

# RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

## MUNICIPAL YEAR 2015/16

**COMMITTEE:**

**AUDIT COMMITTEE**

**29<sup>th</sup> June 2015**

<b>Item No. 6</b>
<b>Internal Audit Business Plan 2015/16</b>

**REPORT OF:-**

**GROUP DIRECTOR, CORPORATE & FRONTLINE SERVICES**

**Author: Marc Crumbie (Operational Audit Manager)**

**(01443) 680779**

### **1. PURPOSE OF THE REPORT**

1.1 To provide Members with a copy of Internal Audit's business plan for the 2015/16 financial year.

### **2. RECOMMENDATIONS**

2.1 It is recommended that Members:

- Note the contents of this Report;
- Form a view on the adequacy of the business plan in supporting the delivery of an effective Internal Audit service during 2015/16; and
- Receive updates during 2015/16 in respect of progress against objectives.

### **3. BACKGROUND**

3.1 The Internal Audit Charter defines the purpose, authority and responsibility of Internal Audit. The Charter establishes Internal Audit's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.

3.2 As an independent appraisal function within the Council, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. This is the underlining objective for all of the work that we undertake.

- 3.3 The Internal Audit Service complete an annual business plan where the objectives of the service set in the context of a financial year are identified. The Business Plan for Internal Audit sets out what we aim to achieve during the financial year and also provides, where applicable, task and finish objectives against which we can be assessed and measured.
- 3.4 The objectives included within the business plan for 2015/16 are focused on specific areas of governance, risk management and developing more detailed information that is provided to Audit Committee.
- 3.5 Attached at **Appendix 1** is a copy of Internal Audit's business plan for 2015/16.

**4. SUMMARY**

- 4.1 The Internal Audit business plan documents objectives for the 2015/16 financial year and Audit Committee will receive mid-year and year end updates on the delivery of objectives.

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**LOCAL GOVERNMENT ACT, 1972**

**as amended by**

**THE ACCESS TO INFORMATION ACT, 1985**

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**LIST OF BACKGROUND PAPERS**

**AUDIT COMMITTEE**

**29<sup>th</sup> June 2015**

**Report of the Group Director, Corporate & Frontline Services**

Author: Marc Crumbie (Operational Audit Manager).

**Item**

**File Ref:**

6. Internal Audit Business Plan 2015/16

IA / MC

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Rhondda Cynon Taf  
County Borough Council

Internal Audit Service

**BUSINESS PLAN 2015/16**

## Internal Audit - Summary of Objectives 2015/16

### **Audit Committee**

In consultation with the Chairperson of Audit Committee, develop a workplan for the 2015/16 Municipal Year that helps to ensure that Members have the knowledge, skills and information to enable them to scrutinise reports they receive in respect of the Council's:

- Internal Control Environment
- Governance and Risk Management arrangements

### **Risk Management**

In order to ensure that more qualitative information is provided in respect of the Council's Strategic Risks, develop the information that is provided to Members as part of the quarterly performance reporting arrangements.

Establish a programme of 'spot check audits' to ensure that the intended 'Operational Risk Management' arrangements are embedded within Service Area's business planning arrangements and that they are monitored appropriately.

### **Governance**

Collate the recommendations detailed in the Annual Governance Statement 2014/15 and ensure they are reported to Audit Committee and subject to routine follow-up.

Review the Council's governance arrangements during 2015/16. If areas for improvement are identified then ensure they are reported to Senior Management, Audit Committee and rigorously monitored.

## **2014/15 BUSINESS PLAN OBJECTIVES – AN UPDATE**

- 2.1 During 2014/15, key objectives for the service were identified in the Internal Audit business plan. These are outlined below (in bold), together with how they were delivered during 2014/15.

