

**Corporate Governance Committee - 5<sup>th</sup> April 2012**

**Strategic Audit Plan 2012-15 & Annual Audit Plan 2012/13**

**Report of the Internal Audit Manager**

**1. Purpose of Report**

- 1.1 To obtain approval from the Corporate Governance Committee for the Strategic Audit Plan 2012-15 & Annual Audit Plan 2012/13 following consideration and endorsement by the Senior Management Team.

**2. Advice**

That it be <b>RESOLVED:</b>	That the Strategic Audit Plan 2012-15 & Annual Audit Plan 2012/13 as outlined in Appendix 1 be approved.
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**3. Introduction**

- 3.1 The Accounts & Audit Regulations 2003 (as amended 2011) requires the Council to establish and maintain appropriate risk management processes, internal control systems, accounting records and governance arrangements. This includes having an adequate and effective Internal Audit function, which abides by the CIPFA “Code of Practice for Internal Audit in Local Government (2006)”.
- 3.2 Internal Audit plays a pivotal role in advising the organisation on its arrangements, culminating in an opinion on the adequacy of the Council’s internal control framework, which supports the Councils Annual Governance Statement. The Code requires the head of internal audit to prepare a risk-based audit plan taking into account the adequacy and outcomes of the above assurance processes.
- 3.3 It is the responsibility of the Corporate Governance Committee to approve, but not direct, the internal audit plan.

**4. Key Points**

- 4.1 The Code suggests that the audit plan should be fixed for no longer than one year. In practice, adequate audit coverage of all potential areas of audit needs to be demonstrated, whilst at the same time ensuring that audit resources are directed towards those areas adjudged to be of high to medium risk within the authority. In meeting this objective, a three-year strategic audit plan has been devised, but the main focus of the planning process should be on the first year of the plan.
- 4.2 It is important that the plan is seen as a statement of intent with the flexibility to be amended to reflect changing risks and meet the emerging priorities of the Council. An annual audit plan is derived from the strategic plan, with specific approval being required each year.

- 4.3 The key to delivering an effective internal audit service involves an understanding of the environment in which it operates. This environment is about risks that the authority faces, and the internal controls that need to be in place to mitigate such risks. The organisation needs to have effective governance arrangements in place to ensure that sound systems of internal control exist to manage risk effectively. IA's role in risk management is to provide independent assurance that:
- The risk management processes that management has put in place within the organisation (at corporate, team; operational level, project specific etc.) are operating as intended;
  - These risk management processes are of sound design; and
  - A sound framework of controls is in place to sufficiently mitigate those risks to an acceptable level.
- 4.4 In conjunction with my own detailed assessment of risk, the construction of the strategic audit plan also takes account of managements' own assessment, utilising the various risk registers in place to support the performance management framework. As the corporate risk management process matures, more reliance is placed on its results providing for more effective audit planning.
- 4.5 In drafting the audit plan, a brief period of consultation has taken place with management across the organisation to identify any areas of risk not previously taken into account. The Council's Chief Financial Officer is responsible for ensuring an effective internal audit service is adequately resourced and maintained, and is therefore a key player in the consultation process. The Senior Management Team has also been given the opportunity to have input into that process by considering and endorsing the plan ready for approval by the Corporate Governance Committee.
- 4.6 The plan, as shown in appendix 1, outlines the assignments to be carried out, the respective priorities and the estimated resources required to complete the work. The format of the Plan is fundamentally broken down into four aspects as follows:
- Financial Systems Assurance Work** - whilst providing essential assurance to management this also supports the work of the External Auditor in their assessment of the Council's Financial Accounts.
- Corporate Governance, Risk Management, Counter Fraud and Other Corporate Matters** - this work supports the corporate building blocks of the Council and ensures that effective governance arrangements are in place.
- Teams** - audit work that is specific to or under the clear management of one or more teams.
- Consultancy, Advice, Follow Up Audits and Contingency** - to cover any special investigations, ad-hoc management enquiries, follow up audits, completion of prior year audits, grant certification work, and breaches of the Constitution.
- 4.7 Following the risk assessment exercise and alignment to audit resources available, there is inevitably a number of medium to low risk areas which may not be audited over the lifetime of the strategic plan. These are detailed in appendix

1 below the plan. It is important that these are made known to management as they are ultimately responsible for the internal control environment and may wish to obtain assurance for these services / activities by other means, e.g. closer supervision or independent checks.

