

NAME OF COMMITTEE	Audit Committee
DATE	15th APRIL 2014
REPORT TITLE	Internal Audit Plan - 2014/2015
Report of	Chief Internal Auditor and S.151 Officer
WARDS AFFECTED	All

Summary of report:

Internal audit is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes' – *Public Sector Internal Audit Standards*.

The purpose of this report is to provide Members with the opportunity to review and comment upon the internal audit plan for 2014/15. The plan aims to optimise the use of the scarce and finite audit time available and enable the Chief Internal Auditor to provide an opinion on the adequacy, effectiveness and reliability of the Council's system of internal control and governance framework, which will subsequently feed into the Annual Governance Statement.

Financial implications:

The internal audit costs for the year are as budgeted.

RECOMMENDATIONS:

It is recommended that Members consider and note the content of the Internal Audit Plan for 2014/2015 at Appendix A and make any relevant recommendations to Council.

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For further information concerning this report, please contact:

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Lisa Buckle, S.151 Officer and Head of Finance & Audit

1. BACKGROUND

- 1.1 The Accounts and Audit Regulations (latest 2011) and Section 54 of the Local Government Act 1972 provide the legal basis for the establishment of internal audit in local authorities. Paragraph 5 of the Act states that 'A relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems'.
- 1.2 The 'CIPFA Application Note for the United Kingdom Public Sector Internal Audit Standards' defines internal audit: Internal audit is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.
- 1.3 The Standards require that the purpose, authority and responsibility of the service is set out in a Charter, an updated version of which is presented at this Committee meeting.
- 1.4 In addition, the Internal Audit Strategy states, at a high-level, how the internal audit service will be delivered and developed in accordance with the Terms of Reference. The Internal Audit Strategy 2014/15 accompanies this plan but under separate cover.

2. INTERNAL AUDIT PLAN FOR 2014/15

- 2.1 The internal audit plan for the forthcoming year is considered each year by the Audit Committee.

5-year Audit Plan 2010/11 to 2014/15

- 2.2 A 5-year plan has been drawn up to cover the period 2010/11 to 2014/15 which was presented to and accepted by the Audit Committee in June 2010.
- 2.3 Once the relevant systems and processes were identified an assessment of risk was applied based on a statistical methodology derived from an Institute of Internal Auditors approach, that took account of the:
 - Value of transactions;
 - Complexity of the system;
 - Inherent risk (vulnerability to fraud or error);
 - Political sensitivity;
 - Time since last audit; and
 - Impact on other systems.
- 2.4 The resulting scores formed the basis of the priority rating, and the number of days to be spent on each system as a proportion of the days available.
- 2.5 A rating of H is audit work carried out annually as required in cases of high internal risk plus external influences such as the External Auditor or other

inspection regimes; M is to be audited several times over a 5-year period; and, L is a lower audit risk and frequency of coverage of once in five years.

Annual Audit Plan 2014/15 (Appendix A)

2.6 The 2014/15 annual plan has been developed from the 5-year Audit Plan 2010/11 to 2014/15 discussed above following an updated risk assessment using the criteria discussed at 2.3 to 2.5 above. In addition work is carried out to identify any emerging risks using information from: the Council/Committee minutes; external sources such as CIPFA, Grant Thornton and the remaining Audit Commission web site; the Council's risk register; and cumulative audit knowledge. Heads of Service were also invited to contribute to the annual audit plan.

2.7 Other factors that result in a variation to the original 5-year plan are:

- Where there has been, or expected to be, significant changes to a system e.g. new computer software;
- Legislative changes; and
- Adjustment of days for some individual audits to reflect the practicalities of carrying out the work;

2.8 Key differences with the 5 year audit plan are:

An increase of time budget of 35 days, but kept within the cost budget.

Added:

- Additional 11 days for the assurance related to the main financial systems;
- Corporate Governance/Annual Governance Statement – work previously carried out by Finance for West Devon;
- Shared services – review of recharging and any other related control/governance issues;
- Specific Counter Fraud activities – as previously reported to the Committee;
- Risk Management; and
- T18 Transformation Programme.

2.9 The Chief internal Auditor has consistently sought to increase the days available to the Council, whilst staying within the financial budget. This has been done cautiously, also having regard to the impact on South Hams audit plan. The 115 days for 2014/15 is considered to be the ceiling and no further increase is likely within the current financial budget.

2.10 The 2014/15 audit plan also sets out the proposed quarters in which the audit work will take place, although in certain areas this will always be flexible. In normal circumstances the timing and detailed work plans will be drawn up following consultation with the client managers.

3. LEGAL IMPLICATIONS

3.1 In accordance with the Constitution, it is the responsibility of the Audit Committee to consider the internal audit plan for the forthcoming year (Appendix A).

3.2 There are no direct legal implications of the internal audit plan.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications of the internal audit plan. The internal audit fees for the year are as budgeted.

