

Meeting: AUDIT COMMITTEE

Agenda Item: 7

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2010/11 INTERNAL AUDIT PLAN

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1. PURPOSE

The consider the draft 2010/11 Internal Audit Plan for approval.

2. RECOMMENDATIONS

That the 2010/11 Internal Audit Plan be approved.

3. BACKGROUND

- 3.1 The Accounts and Audit (Amended) (England) Regulations 2006 requires that “A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.
- 3.2 The Strategic Director (Resources) as the Council’s Chief Financial Officer has a duty under S151 of the Local Government Act 1972 to maintain an appropriate framework of control over the Council’s financial affairs. Part of the process by which the S151 Officer meets that requirement is through assurances provided by Internal Audit.
- 3.3 Internal Audit was established by the Council to undertake a wide range of independent reviews of its systems and operations. The aim of these reviews is to help to ensure that the Council achieves its objectives and to provide assurance that it manages its risks efficiently and effectively.
- 3.4 Internal Audit critically evaluates the Council’s internal control framework to add value by improving opportunities to achieve organisational objectives and, where necessary, makes recommendations for improvement and the introduction of best practice throughout the Council.
- 3.5 In undertaking this role Internal Audit will comply with the CIPFA Code of Practice for Internal Audit in Local Government.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Preparation of the 2010/11 Internal Audit Plan

4.1.1 The 2010/11 Audit Plan has been developed with consideration of the standards outlined in the CIPFA Code of Practice for Internal Audit in Local Government.

4.1.2 A key aspect of Internal Audit planning is an ability to demonstrate that a business risk based approach has been used. That means Internal Audit proposals should be risk based through positive identification and consideration of all activities within the Council (plus those provided by contract or by other organisations) which contribute to the delivery of the Council's services and achievement of objectives. This plan makes provision to cover a wide range of financial systems and non financial processes or activities which feature in the services delivered throughout the Council.

4.1.3 The plan has been prepared after consulting a range of evidence and information sources which include:

- CIPFA Code of Practice for Internal Audit in Local Government
- External Audit Annual Letters and reports
- The Council's strategic and operational risk registers
- The Annual Governance Statement
- The Council's Use of Resources Assessment
- Office of Surveillance Officers requirements

4.2 Available resources

4.2.1 The Council's Internal Audit team consists of a Chief Internal Auditor, a Senior Auditor, one Internal Auditor and an Audit Technician. There is also an additional vacant Internal Auditor post, which has not been recruited to.

4.2.2 It is estimated that the current in-house Internal Audit team can deliver an output of 490 days in 2010/11, based on current delivery rates and factored improvement.

4.2.3 There is an additional resource, currently contracted from Tribal, to provide IT audit expertise. This provision is made in collaboration with other District Councils within Hertfordshire.

4.3 Internal Audit Plan 2010/11

4.3.1 The draft 2010/11 Internal Audit plan is attached as Appendix A.

4.3.2 The draft 2010/11 plan is budgeted to be completed in 425 days. The risk based approach to audit planning and the anticipated clearance of the historic backlog has resulted in less audit days required than in previous years. In summary the draft 2010/11 plan includes:

- 75 days - Key Financial Systems
- 70 days - Operational Audits
- 19 days - Risk Management & Governance
- 20 days - IT audits (16 days to be provided by an external IT Audit firm)
- 61 days - Advice, Consultancy & Non Assurance Work
- 45 days - Procurement

15 days - Counter Fraud
54 days - Follow Ups
36 days - Management
30 days - Contingency
425 days Total (409 to be resourced by the Council's Internal Audit team and 16 days by an external IT audit firm)

4.3.3 The draft 2010/11 plan for each audit area includes the audit risk, proposed timing, planned days, reason for inclusion and an outline scope.

4.3.4 Although Stevenage Homes have appointed an external Internal Audit provider, there will be a need for the Council's Internal Audit team to undertake a reduced level of work to provide the Strategic Director (Resources) with the necessary S151 Officer assurances. The following works for Stevenage Homes has been incorporated into the draft 2010-11 audit plan summarised in section 4.3.2:

7.5 days - Experian Checks
27.5 days - Contract Payments
5 days - National Indicators
5 days - National Fraud Initiative
5 days - IT Audit
50 days - Total

4.3.5 Stevenage Homes are being consulted on the provision of the audit work identified below, this work has not yet been incorporated into the 2010/11 Audit plan:

10 days - Key Financial Systems work
3 days - Annual Assurance Statement
4 days - Management
3 days - Review effectiveness of SHL Internal Audit arrangements
20 days - Total

4.3.6 The 2010/11 Internal Audit work identified in sections 4.3.2 and 4.3.5 totals 445 days. 429 days can be met from the Council's Internal Audit team resource identified in section 4.2.2 and 16 days from an external IT audit provider. There is an anticipated surplus of 61 days of in-house team resources, options to make effective use of the in-house team resources will be evaluated.

