

MID KENT AUDIT

Internal Audit Plan 2015/16 to 2018/19

Tunbridge Wells Borough Council



Introduction

1. Internal audit is an independent and objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2015 (the Regulations), which require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes in accordance with the 'proper practices'. From 1 April 2013 the 'proper practices' are the Public Sector Internal Audit Standards (PSIAS) that replaced the Code of Practice for Internal Audit in Local Government in the UK.
3. The Head of Audit Partnership must provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of control, governance and risk, as required by both PISAS and Regulation 5. The opinion takes into consideration:
 - a) Controls: Including financial and non-financial controls.
 - b) Governance: Including effectiveness of measures to counter fraud and corruption, and
 - c) Risk Management: Principally, the effectiveness of the Council's risk management framework.
4. This document sets out our internal audit plan for the next four years outlining the work we will undertake to both inform that opinion and provide wider support to the Council in helping to achieve its strategic objectives. As required by PSIAS we have, for the first time, included for the Committee details of the risk assessment that underpins the plan to demonstrate the process of its compilation. We aim by this to give the Committee assurance that our work is appropriately tailored to reflect the risks to and priorities of the Council and sufficiently resourced to deliver an effective and accurate audit opinion.
5. Naturally, in order to effectively respond to the changing environment of local government we will need to keep our plan continually flexible and under review. As the activities of the Council, and the consequent risks to its control, governance and risk management vary, so we will need to consider how our audit plan is best arranged to deliver appropriate assurance. This may include substituting individual projects or changing their scope, timing or duration.
6. Our principal route for this review will be in ongoing consultation with the Council's s.151 Officer, although we will continue to keep the Audit and Governance Committee abreast of changes through our interim and annual reporting as well as consult directly with the Chair of this Committee with respect to significant changes to the plan (as set out in the Audit Charter elsewhere on tonight's agenda, if the Committee accept our recommendation to adopt the Charter).

¹ This is the definition of internal audit included within the Public Sector Internal Audit Standards

Basis of our plan: available resources

7. In previous years our audit plans were centred on delivering a set number of projects per year. While this gave the plans directness and simplicity it limited the ability of the service to respond to changing need; a project is a large block of work to flex and adapt. Moreover, that approach did not recognise the time and contribution of audit management or acknowledge any of the range of additional tasks and support the service provides. The restriction also led to inconsistent definition of what constituted an audit 'project', obscuring the link between plans and the risk profile of the authority. This weakness was noted and commented on within our 2014 External Quality Assessment (EQA) undertaken by the Institute of Internal Auditors (IIA).
8. This plan seeks to add this flexibility by taking advantage of the freedom in the 2014 revised collaboration agreement by moving from a project to days-led approach. In moving to this approach we have allocated to each authority a total number of audit days proportionate to their financial contribution to the service.

Role	Contractual Days	Chargeability target	FTE	Available Days
Head of Audit	219	40%	1.0	87
Audit Manager	219	50%	2.0	218
Senior Auditor	219	75%	3.95	648
Auditor	219	85%	1.5	277
Trainee Auditor			2.0	250
Specialist Support			1.0	120
Totals			11.45	1,600

For further details of the resources available to the Partnership, see appendix E.

Authority	Contribution to overall partnership budget	Audit Days Allocated
Ashford BC	23.0%	370
Maidstone BC	29.5%	470
Swale BC	25.7%	410
Tunbridge Wells BC	21.9%	350
Total	100%	1,600

9. Therefore the total audit allocation for Tunbridge Wells BC in 2015/16 is **350 days**. Based on our risk assessment, we are satisfied that represents a sufficient level of resource to evaluate the effectiveness of the Council's risk management, internal control and governance processes. Our audit plan cannot address all risks across the Council and represents our best deployment of limited audit resources. In approving the plan, the Audit and Governance Committee recognises this limitation. We will keep the Committee abreast of any changes in our assessment of resource requirement as we monitor the risks posed to the Council. In particular, we will revise this resource assessment afresh each year of the four-year plan.