**Establish a risk-based annual audit plan that includes a balance of assurance and consultancy reviews. Contingencies will be built into the planned workloads that help to ensure the Internal Audit Service is able to respond to changes in the organisation's business, risks, operations, programs, systems, and controls throughout the year.**

- 2.2 When compiling the draft Internal Audit plan 2014/15, a full consultation process took place with all key stakeholders during January & February 2014. As the Council's risk management framework was still in development at this stage, the Operational Audit Manager used his judgement of risks (in accordance with the Public Sector Internal Audit Standards) in conjunction with the input received from all Group Directors or equivalent. In addition to the consultation with Group Directors, Service Directors and Heads of Service, the audit plan took into account the outcomes of previous audit work in the area(s), the views of the Wales Audit Office and the Council's Audit Committee.
- 2.3 The audit plan was fixed for a period of one year and provided the assignment name, the allocated priority and the estimated resources needed. The plan differentiated between assurance, consultancy and 'other work' and included contingencies for any unplanned requests for Internal Audit resources.
- 2.4 The contingencies incorporated into the 2014/15 audit plan were prudent. The lack of any significant pieces of unplanned work, as experienced in previous years, has contributed to the assessment that contingencies included in the 2014/15 plan were sufficient.

### **Following Cabinet's approval of the Risk Management Strategy in March 2014:**

- **Formalise the Council's Strategic Risk Register**
  - **Rollout the principles of the approved Strategy**
  - **Support officers with the risk management toolkit.**
- 2.5 The role of Internal Audit developed significantly in respect of the Council's Risk Management arrangements during 2014/15. The Internal Audit Service facilitated the compilation of the Council's Strategic Risk Register, Risk Management Toolkit and also established the mechanisms by which the strategic risks were incorporated into the Council's reporting arrangements.
- 2.6 The strategic risk register is subject to quarterly review between the Operational Audit Manager and each 'Risk Owner'. The outcomes from this exercise are incorporated into 'live' updates of the strategic risk register.
- 2.7 During February 2015, the Operational Audit Manager visited each Senior Management Team of the Council and provided an overview of the Council's risk management arrangements. Specific focus was provided to each management team in relation to their responsibilities for managing their operational risks.

- 2.8 The Council's Strategic Risk Register was used as a source of information when compiling the Internal Audit Draft audit plan 2015/16 (in full conformance with the Public Sector Internal Audit Standards).

**Embed the Annual Governance Statement (AGS) working group into the governance arrangements of the Council, ensure it delivers its terms of reference and becomes an effective process of challenge and review of the AGS.**

- 2.9 The AGS working group was integral in reviewing the Council's governance arrangements in preparation for the compilation of the 2014/15 AGS.
- 2.10 The format of the AGS was amended for the 2014/15 document in order to ensure that it 'flowed' in a more coherent manner and that any recommendations for improvement became embedded into the document rather than be seen as ad-hoc recommendations.
- 2.11 Whilst maintaining the descriptive aspect of the arrangements in place, the 2014/15 AGS provides a more evaluative approach and summarises with an action plan of recommendations to improve the Council's governance arrangements further. The Council's Audit Committee will receive reports throughout the 2015/16 Municipal Year that will provide updates on the status of each recommendation raised within the 2014/15 AGS.

**Ensure conformance with the Public Sector Internal Audit Standards.**

- 2.12 The Public Sector Internal Audit Standards came into practice with effect from the 1<sup>st</sup> April 2013. These replaced the previous CIPFA Code of Practice for Internal Audit in Local Government 2006.
- 2.13 An internal assessment of the service's conformance with the Standards took place during 2014/15 and confirmed there were no significant deviations from the Standards.
- 2.14 The Wales Audit Office's review of Internal Audit during March 2015 reinforced the internal assessment and confirmed that there were no significant deviations. The Operational Audit Manager will continue to work with the WAO during 2015/16 in respect of demonstrating on-going compliance with the Standards.
- 2.15 During 2015/16 the Internal Audit Service will undertake a formal 'self assessment audit' of compliance against the standards, the full report of which will be reported to Audit Committee.

## **THE CHANGING ROLE OF INTERNAL AUDIT**

- 2.16 The role of Internal Audit is evolving. The primary objective of Internal Audit will always be to establish a balanced, risk based annual audit plan that covers as much of the Council's overall control environment as far as is practicable in order to review, appraise and report on the adequacy of the Council's overall control environment. However, we have specific skills and knowledge that are being used to help the Council review, and where necessary, improve its governance arrangements.
- 2.17 Reports issued by Estyn and the Wales Audit Office during 2014/15 made reference to the work of Internal Audit in some key areas. We will continue to focus our resources on the 'right areas' of the Council during 2015/16.
- 2.18 The 2015/16 objectives for Internal Audit focus on reviewing the Council's governance and risk management arrangements, and complimentary to these objectives, continuing to develop the important role that Audit Committee has in meeting their terms of reference in respect of these key areas.

