

INTERNAL AUDIT PLAN 2012/13

Submitted by: **Audit Manager**

Portfolio: **Resources and Efficiency**

Ward(s) affected: **All**

Purpose of the Report

To inform Members of the proposed Internal Audit Plan for 2012/13 and to seek their approval as to its contents.

To agree with members the reporting arrangements for performance against the 2012/13 proposed plan.

Recommendations

(a) That the Internal Audit Plan for 2012/13 is approved.

(b) That Members agree to the continuation of the reporting arrangements as set out in the report.

Reasons

Under CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom Internal Audit has a duty to plan effectively to ensure it contributes to the Council's objectives at strategic and operational levels. Planning also enables Internal Audit to demonstrate that they are making the best use of resources.

1. Background

- 1.1 The Local Government Accounts and Audit Regulations 2010 require every Local Authority to maintain an adequate and effective system of internal audit of accounting records and control systems. Internal Audit is an independent appraisal function within the Borough Council under the control of the Executive Director Resources and Support Services and Section 151 Officer. The Section also provides a service to management by giving assurance that there are adequate internal controls in operation, ensuring the proper, economic, efficient and effective use of resources, to include the security of assets and data and to assist management in preventing and detecting fraud. This is covered by routine system and regularity audits and under a wider remit by value for money and special audits.
- 1.2 In considering planning and resource requirements the expectations of the Audit Commission's District Auditor in terms of the 'Managed Audit' have also been considered. This is where Internal Auditors undertake the type and level of work previously undertaken by the District Auditor under his supervision. The aim of this is to increase the effectiveness of Internal Audit activity and the extent to which the District Auditor can and will rely upon their work and ensuring minimum duplication of audits and minimisation of cost.
- 1.3 A sufficiently resourced and effective Internal Audit Section is key to providing assurance on the Councils systems of internal control and the prevention and detection of fraud and corruption. In addition the District Auditor will require assurance that 'the Council has arrangements in place to maintain a sound system of internal control' with evidence to support that:

- The Council reviews and reports on its systems of internal control
- The Council has an audit committee or equivalent and an internal audit function and that the internal audit function operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.

Best practice guidance states that Internal Audit should achieve 90% of its internal audit plan. Any divergence from the plan should be due to legitimate operational factors, i.e. special investigations, and the plan should be reappraised.

1.4 In reviewing the effectiveness of the Internal Audit function, external inspectors such as the Audit Commission will look for:

- Evidence of a risk assessment of material items of income and expenditure and that Internal Audit reviews all high risk financial systems each year and medium risk financial systems on a cyclical basis;
- Evidence that such risks are reported to Members;
- Evidence that Internal Audit has the resources to deliver its work programme;
- Evidence of a process to ensure that accepted recommendations by Internal Audit are reviewed by senior management and members;
- Evidence that arrangements for discharging the functions of an Audit Committee have been considered, such functions would include;
 - Reviewing the adequacy of policies and practices to ensure compliance with statutory and other guidance;
 - Reviewing the adequacy of internal controls and
 - Monitoring the performance of internal audit and agreeing to the external audit plan.

A review of the Council's Corporate Governance arrangements and Internal Audits role in this helps to support and demonstrate compliance in these areas.

2. **Issues**

Internal Audit Plan for 2012/13

- 2.1 The Internal Audit Plan is calculated in terms of audit days, 534 for 2012/13, see Appendix A based on a full risk assessment of each audit area which considers expenditure, income, management controls, operational practices, political and legislative influences and the risk of fraud. In accordance with the CIPFA Code of Practice for Internal Audit the plan is fixed for no longer than one year and outlines the areas to be covered together with the estimated resource, in terms of audit days required to complete the assignment.
- 2.2 Information from risk assessments on each audit area is subjected to a weighted risk assessment process to allocate the available resources to those activities of greatest risk. At present the risk model is set up to ensure all areas are covered over a three year cycle. Appendix B shows an example of the risk assessment conducted against each audit area. In addition to this Executive Directors and Heads of Service are requested to raise any new areas that may require auditing or a change in practices to existing audit areas and to comment on the proposed annual plan and resultant Audit Services. At the beginning of each audit a brief is sent to Executive Directors and Heads of Service highlighting the objectives of the audit and requesting any comments or inputs into the proposed work. At the end of every audit a new risk analysis is completed to reflect any changes to the audit area and therefore risks, and this is then subject to the weighted risk assessment process and the plan is updated annually.

