plans reviewed. For some areas, elements of planning may take place during the year and therefore detailed plans are not available at the commencement of the year. Quarterly updates to CMT and the Accounts and Audit Committee will include reference to new work included in the work plan through the year. The Operational Plan is flexible and during the year adjustments may be made to accommodate any changes in the control environment and to consider emergent risks. Supporting the plan set out in this report are programmes of work for the individual categories listed in section 5, plus further plans detailing work allocated to individual staff.
- 3.13 It should be noted that there are a number of other activities undertaken that are not reflected in the analysis of planned days as they are not attributable to one particular category of work but support the audit process. These include support to the Accounts and Audit Committee, liaison with the External Auditor (Grant Thornton), development of audit systems, procedures and guidance, networking with other North West Internal Audit groups to share good practice, information gathering in support of the production of the audit plan etc. Separate additional time allocations are given to individual staff to undertake these activities.
- 3.14 Finally, time is set aside for the completion of reviews originally planned for 2015/16. Work completed or in progress in 2015/16 and work carried

forward to 2016/17 will be reflected in the Annual Internal Audit Report to be issued in June 2016.

4. Reporting / Performance Monitoring

4.1 Through the year, progress updates will be provided to CMT and the Accounts and Audit Committee (through quarterly updates and the Annual Internal Audit Report) which will refer to details of performance, impact of audit and progress against the Plan. This will include details of:

- Actual Chargeable audit days against planned days allocated reported on a quarterly and annual basis.
- Percentage of audit recommendations accepted reported on a quarterly and annual basis (against an annual target of 95%).
- Summary of feedback from managers in respect of client surveys, to be detailed in the 2016/17 Annual Internal Audit Report.
- Number of audit opinion reports issued against that planned for the year (Target of 35 audit opinion reports to be issued in 2016/17).

4.2 Where reviews or other key areas identified in the Plan are not undertaken as scheduled, this will be reported in subsequent updates including the 2016/17 Annual Internal Audit Report.

4.3 Updates through the year will also include commentary on Audit resources available and where applicable any issues that may impact on completion of the Audit Plan.

4.4 Updates will also be provided in respect of the impact of audit work in terms of the outcomes of follow up audit work including analyses of the percentage of recommendations implemented in full or in part.

5. Operational Plan Coverage 2016/17

5.1 The Operational Plan is compiled to ensure coverage across a wide and diverse range of services, systems and thematic areas of coverage. Each of the main categories of work is described in the paragraphs below. In the appendix is a summary of the planned work and an estimated time is allocated to each category. This includes an estimate of time profiled by quarter.

5.2 Fundamental Systems

These are the core financial systems that provide key inputs for the production of the material balances in the Council's accounts. Previous assurance obtained in earlier audits will be taken into account in planning the level of audit coverage within individual reviews.

Coverage will include review of the following systems during the year:

Payroll system, Treasury Management, Accounts Payable, Accounts Receivable and Debt Recovery, Council Tax, Business Rates, Housing Benefit / Council Tax Reduction and Income Control.

An audit of budgetary control processes will also be undertaken to include coverage of issues previously reported within the Council's Budget Monitoring Action Plan.

Audit will also be liaising with Finance Services to review processes supporting the production of balance sheet values in relation to valuation of the highways network given changes in accounting requirements from 2016/17.

Audit will also liaise with the Economic Growth, Environment and Infrastructure Directorate (EGEI) to follow up progress made in relation to the agreed action plan following the Audit of Let Estates in 2015.

Time will also be allocated, where required, to complete current work in progress at the end of 2015/16. This is expected to include the audit of Insurance and also reviews in relation to the Community, Families and Wellbeing Directorate (Adult Social Care Liquid Logic / Controcc System and the audit of direct payments). Work completed in 2015/16 and work carried forward will be reflected in the 2015/16 Annual Internal Audit Report.

5.3 Governance

Audit and Assurance will lead on reviewing and collating supporting evidence and assurances for the completion of the Council's 2015/16 Annual Governance Statement (AGS). This will be completed using the CIPFA/SOLACE Governance framework and guidance. This identifies particular aspects of governance arrangements to review across the Council such as clarity of responsibilities and reporting arrangements, procedural issues, standards of conduct, management of risks, community engagement, workforce planning, partnership governance etc. Work includes reporting on progress by the Council in progressing significant governance issues previously raised in the AGS which includes the Reshaping Trafford programme, Budget Monitoring processes, Information Governance and Devolution issues.

