



## Report to Audit Committee

26 April 2016

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**Title:** 2016/17 Internal Audit Plan and Strategy

**Report of:** Chief Internal Auditor, Gateshead Council

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### **Purpose of Report**

1. To approve the Internal Audit Plan for the year 2016/17.

### **Summary**

2. The Chief Internal Auditor has produced an Internal Audit Strategy Statement for 2016-2019 which includes the Annual Plan for 2016/17, attached at Appendix 1. The plan is based upon a requirement of 210 audit days (1575 hours). Further detail of the individual audit areas is provided in Appendix 2.
3. Due to the recent transfer of responsibilities from Gateshead Council to the Company 47 additional audit days (350 hours) have been included in the Annual Plan for 2016/17 to ensure all new areas are audited in the first year. From 2017/18 the frequency of these audits will be reviewed using the current risk scoring system.

### **Link to values**

4. This report links to the corporate value of being fair, customer focused, open and honest and accountable across the Company.

### **Impact on tenants**

5. No impact directly from this report.

### **Risk Management Implications**

6. The perceived risk of each audit is based on a thirteen point assessment taking into account such areas as materiality, complexity of the system, potential for fraud and sensitivity. Based on a score derived from the assessment, audits are categorised as high, medium or low priorities. The Company's risk registers, the previous year's audit work and new audit areas are also reviewed. This informs the time allocation and the frequency in which audits will be carried out.

### **Financial Implications**

7. The cost of the internal audit work plan is fully provided for in the 2016/17 budget.

### **Equality and Diversity Implications**

8. There are no Equality and Diversity implications associated with this report.

### **Value for Money implications**

9. The delivery of the 2016/17 audit plan and the implementation of internal audit recommendations will assist in identifying efficiencies and achieving value for money.

### **Consultation carried out**

10. The plan has been developed following consultation with management.

### **Recommendation**

11. The Committee is asked to approve the Internal Audit Plan for 2016/17.

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# The Internal Audit Strategy Statement

2016 - 2019

& Annual Plan 2016/17



## Introduction

1. Internal Audit plays an essential role in supporting the Company to achieve its objectives and outcomes. The Annual Audit Plan for 2016/17 has been formulated from a review of the major risks that the Company faces over the next 3 years. The plan therefore focuses on areas where we can add the most value and provide assurance that identified risks are being properly managed. Our objective over the 3 years is to promote and champion sound governance and effective and efficient internal controls throughout the Company and to provide objective assurance by ensuring key business controls are operating as planned and value for money is being achieved to support the Annual Delivery Plan.
2. The Company's internal audit function is provided by Gateshead Council's Internal Audit and Risk Service which is based within the Corporate Finance, Corporate Resources.

## Purpose

3. This document sets out Internal Audit's Strategy for 2016-19 and Annual Audit Plan for the financial year 2016/17.
4. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
  - Meet the requirements of the Public Sector Internal Audit Standards (PSIAS) that require the Chief Internal Auditor to produce a risk based annual plan taking into account the need to give an independent annual opinion on the overall adequacy and effectiveness of the Company's framework of governance, risk management and control;
  - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015; which require [Councils] to "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".
  - Ensure effective audit coverage and a mechanism to provide independent and objective assurance to the Audit Committee and Senior Managers.
  - Assess the key risks facing the Company and determine the corresponding level of audit resources required to review and comment on the mitigating controls.
  - Add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money.

## Key Outputs 2016-19

5. The Internal Audit and Risk Service will deliver the following key responsibilities:

- To provide ongoing assurance to management on the Company's control environment, comprising systems of governance, risk management and internal control;
- To support the Company's values and expected standards of behaviour;
- To be responsive to organisational change and service demands;
- To work together with the Company's external auditors to ensure reliance can be placed on our audit work ;
- To continue to develop joint working relationships with other related regional and national groups and bodies;
- To embed the integration of internal audit work with governance and service improvement and produce a clearly co-ordinated risk-based approach to the audit of business systems across the Company;
- To ensure agreed management actions to audit recommendations made are fully implemented;
- To deliver the statutory requirements of the Accounts & Audit Regulations 2015;
- To deliver effective and timely training to the Company's managers and Audit Committee;
- To provide an effective corporate counter fraud & corruption service.

### **Risk Analysis and Strategic Plan**

6. To allow an annual opinion on the effectiveness of the internal control environment to be delivered Internal Audit will review all major systems and areas of activity within a three-year period. The three-year risk based strategic plan is reviewed annually after considering:
  - The Company's priorities;
  - The risks documented in the strategic and operational risk registers;
  - Consultation with senior managers;
  - Changes in legislation;
  - The scope of any planned external audit work;
  - The implications of external inspection reports;
  - Findings and outcomes from audit and investigation work in 2015/16 and earlier years;
  - The impact of any new areas of responsibility;
  - Time elapsed since the previous audit; and
  - The availability of resources.
7. Once this information has been analysed the perceived level of risk for each audit area is assessed based on thirteen areas taking into account such factors as materiality, complexity, potential for fraud and sensitivity. Based on a score derived from these assessments audits are categorised as high, medium or low priority which dictates where they will be audited within the 3-year cycle. High priority areas are audited on an annual basis. The 3 year strategic plan is attached at Appendix 2.
8. Internal Audit cannot manage risks directly; however, it can play an important role by developing a flexible audit approach and a dynamic plan to address emerging risks as well as those risks yet to be identified. As such, it may be necessary to update the audit plan in year, should the risk profile change and different risk emerge. Any changes will be brought to the committee for approval.