## **5. Resourcing the Plan**

- 5.1 The audit plan uses a separate resource plan that identifies the available audit days in the year after taking account of staffing levels, leave, training, preparation and monitoring of the audit plan, development of the audit service, general administration etc., and assumes a period of full staffing of the IA Team for the 3-year period of the strategic plan.
- 5.2 As a support service of the Council, Internal Audit has not been immune from the Council's efficiency / savings agenda. Relative budget savings have been delivered including a reduction in the contracted hours of the Internal Auditor post to 0.61FTE. To put that into context, the previous 3-year strategic plan was resourced by 3.0FTE officers producing the equivalent of 475 audit days per annum or 1425 days over the life of the plan. Current resources provide for 384 audit days or 1152 in total. Therefore, the impact on audit resources has seen a reduction of some 91 days per annum or 273 audit days over the 3-year plan. In order to lessen the direct impact on the scope of work undertaken, Internal Audit has had to look at ways of producing "more with less" in recent years. Over the forthcoming plan this will be developed further by utilising a form of risk based auditing, where a targeted approach to assurance testing will be undertaken rather than a blanket approach.
- 5.3 A full complement of staff within the team is now in place with the right skills and experience to be able to deliver the new strategic audit plan.

## **6. Conclusions**

- 6.1 A considerable amount of change has taken place within the Council over the past year which has required careful management, particularly in respect of determining a satisfactory level of resource required to meet expected or revised levels of service delivery. The reduction in audit resource is reflective of the size of the authority and is still comparable with other similar-sized authorities in our benchmarking group. In my opinion this reduction still leaves a sufficient level of resource to achieve the required audit outcome and provide for an adequate opinion on the state of the Council's internal control environment.
- 6.2 Implementing the savings agenda and the undertaking of the organisational restructure has clearly been a priority for management. Although, they will have paid attention to the affects this has on the control environment, e.g. by ensuring adequate separation of duties exist wherever possible, the full impact may not be known for some time. It is therefore essential that Internal Audit remains alert to the changes that are being made, and as emerging risks arise and other events unfold affecting services provided by the Council, ensure it continues to provide timely assurance to management and the Corporate Governance Committee.

## **7. Implications**

### **7.1 Financial, Personnel, Policy, Legal, Environmental, Best Value, IT, Community Safety Implications, Human Rights, Equalities**

None arising directly out of this report. All risks inherent from the above implications are taken into consideration as part of the audit planning process and in the undertaking of audits.

#### **Papers attached:**

Appendix 1 - Strategic & Annual Audit Plan 2012-15

#### **Background papers:**

Corporate Governance Committee

- 27/01/11 - Internal Audit Strategy 2011-14

- 07/04/11 - Annual Audit Plan 2011/12

#### **Previous Minutes:**

None

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**Extension 2408**

## STRATEGIC &amp; ANNUAL AUDIT PLAN 2012-15

Team / Area	Risk Cat	2012/13	2013/14	2014/15	Comments on Plan
<b>Financial Systems Assurance Work</b>					
Planning & Scoping	H	3	3	3	
Main Accounting System	H	7	8	7	Key controls only.
Budgetary Control (Revenue)	M	6		6	Applies to the monitoring aspect only, not budget setting process.
Payroll	H	11	11	11	12/13 includes employee deductions.
Creditors	H	8	8	8	12/13 includes cheque control, and security of data.
- Purchasing / Creditor Checks			5		Additional assurance required on transactions and purchase card control process.
- Purchase Cards		5		5	
Treasury Management	M	8	8	8	Complete system including fraud control checklist.
Council Tax	H	11	11	11	12/13 includes collection and refunds.
NNDR (Business Rates)	H	11	11	11	12/13 includes recovery and enforcement.
Housing Benefits	H	12	10	10	12/13 includes performance and subsidy claims.
- Overpayments		6			Additional assurance required. Postponed from 11/12.
Debtors	H	10	10	10	Complete system (12/13 incl. full testing: debt recovery & write off's).
Cash Receipting	H	8	8	8	Complete system.
Commercial Rents	H	12	10		12/13 includes rent reviews and lease renewals.
Asset Register	H	9	9	9	In co-operation with Audit Commission (additional testing).
Follow Up Audits	AR	12	12	12	Follow-ups from previous Financial Assurance Work.
Sub Total (Audit Days)		<b>139</b>	<b>124</b>	<b>119</b>	
<b>Corporate Governance, Risk Management, Counter Fraud &amp; Consultancy</b>					
Corporate Governance Framework	AR/MR	5	5	5	Linked to Use of Resources - (Including audit advice / working groups). Includes contribution to Local Code of Governance & Action Plan; Assurance mapping; Annual Governance Statement.
Risk Management	AR	7	7	7	To provide audit opinion on maturity of risk management process. Includes audit participation in officer working group.