CIPFA/SOLACE are issuing an updated framework and guidance around April 2016 which is required to be used to support the production of the 2016/17 Annual Governance Statement. Audit will review the updated framework and take this into account in work supporting the production of the 2016/17 Annual Governance Statement, which will commence in the final quarter of the year.

Time will be set aside in the Plan to provide Internal Audit input to governance issues across the Council. This may take the form of sharing

guidance or providing comment / advice in respect of ongoing developments which may also inform future planned audit work. This will include Audit liaising with the Children, Families and Wellbeing Directorate in respect of significant developments relating to partnership governance arrangements, including the Section 75 Agreement coming into effect from April 2016 in relation to health and social care integration.

Audit will also liaise with other Greater Manchester (GM) Councils and will set time aside for any assurance required to be provided in relation to GM wide issues.

5.4 Risk Management

Time is allocated to review existing risk management arrangements across the Council and ensuring processes are evidenced. This will include continuing to facilitate the ongoing update of the strategic risk register. This provides assurance in respect of the highest strategic risks faced by the Authority in terms of the management and ongoing monitoring of those risks. As part of this, there will also be ongoing liaison with individual Corporate Directorates to share good practice and gather assurance regarding risks at a Directorate level.

The Service maintains corporate risk management guidance, available on the Council's intranet, which where applicable will continue to be updated. In 2016/17, The Service will also review the existing Council Risk Management Policy Statement and Strategy for review and approval by the CMT and the Accounts and Audit Committee.

5.5 Anti-Fraud & Corruption

From March 2016, the Council will no longer have a benefit fraud investigation team following its transfer to the DWP as part of the Single Fraud Investigation Service. Audit will liaise through the year with the Council's Counter-fraud team, established within Exchequer Services, to consider the Council's anti-fraud and corruption arrangements with reference to the CIPFA Code of Practice on Managing the Risks of Fraud and Corruption. This will include liaison with the new team and other relevant services to review and update the Council's Anti-Fraud and Corruption Policy and Strategy to take account of the changes.

Cases of suspected internal fraud or theft referred to the Audit and Assurance Service will be subject to investigation during the year.

The Service will also continue to support the National Fraud Initiative (NFI) and will liaise with other services to ensure the Council provides data in accordance with the requirements of the NFI 2016/17 exercise.

5.6 Procurement / Contracts / Value for Money

Audit and Assurance undertakes reviews of procurement arrangements and processes to ensure the Council strives to achieve value for money and undertakes procurement in accordance with relevant legislation and the Contract Procedure Rules.

As part of internal audit planning, the Service continues to liaise with the STAR Shared Procurement Service and Internal Audit sections of the partner authorities (Stockport and Rochdale Councils). Audit plans continue to be co-ordinated with relevant findings shared to ensure an efficient audit process. In 2016/17, it has been provisionally agreed that the three authorities will co-ordinate review work to include:

- A follow up review of progress in relation to implementing recommendations set out in the contracts register audit completed in 2015/16 by Stockport Council.
- A review assessing adherence to the Contract Procedure rules which were newly established in 2015 across the three Councils which is planned to be led by Rochdale Council.
- A review of how STAR and the respective Councils consider and monitor Social Value aspects in relation to Procurement in accordance with the Public Services (Social Value) Act 2012. This audit is planned to be led by Trafford Council Audit and Assurance Service.

Details in respect of the above reviews and possible further review work will be confirmed during the early part of the year.

With the formation of the One Trafford Partnership in 2015/16, it has been agreed that Audit will review governance / performance monitoring arrangements established by the Council with its partnership with Amey.

It has also been agreed with the EGEI Directorate that further work will be undertaken in respect of the arrangements between the Council and the current operator of Altrincham Market in respect of the lease agreement.

Where applicable, time will also be set aside to cover any planned reviews carried forward from 2015/16 which will be detailed in the Annual Internal Audit Report.

5.7 Information, Communications and Technology (ICT)

The audit of ICT covers the review of procedures, processes and controls across a range of computer systems and technical solutions. Salford Internal Audit Services undertake a significant part of this work and also contribute to audit planning in respect of this area. The following work has been planned to date:

- Follow up of progress by the Council in relation to findings previously raised by the External Auditors in respect of access controls to the SAP financial system.
- A review of the Council's ICT Change Management arrangements has been rescheduled to take place within the first quarter of 2016/17.
- Work to validate the Council's annual Public Services Network (PSN) submission to ensure compliance with the Cabinet Office's IT security requirements.
- Work to assess progress in managing risks relating to Disaster Recovery and Business Continuity which are currently being reviewed by ICT.
- An audit review of the Council's Cyber Security arrangements has been recently completed and will be followed up towards the end of 2016/17.