## How the service will be provided

9. Internal audit provision is delivered by Gateshead Council's in-house team supplemented by a joint working arrangement with Newcastle Council for any ICT auditing. This arrangement will be kept under review on an annual basis over the 3-year period.
10. In order to deliver the Annual Audit Plan at the required quality and professionalism all internal audit employees are either fully qualified CCAB Accountants and/or qualified Association of Accounting Technicians, or undertaking professional studies.
11. Our professional judgement has been applied in assessing the level of resources required to deliver the Annual Audit Plan. The level of resource applied is a product of:
  - The complexity of the areas to be reviewed;
  - Factors such as number of locations, number and frequency of transactions; and
  - Assurance that can be brought forward from previous audits and other internal and external reviews carried out.
12. Staff development needs are continually assessed to ensure we maintain the required level and mix of skills required to deliver a professional and added value internal audit service.

## Performance Management

13. We will continually ensure compliance with relevant professional standards through a combination of internal and external reviews of compliance and quality; with the outcomes reported to the Audit Committee. Examples of this include:
  - Internal self assessments by the Chief Internal Auditor.
  - Customer satisfaction questionnaires.
  - Any reliance placed on our work by external auditors.
  - Annual benchmarking information.
  - External assessment every 5 years by a recognised, qualified and independent assessor.
14. To achieve the planned coverage for 2016/17, deliver a high standard of customer care and demonstrate effectiveness of the service we have well established internal performance targets based on best professional practice. The following indicators will be reported to the Committee on a quarterly basis:

### Internal Audit Indicators

Performance Indicator	Target
Number of audit assignments completed against annual plan	95%
Audits completed within agreed time (planned hours)	90%

## Management Indicators

Performance Indicator	Target
Number of draft reports agreed and returned within 2 weeks	90%
Number of audit recommendations due and implemented	90%

## The Gateshead Housing Company Three Year Internal Audit Plan 2016/19

Audit Name	Risk Score	Risk Rating	Frequency (Months)	2016/17 Hours	2017/18 Hours	2018/19 Hours	Coverage of Risks	Report to Committee
<b>Management Activities</b>								
General Advice, Consultancy and Systems Review			12	40	40	40		
Committee Training			12	15	15	15		
Audit Committee			12	30	30	30		
<b>Total Management Activities</b>				<b>85</b>	<b>85</b>	<b>85</b>		
<b>Fundamental Financial Systems</b>								
Procurement and the Creditors System	251	High	12	90	90	90	FI3, SR2	Apr-17
Budget Setting and Monitoring	250	High	12	50	50	50	FI5, SR2, SR3, SR5, SR8, SR10	Oct-16
Capital Investment and Asset Management	258	High	12	90	90	90	SR4, SR5, SR10	Jan-17
Payroll and Human Resources	255	High	12	60	60	60	FI5, HR5, HR6, SR3	Jan-17
Main Accounting	266	High	12	40	40	40	FI4, SR2	Oct-16
Rent Arrears	255	High	12	120	120	120	SR9	Apr-17
Rent Collection	235	High	12	70	70	70	LH4, SR9	Oct-16
<b>Total Fundamental Financial Systems</b>				<b>520</b>	<b>520</b>	<b>520</b>		
<b>Corporate Governance</b>								
Risk Management and Business Continuity Arrangements	158	Medium	24	60	0	60	IT1, SR4, SR6	Jun-16
Governance	174	Medium	24	0	40	0	GR6, SR2, SR7, SR8, SR10	
Performance Framework	157	Medium	24	50	0	50	PF1	Jun-16
Counter Fraud Arrangements	175	Medium	24	0	50	0		
Information Security Management and Governance	149	Low	36	0	0	60	GR1, GR4, GR5, IT1	
Insurance Arrangements	146	Low	36	0	0	45	FI1, FI5, HR2, SR2	
Investigations			12	50	50	50		
<b>Total Corporate Governance</b>				<b>160</b>	<b>140</b>	<b>265</b>		
<b>Strategic and Operational Risks</b>								
Tenancy Allocation and Lettings	270	High	12	110	110	110	SR1, SR9	Jan-17
Housing Management	266	High	12	40	40	40	LH4, HR4	Apr-17
Repairs	269	High	12	90	90	90	SR1, SR5	Apr-17
Corporate IT	239	High	12	10	10	10	IT1	Apr-17
VAT Procedures	157	Medium	24	0	30	0	FI6	
Leaseholder Service Charges	160	Medium	24	50	0	50	LH1-4	Oct-16
Asbestos Management	155	Medium	24	0	70	0	HS2	
Health and Safety	151	Medium	24	0	70	0	HS2-6, HR2, HR4	
Void Management	177	Medium	24	100	0	100	SR9	Jan-17
Gas Servicing	198	Medium	24	0	40	0	SR5, SR8	
IT Audit - Data Security	149	Low	36	60	60	60	IT1	Apr-17
Communications	112	Low	36	0	0	50	CO1, SR8	
Equality and Diversity	129	Low	36	0	0	50	ED1	
Customer Focus	159	Medium	36	0	50	0	CO1, SR1	
<b>Total Strategic and Operational Risks</b>				<b>460</b>	<b>570</b>	<b>560</b>		
<b>New Areas</b>								
Housing Support	177	Medium	24	100	0	0		Apr-17
Adaptations and Housing Renovation Grants	155	Medium	24	100	0	0		Oct-16
Homeless Accommodation	154	Medium	24	100	0	0		Oct-16
Sheltered Accommodation	144	Low	36	50	0	0		Jun-16
				<b>350</b>	<b>0</b>	<b>0</b>		

<b>SUMMARY</b>			
Management Activities		85	85
Fundamental Financial Systems		520	520
Corporate Governance		160	140
Strategic and Operational Risks		460	570
New Areas		350	0
<b>Total Hours</b>		<b>1,575</b>	<b>1,315</b>