Team / Area	Risk Cat	2012/13	2013/14	2014/15	Comments on Plan
Human Resources / People Management	H	7	7	7	Subject areas to be determined with senior management. Links in with change management and strategic risk register.
Business Continuity Management	H		7		Includes complete review of arrangements and progress on since last audit work. Links in with strategic risk register.
Budgetary Process (Capital)	H	7			Includes capital programme & monitoring
Performance Management Framework & Data Quality	M			6	
Application of Financial Regulations/ Office Instructions	AR		8		Review of those not covered by planned audit work.
Revision of Constitution - Regulations & Employee Code	MR	4	4	4	Contribution to annual review and to support management and the control environment.
Inventories	M		5		Application of corporate office instruction – links in with fraud risk in current climate.
Grants Register - Receipt	M		5		
Corporate Procurement Strategy	H		6		Review of progress / achievement of new strategy.
Corporate Procurement & Efficiency WG / Advice	MR	6	6	6	Includes separate audit advice given to officers on ad-hoc basis (Contract & Procurement Regulations etc)
EMS Group / EMS Advice	MR	1	1	1	Advice, participation as a champion, and follow up of EMS audits.
Follow Up of Audit Commission Reports	MR	2	2	2	On behalf of the AC, CG Ctte and SMT.
Contract Final Accounts	AR	8	8	8	Requirement within Constitution. Determined on risk / financial materiality.
Major Contracts	H	5	3	3	Current contract audit / review (including advice) e.g. Leisure, DTCV.
Key Partnerships - Governance Arrangements	H	6		6	Review of key partnerships against Partnership Protocol.
Market Testing (Procurement)	H		5	5	Review of supplier / spend analysis to identify areas where suitable market testing has not taken place or not planned.
Revenue Contract Monitoring	H	5	5	5	Includes areas of risk in process and application against contract regulations.
Contracts Register	H	5		5	Review of arrangements & effective monitoring.
Audit Review of Results of Tender Evaluations	MR	5	5	5	Requirement within Constitution for all contracts
E-Procurement	M		6		Review of actions contained in new Procurement Strategy.

Team / Area	Risk Cat	2012/13	2013/14	2014/15	Comments on Plan
Application of Programme & Project Management	M	5	5	5	09/10 includes previous follow up audit.
Corporate Fraud Arrangements	AR	5	5	5	Assessment of arrangements; fraud hotline and reporting; Review of Strategy & Fraud Response Plan.
Fraud Risk Assessment	AR	5			To identify audit coverage from fraud risk perspective plus undertaking Audit Commission Fraud & Corruption Survey for CFO.
Fraud Bulletins / Notifications	AR	4	4	4	Dissemination of information to relevant parties
National Fraud Initiatives	MR	4	4	4	Process now taken on and facilitated by Internal Audit on behalf of CFO.
<b>Sub Total (Audit Days)</b>		<b>96</b>	<b>113</b>	<b>93</b>	
<b>Business</b>					
Contracts - Pre-Contract	M	7			Systems approach to contract processes within the Business team and related departments.
Contracts - Current Contract	H		7		
Contracts - Final Accounts	H			7	
Building Control Applications & Income Collection	M		6		
<b>Sub Total (Audit Days)</b>		<b>7</b>	<b>13</b>	<b>7</b>	
<b>Community</b>					
Planning Applications & Income Collection	M			6	In support of EMS audit programme.
Environmental Auditing - Env. Management System	MR	12	6	6	
Planning Obligations / Community Infrastructure Levy	H			7	To risk assess service(s) to cover. Includes Disabled Facilities Grants & Home Repair Assistance
Environmental / Public Health	H			7	
Home Improvement Grants	H	7			
Marketing & Communications	M			6	Assessment of internal control changes as services are rolled out, particularly any changes to income collection.
Housing Allocations	M			7	
CRM / OSS Roll Out	M	2	2	2	
Licensing - Income Collection	M	5			
<b>Sub Total (Audit Days)</b>		<b>26</b>	<b>8</b>	<b>41</b>	
<b>Resources</b>					

