

Report

Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	7 March 2017
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Plan 2017/2018
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Detail audit assignments originally included in the 2016/2017 Internal Audit Plan that it is proposed should now be deferred and delivered in Quarter One of 2017/2018
- ◆ Propose that the 2017/2018 Internal Audit Plan is presented to the first Risk and Audit Scrutiny Forum of the new Council together with a Strategic Plan through to 31 March 2020

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the revision to the 2016/2017 Audit Plan and the deferral of assignments to Quarter One of 2017/2018 is endorsed
- (2) that it be noted that a further Plan covering Quarters Two to Four of 2017/2018 will be submitted, for endorsement, to the first Risk and Audit Scrutiny Forum of the new Council together with a Strategic Plan through to 31 March 2020

3. Background

3.1. Public Sector Internal Auditing Standards (PSIAS) require a specific risk based approach to be taken when preparing audit plans. All requirements were followed in preparation of the 2016/2017 Internal Audit Plan. In addition, throughout the year, PSIAS requires progress against the audit strategy to be monitored and reported to audit committees within regular monitoring reports.

3.2. For 2016/2017, the strategy set out a series of aims, namely to;

- ◆ link to the organisation's objectives and priorities
- ◆ undertake a programme of work compliant with PSIAS
- ◆ include required corporate assignments prior to risk evaluation
- ◆ appropriately prioritise assignments
- ◆ provide assurance in relation to the top risks facing the Council

- ◆ provide general assurance in relation to governance, risk management and control arrangements and
 - ◆ meet External Audit expectations
- 3.3. Delivery of the strategy is evidenced by completion of the Plan and, within South Lanarkshire Council, this is monitored through the performance indicators regularly reported to the Risk and Audit Scrutiny Forum.
- 3.4. The current year's Audit Plan has been reviewed on a regular basis throughout the year to allow adjustments to be made to the Plan in response to changes in the organisation's business, risks, operations, programmes, systems and controls.
- 3.5. A formal review of the Plan is usually undertaken in Quarter Three of each year and, in December 2016, this highlighted that a number of assignments may have to be deferred to accommodate some significant adhoc and unplanned work that had occurred primarily in the latter part of 2016. The need to defer assignments was reported to the Forum in January 2017.

4. Revision of Internal Audit Plan 2016/2017

- 4.1 In the period from April to December 2016, there has been some significant adhoc and unplanned work. In this period, 576 days have been spent on audit work, adhoc assignments and attendance at working groups linked to previous audit assignments. This significantly exceeds the allocated contingency set at 100 days for the year, included within the Plan endorsed by the Forum in March 2016.
- 4.2 To address this level of unplanned work, audit work has now been re-prioritised in such a way to ensure that a programme of work will be delivered by 30 April 2017 that will allow an annual audit opinion to be expressed on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control arrangements. It will also include areas of work where our External Auditors have indicated their intention to place reliance or where an internal audit service is delivered to an external client. As a result of this exercise, however, it has been identified that a number of assignments cannot now be completed as part of the 2016/2017 Internal Audit Plan.
- 4.3 On this basis, Appendix One details a programme of assignments proposed for deferral from the 2016/2017 Plan into Quarter One of 2017/2018. The Appendix details the name of the assignment, the lead Resource (if relevant) and a brief outline scope for each proposed assignment. This programme of work equates to 335 days. It has not been necessary to defer 476 days of work as some time was used from the general contingency budget and other amendments have been made to the Plan that have released days that were, in turn, utilised to deliver unplanned work. In addition, an increase in productivity in the nine month period to 31 December 2016 have allowed more 'audit' days to be available than were planned at the outset of the year (86% against a target of 80%).

- 4.4 As indicated, when the 2016/2017 Plan was presented to the Forum in March 2016, objectives and scopes will be refined by auditors prior to the commencement of work and once a full risk analysis has been completed and key controls identified. Clients will be involved in this initial risk and control assessment and will be consulted prior to the preparation of the audit remit for each assignment. As required, these audits will be conducted in accordance with PSIAS and within the context of the Internal Audit Charter that was presented to the Forum in March 2016.
- 4.5 This programme of work equates to twelve assignments and, based on the anticipated team that will be in post as at 1 April 2017, one quarter's resource capacity. These assignments will be delivered to draft report stage by 30 June 2017 and reported to the Forum once issued as final reports, in line with established reporting protocols. Thereafter, it is proposed that a Plan is developed for the remainder of 2017/2018 as well as an indicative outline of a strategic Audit Plan through to 31 March 2020.
- 4.6 The Council's external auditors have confirmed that developing a long term strategic plan would facilitate planning of joint working between internal and external audit in future years.
- 4.7 The Forum is asked, firstly, to endorse that part of the 2016/2017 Audit Plan is deferred to the first quarter of 2017/2018 and secondly, that, a Plan for the remainder of 2017/2018 be presented to the first Forum of the new Council together with a strategic Audit Plan through to 31 March 2020.