The Council has agreed for a review to take place at a future date by the Information Commissioner's Office (ICO). With other services, Audit and Assurance will contribute where appropriate to activities required to support this exercise.

It is expected that there will be coverage of other areas relating to ICT and Information Governance during the course of the year, with any further planned areas to be agreed in liaison with ICT and other relevant services. Any other planned work will be reported in the regular Audit and Assurance update reports through the year.

Where applicable, other time will be allocated to follow up reviews conducted in 2015/16.

This block of work may also cover, in liaison with Human Resources and other services, investigating cases of misuse of the Council's ICT facilities, ensuring Members and staff are aware of responsibilities such as in adhering to the council's Acceptable Use Policy.

5.8 **Schools**

The Schools Financial Value Standard was introduced in 2011/12 and since then, schools are required to submit a declaration to show adherence to the Standard by 31 March each year. Information submitted is utilised by Audit and Assurance to assist in planning and undertaking school audits.

Based on a risk assessment, taking into account the information above and from previous work undertaken at each school and liaison with the CFW Directorate and Finance Services, it is planned that at least 15

school audits will be undertaken. This will include the follow up of any school audits where a less than adequate audit opinion was issued in 2015/16.

5.9 Assurance – Other Key Business Risks

Time is allocated to reviewing risk areas derived from a number of sources not covered within other categories of the Plan, including Directors / senior managers' recommendations, risk registers and areas identified by Internal Audit. Reviews may cover individual services, establishments, functions and authority wide issues and risks to ensure a broad coverage of audit work across the Council. For service/establishment related reviews, risks reviewed may encompass a number of areas of control such as procedures and responsibilities, adherence to legislation, budgetary control, Payroll/HR related processes, risk management, security (of cash, assets and data), purchasing; income collection and recording and other areas specific to the service under review.

Audit reviews are included in the Plan as follows:

- Corporate Health and Safety (T&R/Authority-wide)
- Two Libraries (T&R)
- Planning Enforcement (EGEI)
- Housing Options Service (EGEI)
- Out of Borough Placements (CFW)
- One Children's Centre (CFW)

For the above reviews, Audit and Assurance will contact individual services to discuss and agree the detailed scope of the reviews prior to any work being undertaken.

Follow up work in respect of previous audit work undertaken in 2015/16 will be undertaken. This will include follow up audit reviews of:

- Business Continuity (T&R / Authority- wide)
- Taxi licensing (EGEI)
- Schools catering (T&R Directorate from April 2016)
- Sale Waterside Arts Centre (T&R)

In agreement with respective Directorates, some reviews have been rescheduled from 2015/16 to be included in the 2016/17 Plan. These are as follows:

- Section 106 and the Community Infrastructure Levy (EGEI Directorate).
- Home To School Transport (CFW)
- Aids and Adaptations (CFW)

There will also be time allocated for the completion of any other review work in progress as at the end of March 2016 (which will be highlighted in the 2015/16 Annual Internal Audit Report).

There will also be time set aside to review other potential risk areas as raised through 2016/17.

5.10 Data Quality/Grant Claims

In recent years, Internal Audit has been required to review an increasing number of grant claims. This includes the Service providing a role in providing verification checks on claims made as part of the Council's Stronger Families programme and that will continue in 2016/17. A separate block of time is included in the Plan to accommodate this and other grant claims and data quality checks made through the year where Internal Audit is required as part of the review / sign off process.

5.11 Service Advice / Projects

The Audit and Assurance Service provides advice across the Council on governance and control issues. In addition to areas listed elsewhere in this report, time is set aside for the provision of ongoing service advice. This may take the form of responses to ad hoc queries, issuing guidance, and liaison with other services.

The Audit and Assurance intranet site includes information on the role of Audit and associated guidance for services in respect of risk management, governance and anti-fraud and corruption.

Audit may contribute to project/working groups involved in the development of new systems or review of processes, providing advice and assurance where appropriate. Audit will continue, subject to available resources, to set some planned time aside to contribute to projects to provide input in terms of consideration of internal control issues.

