

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Head of Corporate Organisation	Report Number: JAC 21
To: Joint Audit and Standards Committee	Date of meeting: 3 March 2014

INTERNAL AUDIT PLAN 2014/15

1. Purpose of Report

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

2. Recommendations

2.1 Members are requested to review, assess and approve the Internal Audit Plan 2014/15, as detailed in Appendix A.

The Committee is able to resolve this matter.

3. Financial Implications

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

4. Risk Management

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

4.2 The preparation and development of the Internal Audit Plan is described in more detail from paragraph 8.1 onwards.

4.3 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 Internal Audit Plan was discussed with management including both s151 Officers as part of the audit planning process.

6. Equality Analysis

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

7. Shared Service / Partnership Implications

- 7.1 The 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 the processes and outcomes from the transformation work.

8. Key Information

Approach to Audit Planning

- 8.1 In accordance with the Public Sector Internal Audit Standards (PSIAS) an Audit Plan has been prepared covering a period of one year (2014/15). The Plan provides for the annual review of the main financial systems (as required by External Audit) and the audit of a number of identified high risk areas chosen using a risk based methodology.
- 8.2 The Internal Audit Plan has been prepared based upon the identification and prioritisation of auditable areas and the calculation of the team's available audit days.
- 8.3 It is acknowledged that the Plan is tight in terms of audit days and coverage. However, both s151 Officers and the Corporate Manager – Internal Audit are satisfied that it provides the minimum level of coverage required to give an annual evidence based audit opinion at year end.
- 8.4 Where appropriate additional resources will be made available to provide the necessary level of assurance in respect of new and emerging risks facing each Council.
- 8.5 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/outcomes contained in the Strategic Plan that sit beneath them;
 - Cumulative audit knowledge and experience;
 - Engagement with senior management to identify management's view of the coming year's risks linked to the Strategic Plan 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.
- 8.6 External Audit places reliance on the work carried out by the Audit and Risk Management Services' ODT in respect of the documentation, evaluation and testing of fundamental systems. The team works 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

- 8.7 Both Councils continue to go through a period of unprecedented change as a result of the challenging and uncertain financial environment and transformation of service delivery/outcomes. 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. Refocusing the way we deliver services to achieve savings whilst achieving priorities is the key risk to both Councils during 2014/15 and beyond and is reflected in the Internal Audit Plan.
- 8.8 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 (e.g. through partnership working) without adversely impacting on internal control.
- 8.9 It is anticipated that the internal audit section will continue to focus an increasing proportion of its planned work on the transformational areas identified within the Strategic Plan. The team's 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 actioned during the life of the project.
- 8.10 To reflect this a proportion of available time has been allocated under the heading 'Advice, guidance & project support' to support the work emanating from the TEGs. It is acknowledged that the 75 days allocated against this area of work may not be sufficient given the uncertainty over the level of assurance and coverage that may be required to ensure that the governance arrangements are sound and robust.

However, as mentioned in paragraph 8.4 additional resources will be made available where appropriate.

Plan Structure

8.11 The coverage within individual audits will be expanded, where appropriate, to include looking at transformation opportunities for improving efficiency and adding value.

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. Its significance is further heightened with the implementation of a new finance and Payroll/HR system 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. It is anticipated that the audit days against the main financial systems will reduce over time as procedures and controls become established;
- **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. The audit team 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. As an advocate in supporting the promotion of anti-fraud and corruption work the Chief Executive has agreed to become a Fraud Champion. This and full details of the anti-fraud and corruption work undertaken is contained within the annual report entitled 'Managing the Risk of Fraud 2013/14' also presented to this Committee today;
- **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 –** the team to proactively 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 2014/15 as managers at all levels, especially those implementing new systems and structures, will require support.

Conclusions

- 8.13 The 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.

9. Appendices

Title	Location
(a) Internal Audit Plan for 2014/15	Attached

10. Background Documents

- 10.1 None

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Prioritised Internal Audit Plan for 2014/15

All audits to include control environment, good practice and transformational aspects

Audit	Days	Key issues/risk examples	Classification
Work in progress from previous year	10	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	7.5	Shared Revenue Partnership feeder systems and reconciliations	E PI&T SP C
Local Taxation (covering Council Tax & NDR)	7.5	Shared Revenue Partnership feeder systems and reconciliations	E PI&T SP C
Housing Rents	20	Income collection, rent setting	E PI&T SP H SP C
Receivables / Debtors	20	Income management, equalities (vulnerable groups)	E PI&T SP C
Payroll/HR	20	Effects of transformation/integration	E PI&T
Income Collection / Cash & Bank	15	Payment methods, channel shift, unsolicited transactions, Payment Card Industry Data Security Standards	E PI&T SP C
Payables / Creditors	20	Transparency, cash flow, fraud (links to procurement)	E PI&T SP E&E
Treasury Management	20	Cashflow, maximising investments (links to capital accounting)	E PI&T
General Ledger	20	Integrity of financial information	E PI&T
IT	10	Device control, PSN assurance, licensing	E PI&T
Capital Accounting	15	Monitoring of contract spend, assets	E PI&T SP H SP E&E SP C
Total Fundamental Systems	175		
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 PI&T
Procurement	15	Efficiencies, savings, local spend, review of procurement framework	D Corporate PI&T SP E&E

Audit	Days	Key issues/risk examples	Classification
Housing Repairs	15	Contractual arrangements	D PI&T SP H SP E&E SP C
Social Housing	10	Review effectiveness of procedures to help identify and prevent social housing fraud	E SP H SP C
Right to Buy (RTB)	10	Review effectiveness of procedures to help identify and prevent RTB fraud	E SP H SP C
Total Risk Audits	60		
Follow Ups	10	Implementation of audit recommendations deemed as high risk	E
Contract Audit Reviews	15	Final accounts	D
Fraud & Corruption	40	Proactive: Money Laundering, Policy reviews, Advice and guidance - awareness, Staff training Reactive: Investigations	E
National Fraud Initiative (NFI)	15	Data matching (statutory requirement)	E
Advice, guidance & project support to transformation projects	75	Services; systems and procedures; governance arrangements; outcomes.	E PI&T SP H SP E&E SP C
Management	40	Service delivery	E
Other audit work	195		
Total Audit Days	440		

FTEs 2.256

KEY

E Essential/High Priority
D Desirable/High Risk

PI&T Performance Improvement, 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** - Shape, influence and provide the leadership to achieve the right mix and supply of housing.

SP E & E Links to Strategic Priority: Economy and Environment - **MSDC** - Lead and shape the local economy by promoting and helping to deliver sustainable economic growth which is balanced with respect for wildlife, heritage and the natural and built environment. **BDC** - Shape, influence and provide the leadership to enable growth whilst protecting and enhancing our environment.

Audit	Days	Key issues/risk examples	Classification
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) - Shape, influence and provide the leadership to support and facilitate active, healthy and safe communities.	