5. Employee Implications

- 5.1. A revised employee capacity plan was prepared for Quarter One of 2017/2018 and has confirmed that the programme of assignments detailed in Appendix One can be completed within this timeframe.

6. Financial Implications

- 6.1. The detailed 2017/2018 budget for Internal Audit has not been finalised, although capacity planning has been based on a prudent projected budget.

7. Other Implications

- 7.1. To mitigate against the risk of non delivery of this programme of deferred assignments, the progress of every assignment will be monitored using the Council's risk management software, Figtree. In addition, Executive Directors have been asked to remind their teams of specific audit responsibilities and timescales.
- 7.2. There are no sustainability issues in terms of the information contained in this report.

8. Equality Impact Assessment and Consultation Arrangements

- 8.1. There is no requirement to conduct an equality impact assessment on the proposed revision to the Audit Plan. As part of the original process, there was extensive consultation during preparation of the Plan and consultation invitations were extended to the following main consultees:

- Internal Audit Team
- Finance and Corporate Resources Senior Management Team
- Executive Directors (in conjunction with Heads of Support Services)
- PricewaterhouseCoopers, the Council's external auditors
- Members of the Risk and Audit Scrutiny Forum

All returned suggestions were included within the initial "audit universe" for risk evaluation.

Paul Manning
Executive Director (Finance and Corporate Resources)

22 February 2017

Link(s) to Council Values/Objectives

- ◆ Improvement Theme – Governance and Accountability
- ◆ Objective – Governance and Risk Management

Previous References

- ◆ Internal Audit Plan 2016/2017 – RASF 15 March 2016

List of Background Papers

- ◆ Internal Audit Spreadsheet extracts

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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**Proposed 2017/18 Quarter One Internal Audit Plan
One**

Appendix

Lead Resource	Audit assignment	Outline Scope	Expected days
All	Internal controls (Direct Awards)	Review Direct Awards and sub-contracts process across Council services. Test to provide assurance that controls, including authorisation levels, are effective and robust.	50
All	Employee fraud	Undertake audit testing to identify potential fraudulent mileage, payroll and expense claims by employees.	20
Finance and Corporate	Procurement PIs	Assess the top risk areas for procurement and align to the procurement PIs. Identify any gaps in reporting and reporting in areas of low risk.	25
Education	Anti-fraud review	Test the controls declared during 2015/16 in relation to the financial controls in place within schools.	30
Education	School funds – annual checks	Check key controls are in place for a rolling sample of schools each year. Agree individual school action plans where gaps are identified.	30
Education	Nurseries	Assess progress of the actions agreed in relation to income collection for nursery provision. Test to obtain assurances that all expected controls are in place and are operating effectively.	30
All	Follow-up	For all Council Resources, identify audit recommendations due in the period April 2016 to March 2017. Risk assess and follow-up to ensure implementation of all high risk actions.	19
Community and Enterprise	School catering monies – spot checks	Carry out a rolling programme of unannounced spot checks within school catering units dealing with cash.	30
Housing and Technical	Allocations fraud, including Council properties data match	Assess fraud risks in relation to allocations. Undertake a data match of Council properties to deceased records to identify any potential illegal succession to Council properties	30
Social Work	Self Directed Support	Provide assurance of compliance with Act and review procedures around service options and adequacy of controls to mitigate against potential risks.	20

Community and Enterprise	Progress with targets (10% Energy reduction and LED lighting)	Provide assurances with regards to progress in meeting both the 10% energy reduction target and the LED lighting targets. Highlight any risks identified.	10
All	Continuous Controls Monitoring (CCM)	Continue to download data in current CCM areas (Oracle FMS, Payables, iProcurement and ICON). Use data for analysis and to inform internal and external audit testing. Prepare formal reports to allow exceptions and unusual trends in financial controls to be reported to Resources for further investigation.	41
Total number of days			335