

Meeting: AUDIT COMMITTEE

Agenda Item: 7

Date: 7 March 2011

2011/12 INTERNAL AUDIT PLAN

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1. PURPOSE

- 1.1. The purpose of this report is for the Audit Committee to receive and approve the 2011/12 Internal Audit Plan.

2. RECOMMENDATIONS

- 2.1. Audit Committee approve the 2011/12 Internal Audit Plan.

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 2011/12 Internal Audit Plan

- 4.1.1 The 2011/12 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
 - Office of Surveillance Officers requirements

4.2 Available resources

- 4.2.1 The Council's Internal Audit team consists of a Chief Internal Auditor, one Internal Auditor and an Audit Technician. With the exception of the IT audits days, which would need to be resourced from an external organisation, there is sufficient capacity within the current Internal Audit team to deliver the proposed 2011/12 Audit Plan.
- 4.2.2 It is anticipated the Council will join the Hertfordshire Internal Audit Shared Service during 2011/12. If this occurs, then the risk of resourcing the Internal Audit service will transfer to the host body.

4.3 Internal Audit Plan 2011/12

- 4.3.1 The draft 2011/12 Internal Audit plan is attached as Appendix A.
- 4.3.2 The draft 2011/12 plan is budgeted to be completed in 350 days. The proposed transfer of the following assurance work to management has resulted in less audit days required than in previous years:
- Contract payment probity checks. Management will provide Internal Audit with regular progress updates.
 - Experian checks
 - National Fraud Initiative

- Follow up of previous recommendations. Management will develop internal processes to monitor timely implementation of recommendations. Audit will retain the responsibility to verify evidence to support the implementation of the recommendations.
- Regulation of Investigatory Powers Act 2000 Compliance
- Ethics and Probity Training
- Mortgage Rescue Scheme – audit verification.

4.3.3 In summary the draft 2011/12 plan includes:

117 days - Key Financial Systems
 60 days - Operational Audits
 19 days - Risk Management & Governance
 20 days - IT audits
 25 days - Advice, Consultancy & Non Assurance Work
 15 days - Procurement
 5 days - Counter Fraud
 30 days - Follow Ups
 24 days - Management
35 days - Contingency
350 days Total

4.3.4 The draft 2011/12 plan for each audit area includes the audit risk, proposed timing, planned days, reason for inclusion and an outline scope.

4.3.5 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 IT audit works for Stevenage Homes has been incorporated into the draft 2011-12 audit plan summarised in section 4.3.3. In addition, Stevenage Homes are being consulted on the provision of the audit work identified below, this work has not yet been incorporated into the 2011/12 Audit plan:

8 days - Key Financial Systems work
 2 days - Annual Assurance Statement
2 days - Management
12 days - Total

4.3.6 The 2011/12 Internal Audit work identified in sections 4.3.3 and 4.3.5 totals 362 days.

4.3.7 If the Internal Audit Service is transferred to the Hertfordshire Internal Audit Shared Service, the 2011/12 internal audit plan will be subject to a formal review.

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

5.1.1. 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

5.2.1. 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

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

5.4. Human Resource Implications

5.4.1. The proposed transfer of functions in section 4.3.2 to management puts the Audit Technician job at risk and may need to be managed in accordance with the Council's Managing Organisational Change policy.

6. BACKGROUND DOCUMENTS

- Internal Audit planning documentation

7. APPENDICES

- Appendix A – Draft 2011/12 Internal Audit Plan.