4.3.7 The 2010/11 internal audit plan will be reviewed at regular intervals throughout the year. In September 2010 a formal review will be undertaken to establish whether any revisions to the plan are required.

4.3.8 Although the majority of the audit work can be planned, there are occasions where unforeseen work can arise due to new areas of service or increased risk. Therefore, in order to allow some flexibility, a small contingency allowance is included in the plan to enable such work to be undertaken without adversely affecting the delivery of the planned audit work.

4.3.9 All revisions to the plan will be agreed with the Head of Finance and reported to the Audit Committee in the quarterly progress report.

4.4 Consultation

4.4.1 Consultation has taken place with the Senior Management Board, Heads of Service including the Head of Finance, the Section 151 Officer and Grant Thornton our external auditors. Grant Thornton have agreed that the proposed Internal Audit coverage is sufficient for their external audit purposes.

4.4.2 Members will be consulted at the March Audit Committee.

4.4.3 Discussions with Stevenage Homes are on going to agree the Internal Audit coverage to be provided by the Council's Internal Audit team.

4.5 Management Responsibilities

4.5.1 Internal Audit is an independent appraisal function established within the Council to examine and evaluate activities, and should not be seen as a substitute for introducing and maintaining good internal procedures. Services managers are responsible for establishing and maintaining a proper and effective control environment and for managing risk. Control is an integral part of managing operations and as such Internal Audit independently review how effectively management discharges this aspect of its responsibilities by evaluating the effectiveness of the systems of internal control and providing objective analysis and constructive recommendations.

4.6 Monitoring

4.6.1 Progress of Internal Audit against the agreed audit plan will be reported quarterly to Members through the Audit Committee. Regular meetings will be held with the Head of Finance and the S151 Officer.

5. IMPLICATIONS

5.1 Financial Implications

The level of Internal Audit provision detailed in the plan is funded through the existing budget approved by the Council. An effective Internal Audit function can prevent additional work being required to be undertaken by the External Auditors and therefore avoid increased External Audit fees.

5.2 Legal Implications

Internal Audit is a statutory function as detailed in the following:

Audit and Accounts Regulations 2006 (Amended) (England)
Section 151 of the Local Government Act 1972.

5.3 Policy Implications

The proposed Internal Audit activity will provide an assurance opinion on compliance with Council policies through individual audit activity undertaken.

BACKGROUND DOCUMENTS

- Internal Audit planning documentation

APPENDICES

- Appendix A – Draft 2010/11 Internal Audit Plan.

APPENDIX A - 2010/11 DRAFT INTERNAL AUDIT PLAN

2010/11 Audit Plan

AUDITABLE AREA	AUDIT RISK	PLANNED DAYS	PROPOSED TIMING	REASON FOR INCLUSION	OUTLINE SCOPE
Key Financial Systems (75 days)					
2009-10 Year end controls testing	Medium	7	Qtr 1	To test controls relating to 2009/10 which are not used until year end. Managed audit approach.	Year end controls relating to Treasury Management, NNDR, Council Tax, Risk Management
Budgetary Control	High	7	Qtr 2	No previous audit coverage and strategic risk (S7) Managed audit approach.	Budget Monitoring
Housing Benefits	Medium	7	Qtr 3	To confirm implementation of previous Key Financial Systems audit recommendations and confirm existing controls are operating effectively. Managed audit approach.	Walk through testing of full system scopes and follow up of previous audit recommendations.
Payroll	Low	7	Qtr 3		
Creditors	Medium	7	Qtr 3		
Debtors	Low	5	Qtr 3		
Main Accounting System	Low	5	Qtr 4		
NNDR	Medium	5	Qtr 3		
Council Tax	Medium	5	Qtr 3		
Fixed Assets 2009-10	Medium	5	Qtr 1		
Cash and Payments	Medium	5	Qtr 3		
Treasury Management	Low	5	Qtr 3		
Key Financial Systems Planning	N/A	5	Qtr 3		
Operational Audits (70 days)					
National Indicators	Medium	15	Qtrs 1 and 2	Annual Compliance Managed audit approach.	Review corporate arrangements and testing of a sample of indicators after a risk assessment.
Partnerships	High	15	Q2	Operational Risk Key Line of Enquiry (KLOE) 2.3	Two partnerships to be selected for testing following risk assessment.
Disabled Facilities Grants	Medium	10	Qtr 1	Operational Risk	Review of policy and procedures, application assessment, appeals, payments, works orders and completion, service monitoring.
Mortgage Rescue Scheme	High	8	Qtr 1	Operational Risk	Review corporate arrangements, develop and implement the internal audit verification process