- 2.3 In producing the Audit Plan for 2012/13 using the existing risk model and in an ideal situation where the Internal Audit Team is fully resourced on a regular basis, a total of 984 productive days are required if all risks are to be covered. However, this model has to be balanced against the resources available and those reasonable for an authority of this size. Audit days available for 2012/13 have been calculated at 534. The plan is refined to match the available resources ensuring that all 'A' risk audit areas will be covered and then priority is given to 'B' risk areas, in this way reviews are prioritised based on need and relevance to the Council's priorities. The revised plan covers all 'A' risk audit areas which total 235 days and 299 'B' risk areas.
- 2.4 Given the resources available for 2012/13 a total of 199 'B' risks and 90 'C' risks have had to be reduced out of the plan. In addition to these days a total of 77 days within the plan were identified as areas that are no longer relevant and as such needed to be deleted from the planning model, these included areas such as Corvu (performance management system), the Pericles Replacement Project, Concessionary travel and the Neighbourhood Management Pathfinder. Also a further 84 days were reduced within the planning model as a result of adjustments to the number of days required for the audit of the council's key financial systems. This was as a result of previous discussions with the District Auditor where it was agreed that for 2011/12 onwards the systems would be reviewed in full on a rotational basis with half of the systems being reviewed in one year, the rest being reviewed in the following year. Where a full review of a key financial system is not scheduled to be completed, a review of the key financial controls will be undertaken during this year. When deciding on which areas to leave in the plan and which to remove a number of factors were taken into consideration these included the date of the last audit, knowledge gathered as part of other reviews, and feedback from Heads of Service etc.
- 2.5 During the course of 2012/13 this risk model will continue to be reviewed to ensure that it continues to reflect the demands of improvement changes in relation to the Council's priorities.

Internal Audit Performance Reporting

- 2.6 Progress against the Audit Plan will be reported as part of regular quarterly reports to Audit and Risk Committee.

Options Considered

- 3.1 In considering the resourcing of the Internal Audit Section consideration is given to the skills required and those that are available internally, or are best provided by external companies. The provision of Computer Audit skills is a specialist area and one that is constantly changing. Whilst internal auditors can provide a level of computer auditing looking at environmental controls and some of the basics in relation to systems and project management, the more technical expertise will be bought in. The provision of Computer Audit work for 2012/13 is currently being reviewed and quotations are in the process of being obtained. The Committee will be advised of the results of this process through reports to future meetings.

Proposal

- 4.1 In agreeing the proposed Audit Plan for 2012/13 members are agreeing to a review of all audit areas listed, following a risk assessment based on the information available for review during 2012/13 and within the resources available to the Section as identified at the beginning of the year.

4.2 Once agreed the plan will be translated into an operational plan detailing the audit assignments to be carried out, the purpose of each assignment and the allocation of resources. Each assignment will have clear objectives and scope to be delivered within the allocated resources and will be supervised for quality and consistency.

5. **Reasons for Preferred Solution**

5.1 By agreeing to the proposed plan the Internal Audit Section is fulfilling its responsibility to plan effectively and ensure that it contributes to the Council's objectives at strategic and operational levels. The plan will also enable Internal Audit to demonstrate that they are making the best use of their resources balanced against the perceived risks to the Council.

6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money. Therefore ensuring the best use of the Council's resources and improving efficiency where weaknesses are identified.

6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

7. **Legal and Statutory Implications**

7.1 The Accounts and Audit Regulations 2010 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8. **Equality Impact Assessment**

There are no differential equality impact issues identified from the proposal.

9. **Financial and Resource Implications**

Resourcing of the Internal Audit Section

9.1 The present Internal Audit Section has 4 posts, which include the Audit Manager and 3 operational staff providing, a combined total of 504 days in addition 30 days are brought in from specialist external computer auditors,

9.2 Staffing levels within the audit team have been reduced by 1 FTE for 2012/3; this is following the decision of one staff member not to return to work following her maternity leave. The decision not to replace this post at this present time has been based on a benchmarking exercise across other Staffordshire Authorities which showed that staffing levels had reduced across all organisations over the last 2 years therefore resources within the present audit team are comparable with other teams at similar sized authorities.

9.3 The provision of computer audit for 2012/13 will be delivered by an external computer audit specialist. Quotations are currently being sought for this work and as mentioned earlier in this report the results of this market testing will be brought to a later meeting of this committee.

9.4 The Audit Plan for 2012/13 can be provided within current revenue budgets provided that the staffing resources remain unchanged from estimates used in support of the proposed plan.

10. **Major Risks**

- 10.1 Any issue that increases the demand on Internal Audit Section which in turn diverts the attention from the completion of the Audit Plan is a risk to the organisation. Non completion of the Audit Plan will increase the risk to the Council of poor financial and managerial controls due to assurance not being given for these. This in turn could result in District Audit Management Letters, poor value for money and increase the risk of fraud or corruption.
- 10.2 A full risk assessment has been completed in respect of the Internal Audit Service, a copy of this assessment is shown at Appendix C

11. **Key Decision Information**

Not applicable.

12. **Earlier Cabinet/Committee Resolutions**

Not applicable.

13. **List of Appendices**

Appendix A - Proposed Internal Audit Plan 2012/13
Appendix B - A risk assessment conducted against each audit area
Appendix C - Risk Assessment in respect of the Audit Service

14. **Background Papers**

Internal Audit Plan file