BABERGH DISTRICT COUNCIL and MIDSUFFOLK DISTRICT COUNCIL

From: Head of Corporate Organisation	Report Number: **L166**
To: Overview & Scrutiny (Stewardship) Committee	Date of meeting: 20 March 2012

JOINT INTERNAL AUDIT PLAN 2012/13 BETWEEN BABERGH AND MID SUFFOLK DISTRICT COUNCILS

1. Purpose of Report

1.1 This report details the proposed joint Internal Audit Plan for the next financial year.

2. Recommendations

2.1 That the joint Internal Audit Plan 2012/13 between Babergh and Mid Suffolk District Council, as detailed in Appendix A, be approved.

2.2 Members are invited to provide input with regards to any concerns they may have, where independent assurances are required on the level and operation of controls, or where an audit review will add value to the organisation.

The Committee is able to resolve these matters.

3. Financial Implications

3.1 There are no financial implications, as the joint Audit Plan will be funded from within approved budgets.

4. Risk Management

4.1 The Council is required by statute to maintain an adequate and effective Internal Audit function. This forms an integral part of the Council's corporate governance and internal control arrangements. It is therefore essential that the Audit Plan directs resources to areas of highest risk and has the approval and support of senior management and Members.

4.2 As in previous years planning has been developed using a Risk Based Internal Audit approach. The preparation and development of the joint Audit Plan is described in more detail from paragraph 8.2 onwards.

4.3 This report is most closely linked with Babergh District Council's Significant Business Risk No. 6 – Performance and Cost Management, and with Mid Suffolk District Council's Significant Business Risks No's B6 and B7 – Financial Performance. Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal control weaknesses and potential for fraud exists.	Low	Critical	Work programme that focuses on key areas, including fundamental systems.
Inefficient processes or systems in place	Low/Significant	Marginal/Critical	Audit work considers efficiency issues and appropriate recommendations are made.

5. Consultations

5.1 The joint Audit Plan was discussed with Heads of Service, key officers, Babergh's Overview and Scrutiny (Stewardship) Chairman and MSDC's relevant Portfolio Holder as part of the audit planning process.

5.2 The joint Audit Plan was presented to and endorsed by Management Board on 5 March 2012.

6. Equality Analysis

6.1 There are no equality and diversity implications arising from this report.

7. Shared Service / Partnership Implications

7.1 The joint Audit Plan builds on the joint working carried out in 2011/12 facilitating the integration of the service with the aim of reducing costs, increased capacity and resilience, and will enable both Councils to be in a position to improve service delivery through advocating, supporting and reviewing integration and transformation processes and outcomes.

8. Key Information

Annual Plan

8.1 In accordance with the CIPFA Code an Audit Plan has been prepared covering a period of one year (2012/13). The Plan provides for the annual review of the main financial systems (as required by External Audit) together with corporate governance review and support, and the audit of a number of areas chosen using a risk based methodology.

8.2 The joint Audit Plan has been prepared based upon the identification and prioritisation of auditable areas and taking into account available staff resources comparable with last year's plan. However, it is recognised that the available staff resources may be subject to change following the Tier 4 staff appointments. Factors used in the risk assessment of each audit have been based largely, but not exclusively, on the following:

- Review of the Significant Business Risk Registers;

- Review of the Council's joint strategic priorities and those objectives that sit beneath them;

- Cumulative audit knowledge and experience;

- Engagement with senior management;

- Financial materiality – e.g. levels of income and expenditure, value of assets, volume of transactions;

- Control environment – previous assessments of the soundness of internal controls, taking into account previous findings of Internal Audit and External Audit;

- Stability, complexity and vulnerability – taking into account such factors as the stability of management and staffing arrangements, complexity/changes in regulations and legislation, major system changes, new IT systems etc; and

- Date of last audit – i.e. the longer the time since the last audit potentially the greater the risk.

8.3 External Audit (the Audit Commission/PKF) places reliance on the work carried out by Internal Audit in respect of the documentation, evaluation and testing of fundamental systems. Internal Audit work closely with the External Auditors to ensure that their work meets their requirements, thus keeping External Audit fees to a minimum.

