

<b>Subject:</b>	<b>INTERNAL AUDIT CHARTER AND 2016/17 DRAFT PLAN</b>
<b>Meeting and Date:</b>	<b>Governance Committee – 24<sup>th</sup> March 2016</b>
<b>Report of:</b>	<b>Christine Parker – Head of Audit Partnership</b>
<b>Decision Type:</b>	<b>Non-key</b>
<b>Classification:</b>	<b>Unrestricted</b>
<b>Purpose of the report:</b>	This report presents the Audit Charter for approval for the next three years and sets out the proposed Internal Audit Plan for 2016/17 detailing a breakdown of audits and an analysis of available days.
<b>Recommendations:</b>	That Members approve to adopt the Internal Audit Charter for delivery of the internal audit service for the next three years.  That Members approve the Council's Internal Audit Plan for 2016/17

### **Summary.**

This report includes the Audit Charter for the East Kent Audit Partnership which sets out the overarching aims and strategy for the Internal Audit Service together with the draft plan of work for the forthcoming 12 months for approval.

#### **1. Introduction and Background.**

- 1.1 The purpose of the Council's Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.2 In accordance with current best practice, the Governance Committee should "review and assess the annual internal audit work plan". The purpose of this report is help the Committee assess whether the East Kent Audit Partnership has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with the professional standards for Internal Auditors.

#### **2.0 Audit Charter.**

- 1.1 The Audit Charter is an important document setting out the expectations of how the Internal Audit function will be delivered. Not only does having a Charter and keeping it up to date assist the Council in complying with best practice, but by considering the Audit Charter, the Governance Committee is also demonstrating its effectiveness by ensuring that these mechanisms are in place and are working effectively.
- 1.2 The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership, it goes on to set out the Terms of Reference, Organisational Relationships and Independence, Competence and Standards of Auditors, the Audit Process and in providing an Internal Audit function to the partner councils; as well as the resources required across the four partnership sites and details how the resource requirements will be met.

- 1.3 The Audit Charter is attached as Annex A to this report. It is essentially the 'Why' and 'How' the East Kent Audit Partnership will provide the Internal Audit Service. It is a document that does not materially change from year to year and consequently it is suggested that this be approved for the next three years (to 31<sup>st</sup> March 2019) with the caveat that should any significant changes be required a revised Charter will be presented for consideration.

### **3.0 Audit Plan.**

- 3.1 The Audit Plan for the year 2016 to 2017 is attached as Annex B and has the main components to support the Audit Charter. The plan is produced in accordance with professional guidance, including the PISAS 2013. A draft plan is produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc. Then following discussions with senior management, taking account of any changes within the Council over the last 12 months, and foreseen changes over the next have been made.
- 3.2 The plan has then been further modified to reflect emerging risks and opportunities identified by the Chief Executive, Directors, and the links to the Council's Corporate Plan and Corporate Risk Register. This methodology ensures that audit resources are targeted to the areas where the work of Internal Audit will be most effective in improving internal controls, the efficiency of service delivery and to facilitate the effective management of identified risks.
- 3.3 Naturally there are insufficient audit resources to review all areas of activity each year. Consequently, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a three-year cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a three-year strategic plan has been included.
- 3.4 To comply with the best practice, the agreed audit plan should cover a fixed period of no more than 1 year. Members are therefore being asked to approve the 2016/17 plan at the present time, and the future years are shown as indicative plans only, to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle. If it is approved as currently drafted a number of audits will fall outside of the rolling three year plan, these are listed at the foot of Annex B, and total 163 days.
- 3.5 The plan has been prepared in consultation with the Directors and the Council's statutory s.151 Officer. The plan is also designed to meet the requirements expected by the External Auditors for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2016/17 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require to be able to place assurance on the annual governance statement.
- 3.6 The risk assessment and consultation to date has resulted in;
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| 78% | Core Assurance Projects- the main Audit Programme                                      |
| 4%  | Fraud Work – fraud awareness, reactive work and investigating potential irregularities |

0% Corporate Risk – testing the robustness of corporate risk mitigating action  
 18% Other Productive Work – Corporate meetings, follow up, general advice, liaison  
 Total number of audits 23.

For 2016/17 the days available for carrying out audit is 270 days. When compared to the resources available and working on the basis that the highest risk areas should be reviewed as a priority, the EKAP has sufficient resources to review all of the high risk areas and all of the medium risk areas this equates to 23 audits.

- 3.7 There are 163 days required to backfill the audits that are outside of the strategic cycle. In 2014/15 the s.151 Officers agreed that savings achieved in the delivery of the EKAP service should be used to address the shortfall in the strategic plan, and deliver as many reviews as possible. Thus any financial savings are converted into audit days and identified areas for review agreed with the s.151 Officer in the quarterly meetings as the year unfolds. This will strengthen the Internal Audit coverage and Members will have greater assurance that the systems of internal control are being regularly reviewed.

#### **4.0 Benchmarking the level of Internal Audit Provision.**

- 4.1 Members should have regard to how audit resources within the Council compare to other similar organisations when considering the adequacy and effectiveness of the internal audit plan. The results of benchmarking show that the average number of internal audit days provided by district council's within Kent is circa 400 days annum. The audit plan of Dover District Council of 270 days plus their share of the EKS and East Kent Housing audit plans totals 350. The Dover plan is therefore 12.5% less well-resourced than the Kent average.

#### **5.0 Head of Internal Audit's Opinion of the 2015/16 Internal Audit Plan.**

- 5.1 This report is presented to Members by the Council's Director of Finance whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.
- 5.2 It is therefore the professional opinion of the Head of the East Kent Audit Partnership that the draft 2016/17 internal plan presented for Members consideration is less well-resourced than the Kent average and accordingly our overall audit opinion at the end of the year will be limited to commenting on the systems of internal control that have been examined. The Head of the East Kent Audit Partnership recommends that Members either approve the 2016/17 internal audit plan as drafted or that they recommend to Cabinet that additional resources are allocated to bring the plan up to the Kent average. This would require an additional 50 days per annum, which at an estimated cost per audit day of £300 would cost £15,000 per annum. All EKAP savings achieved in 2015/16 will be used to buy back some of these days. In 2015/16 it was possible to deliver an additional 11.18 days from savings generated by EKAP in 2014/15

#### **6.0 Background Papers.**

- Internal Audit Annual Plan 2015/16 - Previously presented to and approved at the March 2014 Governance Committee meeting.

- Internal Audit working papers - Held by the East Kent Audit Partnership.
- Previous Audit Strategies - Previously presented to and approved at Governance and Audit Committee meetings.

### **Attachments**

Annex A      East Kent Audit Partnership Charter

Annex B      Dover District Council draft 2016/17 Internal Audit Plan

CHRISTINE PARKER

Head of Audit Partnership

The officer to whom reference should be made concerning inspection of the background papers is the Head of Audit Partnership, White Cliffs Business Park, Dover, Kent CT16 3PJ. Telephone: (01304) 821199, Extension 2160.