AUDITABLE AREA	AUDIT RISK	PLANNED DAYS	PROPOSED TIMING	REASON FOR INCLUSION	OUTLINE SCOPE
Members Allowances	High	7	Qtr 4	Assurance required on the implementation of a new system.	Review of policy and procedures, claim authorisation, payments, statutory reporting.
Commercial Properties	High	15	Qtr 1	Significant levels of income.	Focus on shops and industrial units. Review of policy and procedures, rent reviews, lease renewals, income management, rent arrears, letting of vacant properties, performance monitoring
Risk Management and Governance (19 days)					
Risk Management	High	8	Qtr 4	Required for Head of Internal Audit Opinion purposes. Strategic Risk KLOE 2.4	Review effectiveness of the risk review process and registers.
Corporate Governance	Medium	8	Qtr 4	Required for Head of Internal Audit Opinion purposes KLOE 2.3	Review effectiveness of the corporate governance arrangements.
Annual Governance Statement	N/A	3	Qtr 4	Governance Compliance	Provide Assurance on the system of Internal Control
IT Audits (20 days)					
IT Disaster Recovery	High	8	TBC	Strategic risk	Review of the Council's IT Disaster Recovery arrangements
Data Security	High	8	TBC	No previous audit coverage	Review of the Council's Data Security arrangements
IT Management	N/A	4		To select and manage an external IT audit provider	Co-ordinate procurement process with Herts partners, facilitate the completion of the IT audit programme, quality review of key deliverables.
Advice, Consultancy and non Assurance work (61 days)					
Working together programme	N/A	3	Qtrs 1 to 4	Significant risk to the Council	To provide advice to officers involved in the Working together programme
Ethics and Probity	N/A	6	Qtrs 1 to 4	Mandatory Induction Training	Deliver four mandatory training sessions Update training

AUDITABLE AREA	AUDIT RISK	PLANNED DAYS	PROPOSED TIMING	REASON FOR INCLUSION	OUTLINE SCOPE
					material.
Ad hoc advice	N/A	25	Qtrs 1 to 4	To provide officers with ad hoc advice	To be allocated as required
Regulation of Investigatory Powers Act 2000 (RIPA) Compliance	Medium	12	Qtrs 1 to 4	Adherence to RIPA 2000	Quarter monitoring of RIPA activity, implementation of previous recommendations, prepare annual report for Senior Management Board
Experian Checks	N/A	15	Qtrs 1 to 4		Provide Experian credit checks on request.
Procurement (45 days)					
Contract Payments	High	45	Qtrs 1 to 4	Previously identified significant control weaknesses	Probity checks and year end report
Counter Fraud (15 days)					
National Fraud Initiative (NFI)	Medium	10	Qtrs 1 to 4	Participation in the national data matching exercise KLOE 2.4	Co-ordinated the completion of the NFI data matches, liaison with the Audit Commission.
Whistleblowing Arrangements	N/A	5	Qtrs 1 to 4	To comply with Governance arrangements KLOE 2.4	Administration of reported whistleblowing cases
Follow Up of Previous Audit Report Recommendations (54 days)					
Insurance	N/A	3	TBC	To confirm implementation of previous audit recommendations	To follow up the implementation status of previous audit recommendations
CCTV	N/A	4	TBC		
Officer Interests in Contracts	N/A	3	TBC		
Absence Management	N/A	3	TBC		
Grounds Maintenance	N/A	3	TBC		
Equalities and Diversity	N/A	3	TBC		
Performance Management	N/A	3	TBC		
Fleet Management	N/A	3	TBC		
Bus Passes	N/A	3	TBC		
Energy Management	N/A	4	TBC		
Environmental Cleansing	N/A	3	TBC		
Building Control	N/A	4	TBC		
Car Parking	N/A	5	TBC		
Burials	N/A	3	TBC		
Follow ups Administration	N/A	2	Qtrs 1 to 4		
High Priority Recommendations Quarterly Follow Up	N/A	5	Qtrs 1 to 4	Audit Committee request	To follow up the implementation status of previous high priority audit

AUDITABLE AREA	AUDIT RISK	PLANNED DAYS	PROPOSED TIMING	REASON FOR INCLUSION	OUTLINE SCOPE
					recommendations
Management (36 days)					
Audit Committee	N/A	4	Qtrs 1 to 4	To comply with Governance arrangements	Prepare and present Internal Audit reports at Audit Committee
External Audit Liaison	N/A	4	Qtrs 1 to 4	To facilitate co-ordination of Internal and External audit activity	Quarterly liaison meeting and response to ad hoc requests
Annual Report and Head of Internal Audit Opinion 2009/10	N/A	8	Qtr 4	To comply with Governance arrangements	Prepare and present the Internal Audit 2009/10 report and the Head of Internal Audit Opinion
Use of Resources	N/A	2	Qtr 4	To comply with Governance arrangements	Provide year end statements of the System of Internal Control.
Internal Audit Procedures Development	N/A	10	Qtrs 1 to 4	To adhere to Internal Auditing standards	Update Internal Audit procedures including the Audit Manual.
2011/12 Audit Plan	N/A	8	Qtr 4	To produce the 2011/12 audit plan	
Contingency		30		For flexibility within the audit plan and to deal with emerging risks	To be allocated as required.
TOTAL PLAN DAYS		425			