2016/17 Operational Audit Plan – Allocation in Days

Appendix

Category	Details	<u>Impact of Audit and Assurance's work</u>	<u>Planned Days</u> (Profiled by each quarter of year – Q1/Q2/Q3/Q4)
Fundamental Systems	Audits of fundamental financial systems reviews.	Assurance on the operation of material business critical systems. Improvements in control environment supporting the achievement of corporate priorities, effective financial management, good governance and supporting the Council's position in respect of its external audit review.	230 (40/50/75/65)
Governance	Corporate Governance review work / collation of supporting evidence and production of the 2015/16 Annual Governance Statement. Advice / assurance in respect of governance issues including partnership governance issues.	Provision of assurance on the effectiveness of governance arrangements in place within the Council to support the achievement of Council and Community objectives and priorities. The Annual Governance Statement provides assurance to the public on the effectiveness of governance arrangements and enables the establishment of corporate improvement priorities. Provision of assurance on the effectiveness of partnership governance arrangements. Supporting the achievement of Council and Trafford Partnership priority outcomes.	50 (20/15/7/8)
Corporate Risk Management	Facilitating the updating of the Council's strategic risk register. Progression of actions to support the Council's Risk Management Strategy including review of risk management	Assisting the Council to effectively manage risks leading to improvements in service delivery, achievement of objectives and improvements in the allocation of resources. The work also supports the Council in evidencing good practice undertaken when subject to inspection and review.	30 (6/8/7/9)

	processes and provision of guidance.		
Anti Fraud & Corruption	<p>Work in co-ordinating the reporting of the Council's NFI data matching exercise.</p> <p>Investigation of referred cases, including if applicable those highlighted through the National Fraud Initiative (NFI).</p> <p>Work to review the existing Anti- Fraud and Corruption Strategy and Policy, including where applicable, raising awareness of supporting guidance to promote measures to prevent, deter or detect instances of fraud and corruption.</p>	<p>Contributes to the maintenance of high standards of conduct and governance. Provides assurance on the management of the risks of fraud and corruption.</p> <p>Advice to services on the improvement of controls in place to reduce potential risks, e.g. financial loss and reputational damage.</p>	<p>140 (25/38/35/42)</p>
Procurement / Contracts / Value for money	<p>Review of procurement / contract management arrangements across the Council including systems in place and associated arrangements to secure value for money. (This will include liaison with the STAR Procurement Service and partner authority auditors).</p>	<p>Assurance and challenge on the adequacy of procurement arrangements. Contributes to improvements in service delivery and the achievement of value for money for the Council.</p>	<p>70 (10/15/20/25)</p>
ICT Audit	<p>Audit reviews to be completed in line with the ICT audit plan.</p> <p>Investigation of misuse of ICT.</p>	<p>Specialised technical advice and assurance on the adequacy of controls surrounding ICT systems.</p> <p>Assurance to managers who place significant reliance on ICT systems for the delivery of services.</p>	<p>60 (9/15/18/18)</p>

Schools	<p>Audit reviews of individual schools and service wide review work.</p> <p>Supporting schools in ensuring awareness of requirements within the DfE Schools' Financial Value Standard.</p>	Supports improvements in standards of governance and control in schools and supports process to enable achievement of standards set by DfE.	170 (40/30/50/50)
Assurance – Other Key Business Risks	Selected on the basis of risk from a number of sources including senior managers' recommendations, risk registers and internal audit risk assessments. Reviews will include authority wide issues and areas relating to individual services, establishments and functions	This work enables Internal Audit to provide a breadth of assurance across the Council that there are adequate governance and control arrangements in place, that policies and procedures are being implemented, that risks are being managed, and outcomes delivered.	180 (30/33/57/60)
Grant claims checks / Data Quality	Internal audit checks of grant claims / statutory returns as required. This includes verification checks of data submitted by the Council as part of its Stronger Families programme.	Ensuring the Council adheres to requirements in submitting relevant grant claims where Internal Audit input is required, providing assurance regarding the accuracy of data and supporting information reviewed.	30 (4/8/8/10)
Service Advice / Projects	<p>General advice across all services.</p> <p>Support and advice to the organisation in carrying out key projects ensuring new systems, functions and procedures provide for adequate controls and good governance arrangements.</p>	<p>Support to services around the relevance and application of corporate policies, procedure rules and good governance arrangements.</p> <p>Contributing to the delivery of effective project outcomes including input to the consideration of key risks and appropriate controls considered in the development of new systems, functions and procedures.</p>	60 (10/12/19/19)
		Total Allocated Days	1020 (194/224/296/306)

		Contingency (To cover additional / unexpected work and any unexpected reductions in available staff days).	60
		Total Planned Days	1080
		Available Days	1080
		Surplus/Deficit for Year	0