Basis of our plan: risk assessment

10. Our assessment that this level of resource is adequate is based upon the risk assessment underlying our plan. This assessment comprises 3 principal steps:

Step 1: Understanding the Audit Universe, Strategic Priorities and Risks

11. Our assessment of the audit universe – essentially all of the areas and topics that are within the potential scope of audit review and contribute to the Council’s pursuit of its strategic priorities – is informed by review of the Council’s structure, ongoing meetings and discussion with officers and Members and review of Council meeting papers.
12. Our aim in drawing together the plan is that, over the course of its four year lifetime, all areas of the Council will have received a proportionate level of audit review. The 2015/16 assessment of the audit universe is shown by the areas displayed in the plan at appendix A and we will update and refresh this assessment each year.
13. Strategic priorities and risks have been determined by the Council and considered by us in drawing together the audit plan. At appendix C we show how the areas selected for audit review in 2015/16 map to these risks and priorities. We will keep this assessment of risks and priorities under review, in particular considering our audit response as the Council revises its views.
14. The Council set out its strategic priorities in **The Corporate Plan**. This sets priorities as:
 - Prosperous Borough,
 - Green Borough,
 - Confident Borough
15. The Council’s key risks are included within its **strategic risk register**. At the time of writing, the register details 10 risks:
 - Cinema site remains undeveloped (rated as likelihood 5/6, impact 3/4 **Red** risk)
 - Unable to maximise economic opportunities and resolve infrastructure issues (likelihood 5/6, impact 3/4: **Red** risk)
 - Resident Engagement (likelihood 3/6, impact 3/4: **Amber** risk)
 - Unable to plan financially over the longer term (likelihood 6/6, impact 3/4: **Red** risk)
 - National Policy changes that impact negatively (likelihood 6/6, impact 3/4: **Red** risk)
 - Missing something significant (likelihood 5/6, impact 3/4: **Red** risk)
 - Meeting expectations within resources (likelihood 5/6, impact 3/4: **Red** risk)
 - Decision challenging housing targets vs supply(likelihood 4/6, impact 4/4: **Red** risk)
 - Not managing control/change effectively (likelihood 4/6, impact 3/4: **Amber** risk)
 - Development Programme (likelihood 5/6, impact 3/4: **Red** risk)

Step 2: Evaluating the risks

16. A key finding of the IIA's EQA last year was the need to make our planning more clearly derived from and led by the differing objectives and risks at each authority; a point that was the root finding for 4 of the 6 recommendations needed to achieve full conformance with the PSIAS. We have responded to those recommendations in this plan by conducting a comprehensive risk assessment across the range of Council services, building on our work in identifying the audit universe and the Council's key priorities and risks.
17. In conducting this assessment we considered risk across 6 discrete fields (summarised below, a full detail of our assessment process is at appendix D).

Financial Risk

The risk that failure in the service/area will undermine the Council's financial standing.

Strategic Risk

The risk that failure in the service/area will prevent achievement of a strategic goal or mitigation of a priority risk.

Fraud Risk

The risk that the service will be a victim of fraud or corruption, from within our without.

Change Risk

The risk that the service will be subject to, or seek, change leaving it vulnerable to failure.

Oversight Risk

The risk that failure in the service will not be identified or addressed by agencies other than internal audit.

Exposure Risk

The risk that failure in the service will materially damage the Council's standing, including its ability to deliver services for the local population.

18. One of these risks in particular –Oversight Risk – bears further explanation. One way of considering the control environment at any organisation is the **three lines of defence** model. In this analogy, an organisation has three levels of control which might serve to prevent or detect failure or error.

First Line of Defence: Direct controls within the service itself operating day-to-day to maintain internal control and support risk management.

Second Line of Defence: Controls operating at a corporate level to provide oversight to the process, setting and monitoring a framework for internal control and risk management to operate within.

Third Line of Defence: An independent perspective, still under corporate control, to challenge and comment upon the process and its implementation. Usually, this is the level at which Internal Audit operates.

19. When considering oversight risk, we reviewed the extent to which any service is subject to this model. Also, beyond those internal measures, we also sought to establish and consider what level of external regulation and oversight operates. For instance, although the Health and Safety Executive is not part of the Council's own control processes (as the Council cannot control or direct its actions), its reviews and findings provide useful commentary and perspective on the effectiveness of controls. The Council's external auditors – Grant Thornton – provide a similar perspective across the Council's finances and value for money operations.
20. As noted in appendix D, where a given service does not have a clear position within the three lines of defence or is not subject to detailed oversight from any external agency, we scored this risk factor more highly.
21. We considered each of those inherent risk factors alongside a final factor:

Audit Knowledge

Whether there are findings from previous audits (or an absence of positive audit findings in recent years) that suggest an increased risk of service failure.

