

INTERNAL AUDIT PLANNING METHODOLOGY AND TIMETABLE FOR 2014/15

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1.0 EXECUTIVE SUMMARY

1.1 This report sets out the proposed approach to internal audit planning for 2014/15.

1.2 Key points are:

- Requirement of the Public Sector Internal Audit Standards (PSIAS) for the Head of Internal Audit to prepare risk based audit plans based on at least an annual risk assessment.
- The need for risk based audit plans to be prepared in order to allow the preparation of an annual opinion on the Council's overall systems for governance, risk management and internal control.
- Refocusing the work of internal audit to strategic and corporate risks and governance issues.
- Consultation with senior management to identify priorities for inclusion in the audit plan
- The use of a formal risk assessment methodology to identify areas for inclusion and provide Audit and Governance Committee with assurance that a robust approach is being taken to internal audit planning

1.3 A draft internal audit plan will be presented to Audit and Governance Committee on 15 April 2014 for approval.

2.0 POLICY POSITION, BUDGETARY AND EQUALITY IMPLICATIONS, AND LINKS TO COUNCIL PLAN

2.1 The Accounts and Audit Regulations 2011 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practices as stated within the Regulations are now defined as the Public Sector Internal Audit Standards.

- 2.2 The Public Sector Internal Audit Standards require a risk based internal audit plan to be prepared by the Head of Internal Audit and approved by the Audit and Governance Committee.

3.0 RECOMMENDATION

- 3.1 Members are asked to approve the proposed approach to internal audit planning for 2014/15

4.0 INTRODUCTION

4.1 The work of internal audit must confirm to the Public Sector Internal Audit Standards (“PSIAS” or “The Standards”) which became mandatory for all internal auditors working in the UK Public Sector from 1st April 2013.

4.2 The Standards define internal auditing as:

An independent, objective assurance and consulting activity designed to add value and improve an organisation’s objectives. 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.

4.3 The Standards require that ‘chief audit executives’ must establish risk based plans to determine the priorities of the internal audit activity consistent with the organisation’s goals.

4.4 In preparing the risk based audit plan, the Standards require that the chief audit executive must take into account the organisation’s risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If such a risk management framework does not exist, the chief audit executive uses his / her own judgement of risks after consideration of input from senior management and the board (Audit and Governance Committee)

4.5 Risk based audit plans must also take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational; objectives and priorities.

4.6 The Standards also require that the chief audit executive must review and adjust the plan as necessary in response to changes in the organisation’s business, risks, operations, programs, systems and controls.

4.7 A requirement of the Standards is that the internal audit activity’s plans must be communicated to senior management and the board for review and approval. For the purpose of Copeland Borough Council, the audit plan is communicated for review and approval to CLT and the Audit and Governance Committee.

4.8 In line with the CIPFA guidance on effective audit committees in Local Government, it is the role of the Audit Committee to ‘approve but not direct’ the audit plan.

5.0 APPROACH TO AUDIT PLANNING

5.1 While the Internal Audit plan is risk-based, there are some areas of work that may be included on the basis of factors other than risk. Examples may include for example, establishment visits which may be undertaken on a cyclical basis, grant

claim audits where assurance may be sought from funding bodies, and reviews of core financial systems where the Council's external auditors are recommending a longer term cyclical approach is taken in order to free up internal audit resources to focus on more strategic and corporate level risks.

- 5.2 Where it is considered appropriate for internal audit reviews to be undertaken on a cyclical basis, the span of the cycle will be determined in consultation with management and a longer-term rolling programme of reviews will be prepared for approval by the Audit and Governance Committee.
- 5.3 In order for the Internal Audit to be able to respond to ad-hoc requests for additional work, contingency will be included within the audit plan for unplanned work including investigations, ad-hoc advice, project support etc.
- 5.4 The remaining days will then be allocated to risk based audit reviews which will be prioritised according to the level of perceived risk following consultation with the organisation's senior management. Such reviews will be determined in such a way as to ensure that an overall opinion on the organisation's systems of risk management, governance and internal control can be given in the annual report of the head of internal audit.
- 5.5 The approach taken by the Shared Internal Audit Service to audit planning will include:
 - Preparation of an audit universe
 - Undertake assurance mapping exercise to identify the other sources of assurance that Audit Committee are able to place reliance on in order to avoid duplication
 - Consultation with senior management on their priorities for Internal Audit review
 - Review of corporate and directorate risk registers to ascertain the organisation's view on its key risks
 - Review of the previous year's Annual Governance Statement to identify any known significant governance issues
 - Consultation with external audit and other external assurance providers to avoid duplication and ensure maximum coverage
 - Identification of areas identified by the audit team through previous internal audit work
 - Risk assessment of audit universe against the following criteria:
 - Materiality – the value of transactions going through the system
 - Political, legal or reputational risk
 - Control environment – the extent of any known system weaknesses or other issues
 - Stability – the degree of change of the system or service area