## Internal Audit Objectives 2015/16

### Audit Committee

<p><b>In consultation with the Chairperson of Audit Committee, develop a workplan for the 2015/16 Municipal Year that helps ensure that Members have the knowledge, skills and information to enable them to scrutinise reports they receive in respect of the Council's:</b></p> <ul style="list-style-type: none"> <li>• <b>Internal Control Environment</b></li> <li>• <b>Governance and Risk Management arrangements</b></li> </ul>			
<p><b>Contributes to the Finance Service's Strategic Objective(s)</b></p>		<p><b>Review the Council's governance arrangements (including scrutiny, self evaluation and risk management).</b></p>	
<p><b>Critical-Actions</b></p>	<p><b>Key Milestones</b></p>	<p><b>Delivery Date</b></p>	<p><b>Responsible Officer</b></p>
<p>Develop a workplan that ensures Audit Committee is provided with:</p> <ul style="list-style-type: none"> <li>• An overview of the role of Internal Audit, along with a copy of the Committee's Terms of Reference.</li> <li>• The Council's Risk Management arrangements</li> <li>• An overview of key terms such as:                             <ul style="list-style-type: none"> <li>○ Governance and;</li> <li>○ Internal Control Environment</li> </ul> </li> </ul>	<p>The production of an all-embracing workplan for Audit Committee at the start of the 2015/16 Municipal Year.</p>	<p>7<sup>th</sup> September 2015 <i>Second Meeting of the Audit Committee (once the Chair has been formally appointed)</i></p>	<p>Marc Crumbie – Operational Audit Manager</p> <p>Chair of Audit Committee</p>
	<p>Feed relevant information into Audit Committee throughout the 2015/16 year in order to ensure they do not suffer 'information overload'.</p> <p>A programme of information provided in a logical and practical manner.</p>	<p>Linked to the workplan – information to be provided throughout the 2015/16 year.</p>	<p>Marc Crumbie – Operational Audit Manager</p>
<p><b>Risks to be managed/highlighted (i.e. risks that will stop you achieving your Objective)</b></p>		<p><b>Actions to mitigate risk</b></p>	
<p>If too much information is provided at one Audit Committee then Members may suffer from information overload.</p>		<ul style="list-style-type: none"> <li>• Ensure that the information presented to Audit Committee is provided in a meaningful manner that ensures Members have the time to digest the information provided to them. This will be achieved through dialogue with the Chair of Audit Committee via the development of a balanced workplan.</li> </ul>	

**Risk Management**

<b>In order to ensure that more qualitative information is provided in respect of the Council's Strategic Risks, develop the information that is provided to Members as part of the quarterly performance reporting arrangements.</b>			
<b>Contributes to the Finance Service's Strategic Objective(s)</b>		<b>Review the Council's governance arrangements (including scrutiny, self evaluation and risk management).</b>	
<b>Critical-Actions</b>	<b>Key Milestones</b>	<b>Delivery Date</b>	<b>Responsible Officer</b>
An updated format that is ready for the 2015/16 Qtr1 Performance Report.	2015/16 Qtr1 Performance Report (September 2015)	September 2015	Marc Crumby – Operational Audit Manager.
<b>*Risks to be managed/highlighted (i.e. risks that will stop you achieving your Objectives)</b>		<b>Actions to mitigate risk</b>	
If the updates are not concise and meaningful then the ability for Members to challenge risk owners effectively could be undermined.		<ul style="list-style-type: none"> <li>Prior to publication, Internal Audit will challenge risk updates in order to confirm that they provide the necessary information.</li> </ul>	