5. RISK MANAGEMENT

5.1 The risk management implications follow this table:

Corporate priorities engaged:	The report meets all of the corporate priorities
Statutory powers:	Accounts and Audit Regulations 2011 Section 54 of the Local Government Act 1972
Considerations of equality and human rights:	There are no considerations required of equality and human rights for this report
Biodiversity considerations:	There are no biodiversity considerations for this report
Sustainability considerations:	There are no sustainability considerations for this report
Crime and disorder implications:	There are no crime and disorder considerations for this report
Background papers:	Internal Audit Charter and Strategy 2014/15 5-Year Internal Audit Plan – Audit Committee June 2010
Appendices attached:	Appendix A – Internal Audit Plan 2014/15

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Opportunity relating to the provision of assurance to Members, managers and other stakeholders.	The audit plan and its coverage contribute to the Council's system of internal control and therefore provides reasonable assurance that service objectives will be met.	2	2	4	↔	<p>Audit plans include all areas of potential coverage and direct audit resources to the areas most beneficial to the Council, ensuring that the scarce audit resources are used in a way that provides the necessary assurance.</p> <p>The audit plan is reassessed through the year to compare emerging risks with the original risk assessment. Any emerging risk that is considered to require audit coverage during the year is included at the expense of the lowest priority areas.</p> <p>The revision is reported to senior managers, including the S.151 Officer, and Audit Committee.</p>	Chief Internal Auditor; and S.151 Officer
2	Opportunity relating to Internal Audit as a shared service	A shared internal audit service between South Hams and West Devon provides the opportunity for both Councils to employ a dedicated professional team at a reduced cost to the council tax payer.	2	2	4	↔	<p>Improved efficiency in audit coverage by aligning, where local circumstances permit, audit plans.</p> <p>Auditors are able to make use of research on a given topic for more than one audit, and share good practice observed with managers at both Councils.</p>	Chief Internal Auditor; and S.151 Officer

STRATEGIC RISKS TEMPLATE (continued)

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
3	Internal Audit forms part of the Council's system of internal control	The audit plan and its coverage may not contribute to the Council's system of internal control as required by the related guidance.	2	2	4	↔	<p>Identification of the Audit Universe and subsequent assessment of risk. The audit plan is presented for review and comment to senior managers (including the S.151 Officer), Audit Committee and the external auditor. The Audit Committee's role includes monitoring performance against the plan and action on significant issues identified. The audit plan is linked to the Council's priorities.</p>	Chief Internal Auditor; and S.151 Officer
4	Audit plans are risk based.	Audit plans do not direct audit resources to the areas most beneficial to the Council and so scarce audit resources are kept away from areas of high risk.	2	2	4	↔	<p>An assessment of risk was applied to an 'Audit Universe', based on a statistical methodology that took account of the:</p> <ul style="list-style-type: none"> • Value of transactions; • Complexity of the system; Inherent risk (vulnerability to fraud or error); • Political sensitivity; • Time since last audit; and Impact on other systems. 	Chief Internal Auditor; and S.151 Officer

Direction of travel symbols ↓ ↑ ↔



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Objectives: the audit plan upholds the Council's priorities and as with every audit we are seeking continuous improvement of service, making best use of available resources to fulfil these priorities and deliver services with skill, competence and integrity.

MAIN FINANCIAL SYSTEMS

Equivalent systems are also included in the SHDC Audit Plan for 2014/15.

	Risk Factor	Council Priority	Description	Proposed Quarter	2014/15 Days
Main Accounting System and Budgetary Control	M	All	Accounts for the Council's activities and assists in meeting the budgets set by the Council. Linking systems and audits: Accounts: All financial systems; Budgets: Council Tax (Setting); Computer audit: Access to system.	4	4
Creditor Payments	M	All	Pays the Council's creditors promptly and accurately and processes other internal debit items. Walkthrough Test for 2014/15. Linking systems and audits: Main Accounting; Treasury Management; Council Tax (Refunds); NDR (Refunds); Housing Benefits; Petty Cash. Computer audit: Access to system.	2	2
Payroll	M	All	Ensures accurate calculation and timely payment of salaries and wages to employees. To include Members Allowances. Linking systems and audits: Main Accounting; Computer audit: Access to system.	3	5
Council Tax	H	All	Calculates, bills, accounts for and assists in recovery of cash paid by Council Tax payers. Linking systems and audits: Main Accounting; Housing Benefits; Cash Collection; Computer audit: Access to system.	3	6
Business Rates (NDR)	H	All	Calculates, bills, accounts for and assists in recovery of cash paid by Business Rates payers. Linking systems and audits: Main Accounting; Council Tax; Creditors; Computer audit: Access to system.	3	6

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MAIN FINANCIAL SYSTEMS (continued)

	Risk Factor	Council Priority	Description	Proposed Quarter	2014/15 Days
Housing Benefits and Council Tax Support	H	All	Ensures accurate calculation and timely payment of Housing Benefits. Linking systems and audits: Main Accounting; Council Tax; Creditors; Computer audit: Access to system.	4	7
Debtors	L	All	Invoices, accounts for and assists in recovery of cash due to the Council. Linking systems and audits: Main Accounting; Cash Collection; Computer audit: Access to the system. Walkthrough Test for 2014/15.	2	2
Treasury Management	L	All	Manages the Council's cash flow and invests monies to maximise the interest earned. Walkthrough Test for 2014/15. Linking systems and audits: Main Accounting; Creditors; Cash Collection; Computer audit. Walkthrough Test for 2014/15.	3	2
				(a) Total	34