Scale and Pace of Change

8.4 Both Councils are going through a period of unprecedented change as a result of financial settlement, staff integration and transformation of service delivery. The pace and scale of change required to deliver the priorities, vision and outcomes of both Councils, within available resources, will result in fundamental changes in the way in which the Councils are organised and services are delivered. The impact of this has already begun through voluntary early retirement and the voluntary severance process. The implementation of changes to deliver savings whilst achieving priorities is the key risk to both Councils during 2012/13 and beyond and is reflected in the joint Audit Plan.

8.5 The joint Audit Plan is sufficiently **flexible** to enable assurance to be obtained over the current and emerging risks, as well as those risks yet to be identified.

8.6 Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The reduction in the workforce across both Councils for example provides opportunity for a breakdown in control as well as an opportunity to consider new, more efficient ways of organising staff, systems and processes without adversely impacting on internal control. To reflect this risk a proportion of available time has been allocated under the heading 'Advice, guidance & project support to integration/transformation' to staff to **support** and **challenge** them in the establishment and development of their systems of governance, risk management and internal control.

8.7   The pace and change across both Councils requires assurance that this is **prioritised** and **timely**. The joint Audit Plan provides for this assurance, to enable remedial actions or controls to be implemented on a timely basis.

8.8   These characteristics of the Plan: flexible, supportive, challenging, prioritised and timely are not new. They are principles on which previous plans have been based but are increasingly important if Internal Audit is to help the Councils respond effectively to the scale of change to be undertaken during 2012/13 and beyond.

Plan Structure

8.9   Reacting to the scale and pace of change, as described above, this Audit Plan is viewed as being sufficiently flexible and dynamic so that it can be amended throughout the year to reflect changing risks and priorities.

8.10   The coverage within individual audits will be expanded, where appropriate, within a holistic change management context that will include looking at integration and transformation opportunities for improving efficiency and adding value.

8.11   This approach to audit will help effect and facilitate change that fosters continuous improvement across the activities of both Councils.

8.12   The types of audit in the plan are as follows:

- Managing Finance – Fundamental Financial Systems – This is the most significant area of work and includes: audit of each key financial system, process mapping, risk management arrangements, review of system documentation and procedure notes to ensure that they are comprehensive, up to date and are reviewed on a regular basis. This is a core requirement of the External Auditors. A number of the Customer Service Direct (CSD) reviews are also undertaken through a joint arrangement with SCC, therefore making best use of available resources and providing a joined up service to the auditee;

- Governance arrangements – Audits which contribute to the development of both Council's Corporate Governance Framework and feed into the Annual Governance Statement i.e. HR, IT;

- Risk Management – Audit work in this area will help to ensure that the Councils identify and effectively manage corporate and operational risks in line with the Risk Management Strategy;

- Anti-Fraud and Corruption – There will be ongoing proactive testing of systems and processes to identify potential fraud and misappropriation, as well as non-compliance with policies and procedures. In addition, Internal Audit will reactively investigate potential wrongdoing, responding to fraud and corruption relating to non benefit fraud cases (benefit fraud cases are undertaken by the Benefit Fraud Partnership).   Included in the latter are co-ordinating data matching for the National Fraud Initiative (NFI); raising fraud awareness and providing training in areas such as money laundering; providing advice to services on introduction of new systems or procedures;

- Developing systems – To provide early engagement on the development of new systems or processes and make recommendations to mitigate risks where appropriate. This applies not just to ICT systems but to new ways of working and the implementation of new structures and processes; and

- Advice and guidance – Internal Audit to provide ongoing advice across both Councils. Whether through attendance at working groups or responding to enquiries this remains an area where early advice and support can help maintain a robust control environment and feed in best practice. It is likely to be an area of increased demand during 2012/13 as managers at all levels, especially those implementing new systems and structures, will require support.

8.13 This approach of using different types of audits and other work is considered the most effective way to deliver the vision for Internal Audit.