APPENDIX A - 2011/12 DRAFT INTERNAL AUDIT PLAN

2011/12 Audit Plan

AUDITABLE AREA	AUDIT RISK	PLANNED DAYS	PROPOSED TIMING	REASON FOR INCLUSION	OUTLINE SCOPE
Key Financial Systems (117 days)					
2010-11 Year end controls testing	Medium	7	Qtr 1	To test controls relating to 2010/11 which are not used until year end. Managed audit approach.	Year end controls relating to Treasury Management, NNDR, Council Tax and Risk Management
Housing Benefits	Medium	12	Qtr 3	To confirm implementation of previous Key Financial Systems audit recommendations and confirm existing controls are operating effectively. Managed audit approach.	Testing of key financial systems in accordance with the three year audit strategy and follow up of previous audit recommendations.
Payroll	Low	12	Qtr 3		
Creditors	Medium	10	Qtr 3		
Debtors	Low	10	Qtr 3		
Main Accounting System	Low	10	Qtr 4		
NNDR	Medium	12	Qtr 3		
Council Tax	Medium	12	Qtr 3		
Fixed Assets	Medium	12	Qtr 3		
Cash and Payments	Medium	12	Qtr 3		
Treasury Management	Low	8	Qtr 3		
Operational Audits (60 days)					
Working Together Programme themed audits	Medium/High	18	Qtrs 1 to 4	To provide assurance on operational and strategic risks.	Audit focus to be on system design/ pre-implementation.
Scheme of Delegation	Medium	8	Qtr 1	Operational risk	Review compliance with financial regulations and best practice.
Single Status	High	12	TBC	Strategic risk	To be confirmed.
Building Compliance Contract	High	12	Qtr 1	Strategic risk	Review the effectiveness of the contractual agreements
Voluntary Grants Aid Extended Follow Up	Medium	10	Qtr 1	Operational risk	Scope areas to include policy & procedures, applications, appraisal, awards and appeals, payments and monitoring.
Risk Management and Governance (19 days)					
Risk Management	Medium	8	Qtr 4	Required for Head of Internal Audit Opinion purposes.	Review effectiveness of the risk review process and registers.
Corporate Governance	Medium	8	Qtr 4	Required for Head of Internal Audit Opinion	Review effectiveness of the corporate governance

AUDITABLE AREA	AUDIT RISK	PLANNED DAYS	PROPOSED TIMING	REASON FOR INCLUSION	OUTLINE SCOPE
				purposes.	arrangements.
Annual Governance Statement	N/A	3	Qtr 4	Governance Compliance	Provide Assurance on the system of Internal Control
IT Audits (20 days)					
IT Governance Arrangements	High	10	TBC	Strategic risk	Review of the Council's IT Governance arrangements to include IT Performance.
IT Penetration Testing	High	10	TBC	No previous audit coverage	Test the effectiveness of the Council's security /firewall arrangements
Advice, Consultancy and non Assurance work (25 days)					
Ad hoc advice	N/A	25	Qtrs 1 to 4	To provide officers with ad hoc advice	To be allocated as required
Procurement (15 days)					
Contract Payments	High	15	Qtr 4	Previously identified significant control weaknesses	Review the assurance work undertaken by management.
Counter Fraud (5 days)					
Whistleblowing Arrangements	N/A	5	Qtrs 1 to 4	To comply with Governance arrangements.	Administration of reported whistleblowing cases
Follow Up of Previous Audit Report Recommendations (30 days)					
Follow up audits to be agreed	N/A	7	Qtrs 1 to 4	To confirm implementation of previous audit recommendations	To follow up the implementation status of previous audit recommendations
Car Parks	N/A	6	To be agreed	To confirm implementation of previous audit recommendations	To follow up the implementation status of previous audit recommendations
Members Allowances	N/A	3	To be agreed	To confirm implementation of previous audit recommendations	To follow up the implementation status of previous audit recommendations
Partnerships - Corporate arrangements, Stevenage Leisure Limited and SoStevenage	N/A	6	To be agreed	To confirm implementation of previous audit recommendations	To follow up the implementation status of previous audit recommendations
High Priority Recommendations Quarterly Follow Up	N/A	8	Qtrs 1 to 4	Audit Committee request	To follow up the implementation status of previous high priority audit recommendations

AUDITABLE AREA	AUDIT RISK	PLANNED DAYS	PROPOSED TIMING	REASON FOR INCLUSION	OUTLINE SCOPE
Management (24 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 2010/11	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
2012/13 Audit Plan	N/A	8	Qtr 4	To produce the 2012/13 audit plan	Production of the 2012/13 audit plan
Contingency		35		For flexibility within the audit plan and to deal with emerging risks	To be allocated as required.
TOTAL PLAN DAYS		350			