22. The detailed audit plan at appendix B includes details of recent audit coverage in each area.
23. Our risk assessment is necessarily limited to matters emerging from the processes listed above. We will review and update this assessment and our plan at least annually, as well as keeping abreast of developments at the Council and seeking to ensure our plan remains relevant and valuable in-between those annual reviews. In consultation with management, and with the approval of the Audit and Governance Committee, we will seek to ensure that audit resources remain appropriately focussed.

Step 3: Drawing up the plan and individual projects

24. The higher risk a service or area, by this evaluation the greater level of audit attention and the earlier in the lifespan of our plan that attention comes. Appendix B shows how that assessment has formed our audit plans for 2015/16 to 2018/19.
25. Once we have selected an area for review it will be subject to our usual process of issuing draft and final briefs ahead of the work to ensure our attention is tailored to the service's needs and give proper consideration to any special projects or areas of concern.
26. The risk-based approach taken to forming the plan as a whole will be integrated within our approach to individual projects. Each will now include, in addition to any specific objectives agreed by the service, the following three objectives as standard:
 - Has the service/area set out its objects and risks and are these in line with the Council's overall aims and risk appetite?
 - Are there adequately designed controls to achieve those objectives and/or mitigate those risks?
 - Are those controls operating effectively?
27. We will conduct each review in line with our standard audit methodology that is aligned to the Public Sector Internal Audit Standards. The roles and responsibilities for successful delivery of audit projects are set out also in our Audit Charter. An updated Charter for 2015/16 is also included on today's agenda and will be provided to every audit sponsor.
28. Each of these audit reviews will culminate in an assurance rated report, giving our view on whether the particular area is operating effectively. We will keep these rating levels consistent with our revised approach adopted first in 2014/15, with details of the assurance levels included as a reminder to Members in this report at appendix E.
29. We will also, where appropriate, make recommendations for improvement. These recommendations are graded as set out in appendix F and followed up by our audit team when due for implementation. Recommendations that we find have not been implemented where there is ongoing risk to the Council are reported in the first instance to the Council's Management Team. Also, Senior Managers responsible for services that consistently fail to address audit recommendations may be invited to provide further explanation to Members.
30. The plan also recognises the non-project work we deliver, using our experience and expertise to assist the Council in pursuit of its strategic priorities. We undertake this work in line with the arrangements set out in the Charter, in particular with those safeguards aimed at preserving our independence and objectivity.
31. Typically the non-project work will not result in an assurance-graded output, but rather an alternative format relevant to the engagement and agreed with the work's sponsor. In any event, we will inform the Audit and Governance Committee of the outcomes of non-project work through our interim and year-end reports.

Monitoring delivery

32. We undertake our audit work against our standard audit approach, which has been assessed in our EQA as consistent with the PSIAS. In addition we adhere to the professional standards, roles and responsibilities as set out in the Charter.
33. As part of this approach we are careful to ensure the quality and consistency of our work. With respect to individual audit projects, each undergoes internal review from management focussing on each stage from compilation of the original brief, through completion of fieldwork and ultimately our reporting.
34. We undertake broader quality assurance of our work as required by the PSIAS. These require an external assessment at least every five years and annual self-assessments to ensure maintenance of standards. Mid Kent Audit underwent an EQA in early 2014, becoming the first local authority audit service in the country to seek such a review from our professional institute, the IIA. This concluded we were fully conforming with 50/56 PSIAS and partially conforming to the remaining 6. We are currently in discussion with the IIA about their completing a follow up review in early April 2015 to examine our progress on implementing the recommendations and hope to report the outcome of that review to Members as part of our 2014/15 annual report.
35. In addition our annual reports will include a full self-assessment against the PSIAS. In the event of this review identifying matters to address we will set out a plan for Members for our response.
36. We are also responsible to Members via the Audit and Governance Committee. We will provide interim and annual reports on progress against our plans, as well as attend each Committee meeting to respond to queries from Members. The Head of Audit Partnership is also the lead contact for Members for any matters arising, queries about the service or areas of concern (including Whistleblowing, under the Council's procedures) and can be contacted at any time.
37. Our service is also monitored each quarter by an Audit Shared Service Board; Lee Colyer is Tunbridge Wells representative. The Board receives performance and financial monitoring reports on the progress of the service. The set of performance indicators against which we report are included at appendix G, and we also report outturn on these indicators to the Audit and Governance Committee twice a year.
38. We are also dedicated to continuing to develop and enhance the professional expertise and experience of our audit team. For 2015/16 this includes re-starting the previously dormant 'Trainee Auditor' grade, taking on skilled individuals dedicated to pursuing a career in local government audit and supporting them through a professional qualification. We include more details about the audit team and the work we will be undertaking in 2015/16 to support and enhance their development within appendix F.