8.14 The Audit Plan will be kept under review to ensure it reflects the shape of the Councils going forward. Should significant amendments be necessary these will be discussed with senior management and reported back to this Committee (for Babergh) and the Scrutiny Committee for Mid Suffolk.

9. Appendices

Title	Location
(a) Joint Internal Audit Plan for 2012/13 with Mid Suffolk District Council	Attached

10. Background Documents

10.1 None.

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Prioritised Internal Audit Plan for 2012/13

All audits to include control environment, best practice, integration and transformational aspects

Audit	Days	Key issues/risk examples	Classification
Work in progress from previous year	20	Finalisation of any outstanding work. Liaison with External Auditors over review of internal audit work.	E
FUNDAMENTAL AUDITS (annual audits required by external audit)			
Housing Benefits	10	Shared Revenue Partnership feeder systems and reconciliations	E SP PI
Local Taxation (covering Council Tax & NDR)	10	Shared Revenue Partnership feeder systems and reconciliations	E SP PI
Housing Rents	30	Income collection, rent setting, use of Capita IT system	E SP HC
Receivables / Debtors	43	Income management, equalities (vulnerable groups)	E, CSD - M SP PI
Payroll/HR	43	Effects of transformation/integration	E, CSD - M SP PI
Income Collection / Cash & Bank	20	Payment methods, channel shift, unsolicited transactions, Payment Card Industry Data Security Standards	E SP PI
Payables / Creditors	18	Transparency, cash flow, fraud (links to procurement)	E, CSD - S SP PI
Treasury Management	13	Cashflow, maximising investments (links to capital accounting)	E, CSD - S SP PI
General Ledger	18	Integrity of financial information	E, CSD - S SP PI
IT	25	Device control, GCSx, licensing	E SP PI
Capital Accounting	20	Monitoring of contract spend, assets	E SP PI
Total Fundamental Systems	**250**		
RISK AUDITS (scope to reprioritise to reflect changing requirements)			
Data Management	15	Data loss prevention, managing sensitive data, Freedom of Information, Data Protection	D Corporate SP PI
Financial Management/ Budgetary Control	15	Accountability, delegations, responsibilities	D Corporate SP PI
Procurement	10	Efficiencies, savings, local spend	D Corporate SP PI
Grants	10	Scope of attracting grants and management to achieve outcomes	D People/ Place/ Corporate SP DC; SP LE
Housing Repairs	15	Contractual arrangements	D People SP HC

Audit	Days	Key issues/risk examples	Classification
Social Media	10	Usage, visioning, security	D People SP PI
Dangerous Trees	10	Reputation, Health and Safety	D People SP DC

Audit	Days	Key issues/risk examples	Classification
Robustness of decision making	10	Equalities, consultation, legal, financial, risk assessment, publication	D People/ Place/ Governance SP PI
VAT	10	Potential reclaim	D Corporate SP PI
Electoral Registration	10	Enfranchisement, Fraud	D People SP DC
Total Risk Audits	**115**		
Follow Ups	40	Implementation of audit recommendations deemed as high risk	E
Contract Audit Reviews	20	Financial governance	D
Fraud & Corruption	30	Proactive: Money Laundering, Policy reviews, Advice and guidance - awareness, Staff training Reactive: Investigations	D
National Fraud Initiative (NFI)	15	Data matching (statutory requirement)	E
Grant certification	5	Dryport claim.	E
Advice, guidance & project support to integration/ transformation	65	Services, systems, outcomes.	D SP PI
Management	100	Service delivery	E
Other audit work	**275**		
Total Audit Days	**660**		

FTEs   3.35

KEY

E	Essential/High Priority
D	Desirable/High Risk
CSD - M	Audit of CSD done by MSDC on behalf of both MSDC and SCC
CSD - S	Audit of CSD done by SCC on behalf of both MSDC and SCC
SP PI	Links to Strategic Priority: Performance improvement, service integration and transformation
SP DC	Links to Strategic Priority: Developing strong and resilient communities
SP LE	Links to Strategic Priority: Supporting and developing the local economy
SP HC	Links to Strategic Priority: Meeting the housing needs of our communities