<b>Establish a programme of 'spot check audits' to ensure that the intended Operational Risk Management arrangements are embedded within Service Area's business planning arrangements and that they are monitored appropriately.</b>			
<b>Contributes to the Finance Service's Strategic Objective(s)</b>		<b>Review the Council's governance arrangements (including scrutiny, self evaluation and risk management).</b>	
<b>Critical-Actions</b>	<b>Key Milestones</b>	<b>Delivery Date</b>	<b>Responsible Officer</b>
Undertake an audit review of the business planning arrangements with specific focus on the completion of the risk section.	Present a report to Audit Committee delivering the outcome of the audit review.	26 <sup>th</sup> October 2015 Audit Committee	Marc Crumby – Operational Audit Manager
<b>*Risks to be managed/highlighted (i.e. risks that will stop you achieving your Objectives)</b>		<b>Actions to mitigate risk</b>	
If managers have not grasped the concept of operational risk management in service business plans then the 'end product' will not have the integrity required by CMT and more importantly, all of the risks to the achievement of the business plan objectives may not be identified.		<ul style="list-style-type: none"> <li>Use the initial audit as a spot checking exercise but also utilise the consultancy services offered by Internal Audit to drive improvement where the spot checks identify gaps and/or areas where improvement could be achieved.</li> </ul>	

**Governance**

<b>Collate the recommendations that are in the Annual Governance Statement 2014/15 and ensure they are reported to Audit Committee and subject to routine follow-up.</b>			
<b>Contributes to the Finance Service's Strategic Objective(s)</b>		<b>Review the Council's governance arrangements (including scrutiny, self evaluation and risk management).</b>	
<b>Critical Actions</b>	<b>Key Milestones</b>	<b>Delivery Date</b>	<b>Responsible Officer</b>
Audit Committee receives assurance that the recommendations have either been implemented and/or robust controls and management actions are in place to deliver them.	Prepare a report to Audit Committee that provides an update in respect of the actions taken to implement the recommendations contained within the AGS.	Audit Committee - 26 <sup>th</sup> October 2015	Marc Crumby – Operational Audit Manager
<b>*Risks to be managed/highlighted (i.e. risks that will stop you achieving your Objectives)</b>		<b>Actions to mitigate risk</b>	
The ability of Internal Audit to form a balanced opinion may be compromised where insufficient time has been allowed for progress, given the broad/far-reaching nature of some of the recommendations.		<ul style="list-style-type: none"> <li>Ensure that the timeliness of the Internal Audit review takes account of when the recommendations are likely to have been implemented by.</li> </ul>	

<b>Review the Council's governance arrangements during 2015/16. If areas for improvement are identified then ensure they are reported to Senior Management, Audit Committee and monitored appropriately.</b>			
<b>Contributes to the Finance Service's Strategic Objective(s)</b>		<b>Review the Council's governance arrangements (including scrutiny, self evaluation and risk management).</b>	
<b>Critical-Actions</b>	<b>Key Milestones</b>	<b>Delivery Date</b>	<b>Responsible Officer</b>
Establish a specific scope for the audit.	Issue a Terms of Reference for the audit and undertake fieldwork	July - August 2015	Marc Crumby – Operational Audit Manager
Ensure that the audit testing is consistent with the approach of the Wales Audit Office.	The planned testing is consistent with the scope and objectives of a WAO Corporate Assessment.	July – August 2015 <i>(undertaken as part of the scoping and planning).</i>	Marc Crumby – Operational Audit Manager
<b>*Risks to be managed/highlighted (i.e. risks that will stop you achieving your Objectives)</b>		<b>Actions to mitigate risk</b>	
Governance is a broad term; if the scope of the Internal Audit work is not focused on the right areas then the audit may 'drift' into areas that are not categorised as areas of priority.		<ul style="list-style-type: none"> <li>Undertake a scoping exercise with CMT in order to establish a focused scope for this review. The aim of this piece of work will be to review arrangements and make recommendations where necessary (add value).</li> </ul>	
If the approach adopted by Internal Audit is not consistent with the approach of the Wales Audit Office, then the audit may not incorporate all of the necessary elements.		<ul style="list-style-type: none"> <li>Undertake thorough research and obtain a copy of the WAO's Corporate Assessment template in order to ensure that the testing undertaken by Internal Audit is sufficient.</li> </ul>	