Tunbridge Wells Borough Council: 4 Year Audit Plan (Draft)

Core Finance & Corporate Governance Reviews

Service	Audit Project		Partnership/Pre – 2015/16	2015/16	2016/17	2017/18	2018/19
Core Financial Systems				81 days 7 reviews	68 days 5 reviews	71 days 7 reviews	47 days 5 reviews
Finance	General Ledger	13/14		20		15	
Finance	Feeder Systems	12/13,13/14		10	15		
Finance	Payments & Receipts	11/12,12/13,13/14		10	20	10	10
Finance	Budget Management	13/14		10		15	
Finance	Bank/Treasury	12/13, 13/14			15		10
Human Resources	Payroll	13/14		15	10	15	15
Revenues & Benefits	Council Tax	MBC/TWBC 12/13,13/14,14/15		8		8	8
Revenues & Benefits	Business Rates	MBC/TWBC 12/13 14/15		8		8	4
Revenues & Benefits	Housing Benefits	MBC/TWBC 14/15			8		
Corporate Governance				60 days 5 reviews	56 days 6 reviews	80 days 6 reviews	71 days 7 reviews
Corporate Centre	Members' Allowances	11/12		15		10	
Corporate Centre	Freedom of Information	11/12		15		10	
Corporate Centre	Data Protection	12/13		15		15	
Corporate Centre	Corporate Governance			5	5	5	5
Corporate Centre	Corporate Projects Review			10	10	10	10
Corporate Centre	Business Continuity	14/15			15		15
Corporate Centre	Safeguarding				10		10
Corporate Centre	Risk Management				10		10
Corporate Centre	Procurement	13/14				15	
Corporate Centre	Performance Management	13/14				15	
Corporate Centre	Register of Interests	14/15					15
ICT	ICT Controls & Access	MBC/SBC/TWBC			6		6

Tunbridge Wells Borough Council: 4 Year Audit Plan (Draft)

Service Reviews

Service	Audit Project	Partnership /Pre 2015/16	2015/16	2016/17	2017/18	2018/19
Service Reviews			104 days 11 reviews	110 days 11 reviews	116 days 14 reviews	91 days 9 reviews
Cust'ers & Comm'ties	Housing	13/14	10			
Cust'ers & Comm'ties	Community Engagement		10			
Cust'ers & Comm'ties	Museum	14/15		10		
Cust'ers & Comm'ties	Parking	12/13,13/14,14/15		10		10
Cust'ers & Comm'ties	Assembly Hall Theatre	12/13,13/14,14/15		15		10
Cust'ers & Comm'ties	Homelessness	12/13			12	
Cust'ers & Comm'ties	Gateway	11/12			10	
Cust'ers & Comm'ties	Crematorium	12/13				10
Economic Development	Economic Development	12/13	15		15	
Economic Development	Estates			10		10
Environment & Street	Health & Safety	14/15	10		10	
Environment & Street	Leisure	13/14		15		
Environment & Street	Licensing	13/14		10		
Environment & Street	Street Cleaning	12/13			10	
Environment & Street	Parks	14/15			10	
Environment & Street	Waste Management	12/13				15
Environmental Health	Air Quality/Pollution				4	
Environmental Health	Food Safety	11/12			4	
Finance	Insurance Management	13/14				8
Human Resources	Learning & Development				8	
Human Resources	Recruitment	14/15			10	
Human Resources	Equalities					8
ICT	Networks	MBC/SBC/TWBC	4			
ICT	IT Business & Appl Support	MBC/SBC/TWBC	4			
ICT	ICT Procurement	MBC/SBC/TWBC		4		