- Management priority
 - Internal audit priority
 - Corporate risk register / annual governance statement issue
- 5.6 The PSIAS place a responsibility on the head of Internal Audit to explain within the plan how internal audit's resource requirements have been assessed. They also require that if the head of Internal Audit believes that the level of agreed resources will impact adversely on the provision of the annual audit opinion, the consequences must be brought to the attention of the board (in the case of Copeland Boorough Council, this is the Audit and Governance Committee).
- 5.7 Once the head of internal audit has carried out the planning process and undertaken a risk assessment, a draft plan will be prepared for discussion first with senior management (CLT). These discussions will focus on ensuring that the plan of work covers the key risks to the organisation as well as an assessment of whether the agreed level of audit resource is adequate to provide the annual opinion. This will include sharing with management any areas that have been assessed as high risk but do not feature in the audit plan due to resource limitations.
- 5.8 Draft audit plans will then be presented to Audit and Governance Committee prior to the start of the new financial year for review and approval.

6.0 REVISIONS TO APPROVED AUDIT PLANS

- 6.1 A feature of the risk-based approach to audit planning is the need for flexibility in audit plans to respond to changes in the risk environment during the year. Internal audit plans will be kept under review during the year through regular dialogue between Audit Managers and the respective client manager. Where emerging risks are identified in-year, these will be risk-assessed in conjunction with the organisation's senior management and if it is considered that a revision to the approved audit plan is necessary, this will be reported to the Audit Committee for approval. Where such changes are considered urgent, Audit Committee are requested to delegate approval for such amendments to the Chair and Vice Chair and the revision will be reported to the next meeting of the Audit Committee.

7.0 INTERNAL AUDIT CONSULTANCY WORK

- 7.1 The new definition of Internal Auditing within the PSIAS recognises that internal auditors may have skills relevant to undertaking consultancy work on behalf of the organisation. Such consultancy work may be included within approved audit plans or may be requested as additions to the plan as matters arise during the year.

7.2 In determining whether the assignment should be accepted, internal audit must consider the potential to improve the management of risks, add value and improve the organisation's operations.

7.3 Any significant consulting activity that has not been approved within the audit plan must be approved by the Audit Committee. This is to ensure that sufficient levels of internal audit resources are maintained in order to provide an appropriate level of assurance. Where consultancy work is requested in addition to approved audit plans or from a contingency built into the plan for the purpose of providing consultancy work, this will be reported to Audit Committee for information.

8.0 PROPOSED TIMESCALES FOR 2014/15 AUDIT PLANNING

Timescale	Activity	Responsibility
August – October 2013	Production / review of Audit Universe	Internal audit management team
November – December 2013	Meetings with chief financial officers of Shared Service clients to agree IA resource requirements for 2014/15	Audit Manager & Chief Financial Officers
	Consultation with senior management to identify management priorities for internal audit plan	Audit Manager / Group Audit Managers & CLT members
	Review of Council risk registers and Annual Governance Statement to identify significant risks / known issues	Audit Manager/Group Audit Manager
	Preparation of rolling programme of establishment / financial system reviews	Internal audit management team
January 2014	Risk assessment of Audit Universe to identify priorities for risk based audit plan	Internal Audit
	Assessment of resources available for risk based audit work and preparation of draft plan for discussion with management.	Group Audit Manager
February 2014	Presentation of draft audit plan to CLT for comment and agreement.	Internal audit management team
15 April 2014	Presentation of draft audit plans for	Audit Manager/Group Audit

	approval by Audit & Governance Committees	Manager / Audit and Governance Committee
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Consultees: Corporate Leadership Team