Team / Area	Risk Cat	2012/13	2013/14	2014/15	Comments on Plan
Revenues - Legal Recovery	H		5		Including use of bailiffs, external agencies
Land Charges - Income Collection	H			5	
IT Policy, Strategy & Security	H	5	10	11	12/13 Data Protection / Handling; 13/14 PCI(DSS) + Application of ICT Usage Practices; ICT Fraud & Abuse Checklist; 14/15 IT Strategy + ICT Usage Practices + IT Disaster Recovery.
IT Service Management	H	18	5	3	12/13 IT Service management & financial; IT project management controls + post implementation review; 13/14 Change controls; 14/15 General ITSM overview & follow up.
ICT Control Systems	H		16	16	13/14 File / PC controls + Network controls; 14/15 Procurement of ICT facilities + Internet / firewall & internet controls + Physical & environmental controls.
IT Audit Scoping & Advice	AR	2	2	2	
<b>Sub Total (Audit Days)</b>		<b>25</b>	<b>38</b>	<b>37</b>	
Contingency (incl. Special Investigations, Ad-hoc reviews, Other Follow Up Audits)					
Contingency (including Special / Fraud Investigations)	AR	30	30	30	Also includes scoping of audits and grant certification work.
Breaches of the Constitution	MR	2	2	2	Identification of breaches / reports to Monitoring Officer
Audit Follow Up's	AR	27	26	25	Various follow up audits as required.
Completion of Prior Year Audits	AR	10	10	10	Various prior to reporting of Annual Audit Review.
Management Enquiries / Ad-hoc reviews - Probity	MR	12	12	12	Management / officer requests for internal control advice
<b>Sub Total (Audit Days)</b>		<b>81</b>	<b>80</b>	<b>79</b>	
<b>Consultancy Work - Joint Planning Unit</b>	MR	<b>10</b>	<b>8</b>	<b>8</b>	Audit undertaken on behalf of NBC, SNC & DDC. Income generating audit.
<b>TOTAL AUDIT DAYS</b>		<b>384</b>	<b>384</b>	<b>384</b>	

**Key:** Risk Category: H = High; M = Medium; MR = Management Requirement; AR = Audit Requirement



**Areas not included within Strategic Audit Plan**

<b>Audit Area</b>	<b>Risk Cat</b>	<b>Audit Area</b>	<b>Risk Cat</b>
Civil Emergencies - Local Authorities	M	Home Energy Conservation	L
Democratic Processes & Election Expenses	M	Legal Services	L
Community Grants - Allocation	M	Records Management	L
Land Sales	M	Asset Management Plan	L
Insurance System	M	Community Safety	L
The Abbey - Income Collection	L	Recharges - Photocopying, Post, Telephones Etc	L
Countryside / Country Park Income	L	Bank Reconciliation System (Incl. Cheque Rec.)	L
VAT	L	Banking Arrangements	L
Car Leasing	L	Travel / Subsistence / Other Employee Expenses	L
Home Loans & Other Assistance	L	Parking Enforcement	L
Stores Management - IT Consumables	L	Equality	L
Corporate Building & Property Maintenance	L	Recruitment Expenses	L
Post Opening - Cash Receipting	L	Money Laundering	L
Health & Safety (Internal)	L	Homelessness	L
Employee Handbook / Code Of Conduct	L	Petty Cash / Imprest	L
Care & Repair	L	Corporate Strategies	L
Data Protection	L	RIPA	L
Members Allowances & Civic Expenses	L	Car Loans	L
Catering / Vending Machines	L	Freedom Of Information	L

**Note:** Some of the above areas have been audited as part of the previous 3-year strategic audit plan and some aspects may be picked up in future during other corporate / financial audits.