

BABERGH DISTRICT COUNCIL and MIDSUFFOLK DISTRICT COUNCIL

From: Head of Corporate Organisation	Report Number: M175
To: Overview and Scrutiny (Stewardship) Committee	Date of meeting: 19 March 2013

JOINT INTERNAL AUDIT PLAN 2013/14

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 2013/14, 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 this matter.

3. Financial Implications

- 3.1 There are no financial implications, as the Joint Internal 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 Joint Internal Audit Plan directs resources to areas of highest risk and has the approval and support of senior management and Members.
- 4.2 Members were advised in a separate report, entitled 'Audit Services' – Charter and Strategy' that Public Sector Internal Audit Standards (PSIAS) come into effect from 1 April 2013.
- 4.3 The Standards require that the annual audit plan must reflect the Council's current risk appetite, corporate objectives and priorities for the year.
- 4.4 The preparation and development of the Joint Internal Audit Plan is described in more detail from paragraph 8.2 onwards.

4.5 The key risks are set out below:

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

5. Consultations

5.1 The Joint Internal Audit Plan was discussed with management, Babergh's Overview and Scrutiny (Stewardship) Chairman and MSDC's Scrutiny Chairman as part of the audit planning process.

5.2 The Joint Internal Audit Plan was presented to and endorsed by Management Board on 25 February 2013.

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 Internal Audit Plan builds on past joint working 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

Approach to Audit Planning

8.1 In accordance with the CIPFA Code an Audit Plan has been prepared covering a period of one year (2013/14). 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 Internal 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 Register;
- Review of each Council's strategic priorities and those objectives that sit beneath them;
- Cumulative audit knowledge and experience;
- Engagement with senior management to identify management's view of the coming year's risks about which assurance is required e.g.
 - Significant projects or programmes planned or underway;
 - Areas subject to changing systems or processes;
 - Areas where internal controls may be affected by reductions in resources;
 - Areas subject to high levels of inherent risk; and
 - Significant contracts.
- 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 places reliance on the work carried out by Audit Services 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 continue to go 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 implementation of changes to deliver savings whilst achieving priorities is the key risk to both Councils during 2013/14 and beyond and is reflected in the Joint Internal Audit Plan.

8.5 As with last year the Joint Internal 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 Internal 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 Audit Services is to help the Councils respond effectively to the scale of change to be undertaken during 2013/14 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 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 It is anticipated that Audit Services will continue to focus an increasing proportion of its planned work on the transformation of Council services. Audit Services' work will therefore be undertaken in some areas as projects develop rather than the traditional approach of auditing them once they have been completed. This gives the benefit of making recommendations at an appropriate time for them to be auctioned during the life of the project.
- 8.12 This approach to audit will help effect and facilitate change that fosters continuous improvement across the activities of both Councils.
- 8.13 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 Suffolk County Council, 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 and 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, Audit Services 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 as the transformation programme develops; and
- Advice and guidance – Audit Services to provide ongoing advice across both Councils. Whether through attendance at working groups, projects 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 2013/14 as managers at all levels, especially those implementing new systems and structures, will require support.

Conclusions

- 8.14 This approach of using different types of audits and other work is considered the most effective way to deliver the vision for Audit Services.
- 8.15 The Joint Internal 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 2013/14	Attached

10. Background Documents

10.1 None

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Prioritised Joint Internal Audit Plan for 2013/14

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	15	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; PIT SP C
Local Taxation (covering Council Tax & NDR)	10	Shared Revenue Partnership feeder systems and reconciliations	E; PIT SP C
Housing Rents	25	Income collection, rent setting, use of Capita IT system	E SP H & C
Receivables / Debtors	15	Income management, equalities (vulnerable groups)	E; CSD - S PIT; SP C
Payroll/HR	15	Effects of transformation/integration	E, CSD - S PIT
Income Collection / Cash & Bank	15	Payment methods, channel shift, unsolicited transactions, Payment Card Industry Data Security Standards	E PIT
Payables / Creditors	45	Transparency, cash flow, fraud (links to procurement)	E, CSD - M SP Ec; PIT
Treasury Management	45	Cashflow, maximising investments (links to capital accounting)	E, CSD - M PIT
General Ledger	15	Integrity of financial information	E, CSD - S PIT
IT	25	Device control, GCSx, licensing	E PIT
Capital Accounting	20	Monitoring of contract spend, assets	E PIT
Total Fundamental Systems	240		
RISK AUDITS (scope to reprioritise to reflect changing requirements)			
Data Management	10	Follow Up Audit - Data loss prevention, managing sensitive data, Freedom of Information, Data Protection	D Corporate PIT
Financial Management/ Budgetary Control	15	Accountability, delegations, responsibilities	D Corporate PIT
Procurement	15	Efficiencies, savings, local spend	D Corporate SP Ec; PIT
Grants	10	Scope of attracting grants and management to achieve outcomes	D People/ Place/ Corporate SP C; Ec; En
Housing Repairs	15	Contractual arrangements	D People SP C

Audit	Days	Key issues/risk examples	Classification
Social Media	10	Usage, visioning, security	D People PIT
Dangerous Trees	5	Follow Up Audit - Reputation, Health and Safety	D People SP C

Audit	Days	Key issues/risk examples	Classification
Robustness of decision making	15	Equalities, consultation, legal, financial, risk assessment, publication	D People/ Place/ Governance PIT
Total Risk Audits	95		
Follow Ups	25	Implementation of audit recommendations deemed as high risk	E
Contract Audit Reviews	20	Financial governance	D
Fraud & Corruption	35	Proactive: Money Laundering, Policy reviews, Advice and guidance - awareness, Staff training Reactive: Investigations	D
National Fraud Initiative (NFI)	15	Data matching (statutory requirement)	E
Advice, guidance & project support to transformation reviews	100	Services, systems, outcomes.	D SP H; Ec; En; C & PIT
Management	40	Service delivery	E
Other audit work	235		
Total Audit Days	585		

FTEs 3

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
PIT	Performance improvement, service integration and transformation
SP H	Links to Strategic Priority: Housing - MSDC - Ensure that there are enough good quality, environmentally efficient and cost effective homes with the appropriate tenures and in the right locations. BDC - Achieve the right mix and supply of housing.
SP En	Links to Strategic Priority: Environment - MSDC - Protect and enhance the natural and built environment, respecting our heritage and enabling our communities to thrive. BDC have combined Economy and Environment - Shape, influence and provide the conditions to deliver growth whilst protecting and enhancing our environment.
SP Ec	Links to Strategic Priority: Economy - MSDC - Lead and shape the local economy by promoting and helping to deliver sustainable economic growth. BDC - refer to SP En above.
SP C	Links to Strategic Priority: MSDC - Strong and Healthy Communities - Encourage and support individuals and communities to be self sufficient, strong, healthy and safe. BDC - Our Communities (Wellbeing) - Support and facilitate active, healthy, safe communities where people can thrive.