Service	Audit Project	Partnership /Pre 2015/16	2015/16	2016/17	2017/18	2018/19
Service Reviews			104 days 11 reviews	110 days 11 reviews	116 days 14 reviews	91 days 9 reviews
ICT	Technical Support	MBC/SBC/TWBC 14/15			4	
ICT	Information Security	MBC/SBC/TWBC				4
Legal Services	Legal Services	MBC/SBC/TWBC 13/14			4	
P'ships & Engagement	Partnerships	13/14	15			
P'ships & Engagement	Marketing			10		
P'ships & Engagement	Community Safety			10		
Planning	Building Control		15			
Planning	Planning Support	MBC/SBC/TWBC 14/15	4			
Planning	Development Management			12		
Planning	Land Charges	MBC/SBC/TWBC		4		
Planning	Section 106 Payments	13/14			15	
Planning	Planning Income	MBC/SBC/TWBC			4	
Planning	Conservation & Heritage	14/15				12
Policy & Governance	Elections		10			
Revenues & Benefits	Discretionary Payments	MBC/TWBC	7			

The precise scope of an individual audit project will be agreed by negotiation with the relevant Head of Service (or appointed manager) at the time we compile our audit brief. However, our standard service audit approach is to seek assurance on three main areas:

1. Has the service set out its objectives and risks and are these in line with the Council's overall aims and risk appetite?
2. What are the controls designed to achieve those objectives and/or mitigate those risks?
3. Are those controls operating effectively?

The different frequency and size of the proposed projects reflects our risk assessment, specifically the risk posed to the Council's overall objectives in the event of failure within the service. Therefore more audit attention is not necessarily reflective of specific concerns, it may equally be driven by our view as to how important success within the given service is to achievement of the Council's aims.

Where a project is marked as being delivered in partnership our work, and associated budget, is shared between the partners. All partners client representatives will receive a copy of the final report.

Tunbridge Wells Borough Council: 4 Year Audit Plan (Draft)

Non-Audit Work

Service	Audit Project	Partnership/Pre-2015/16	2015/16	2016/17	2017/18	2018/19
Risk Management			20 days	20 days	20 days	20 days
Corporate Centre	Supporting Risk Management Process	12/13,13/14,14/15	15	15	15	15
Corporate Centre	Supporting Risk Management Training	13/14	5	5	5	5
Counter Fraud			15 days	15 days	15 days	15 days
Corporate Centre	NFI Co-ordination	12/13,13/14,14/15	5	5	5	5
Corporate Centre	Proactive work		4	4	4	4
Corporate Centre	Initial investigations on referral		3	3	3	3
Corporate Centre	Kent Matches Co-ordination		3	3	3	3
Audit Follow Ups			40 days	40 days	40 days	40 days
Various	Quarterly follow up exercise		40	40	40	40
Consultancy and other work			30 days	41 days	8 days	66 days
Corporate Centre	Supporting and attending Audit Committee	12/13,13/14,14/15	6	6	6	6
TBC	Unallocated contingency time		24	35	2	60

Overall Summary

Work Type	2015/16	2016/17	2017/18	2018/19
Audit Work (leading to assurance rating)	245 days 23 reviews	234 days 22 reviews	267 days 27 reviews	209 days 21 reviews
Core Financial Systems	81	68	71	47
Corporate Governance	60	56	80	71
Service Reviews	104	110	116	91
Non Audit Work (unrated reporting)	105 days	116 days	83 days	141 days
Risk Management	20	20	20	20
Counter Fraud	15	15	15	15
Audit Follow Up	40	40	40	40
Consultancy/Contingency	30	41	8	66
Total Audit Resources Available	350 days	350 days	350 days	350 days

Prior year work column looks back over the past three years, so does not note audit coverage before 2011/12. Reviews that received adverse opinions (or where such opinions persisted after follow-up) are shown in **bold red text**.

Audit projects noting more than one client (e.g. TWBC/MBC/SBC) are reviews of services delivered in partnership. In such instances our work is co-funded between the partners' audit plans and the audit output will be made available to all on the same basis.

Precise timings of work within a given year will be subject to negotiation with individual audit sponsors.