OTHER SYSTEMS AND AUDIT WORK

	Risk Factor	Council Priority	Description	Proposed Quarter	2014/15 Days
CORPORATE SERVICES					
Recruitment	L	All	To consider the controls in the recruitment process having regard also to the T18 Transformation Programme. Link to Payroll audit.	2	2
				Total	2

ENVIRONMENTAL HEALTH & HOUSING

Community Safety and Emergency Planning	L	All	Review of the requirements and the Council's arrangements for community safety. Also in the SHDC plan.	1	2
Private Sector Housing Renewal	M	Homes	Coverage will include system for providing disabled facilities grants & other related grant and loan schemes. Also included in the SHDC Audit Plan for 2014/15.	3	4
				Total	6

ENVIRONMENT SERVICES

Car Parking	M	Various	Audit covers car parking having regard to emerging risks, with pay and display, and penalty charges as key areas. Last audited 2010/11.	4	4
				Total	4

OTHER SYSTEMS AND AUDIT WORK (continued)					
	Risk Factor	Council Priority	Description	Proposed Quarter	2014/15 Days
FINANCE AND AUDIT					
Capital Expenditure and Receipts	M	All	Audit of expenditure of a capital nature to ensure that monies spent in line with the Capital Programme and Contract and Financial Procedure Rules.	4	4
				Total	4
ICT and CUSTOMER SERVICES					
ICT/Computer Audit	H	All	Using CIPFA Guidance, the audit to cover: <ul style="list-style-type: none"> • Database Management • Environment Controls • Input Data and Running Files • Access control • Back-up & Disaster Recovery Also included in the SHDC Audit Plan for 2014/15.	4	3
Local Welfare Support	New	Various	Overview of the arrangements for this new but limited funding scheme. Joint audit with SHDC.	1	2
Use of Internet and Email	M	All	Review of the use of the Internet and E-mail with the aid of dedicated software, to ensure the Council's policy is adhered to.	2	3
				Total	8
PLANNING, ECONOMY & COMMUNITY					
Development Control	M	Economy Housing Environment	Audit of the system for processing planning applications and the related financial transactions. Last audited 2010/11.	1	4
				Total	4
NON FINANCIAL/CORPORATE REQUIREMENT					
Data Quality, including Performance Indicators	H-	Various	Our work on the performance indicators is a requirement of the Council's Data Quality Strategy.	2	5
Corporate Governance, System of Internal Control (SIC) and Annual Governance Statement (AGS)		All	Audit of the Council's Local Code of Corporate Governance for 2013.14 and subsequent report with the S.151 and Monitoring Officer to the Audit Committee. The AGS is to be approved at a meeting of the Council on the recommendation of Audit Committee, who should seek to satisfy themselves that they have obtained sufficient, relevant and reliable evidence to support the disclosures made.	1	5

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OTHER SYSTEMS AND AUDIT WORK (Continued)					
	Risk Factor	Council Priority	Description	Proposed Quarter	2014/15 Days
NON FINANCIAL/CORPORATE REQUIREMENT			<i>Continued</i>		
Risk Management	M	All	Audit of the Council's risk management process. Budget also includes: Advice to the Risk Management Group.	4	3
Shared Services	H	All	A review of the process for the recharging of shared services with SHDC.	1	5
Sustainability			Audit in line with the audit programme produced by CIPFA. Joint audit work with SHDC.	1	4
T18 Transformation Programme	New	All	Audit work required relating to this key project for the Council. Joint audit with SHDC.	1/2/3/4	5
				Total	27
COUNTER FRAUD					
Specific Counter Fraud Work	New	All	As highlighted by the counter fraud arrangement checklists previously presented to the Audit Committee. A separate plan will be drafted and the Committee informed of the work carried out, but will include future presentation of the necessary checklists to Members.	2	3
				Total	3
FOLLOW UP and CONTINGENCY					
Follow Up Of Previous Year's Audits	Annual	Various	A revisit of the previous year's recommendations to ensure that the agreed actions have been implemented and are working satisfactorily.	1/2/3/4	5
Contingency (Unplanned)	Annual	All	An allowance for the unexpected audit tasks and control advice to managers, including investigation of any suspected irregularities.	1/2/3/4	5
				Total	10
TOTAL: SYSTEMS AND AUDIT WORK				(b) Overall Total	68
AUDIT MANAGEMENT					Days
Management and Supervision		All	Planning, monitoring and reporting on the Internal Audit plan to senior officers and members. Review of completed work and other supervisory/management tasks as required.	1/2/3/4	13
				(c) Total	13

TOTAL RESOURCES REQUIRED 2014/15	From above (a) + (b) + (c)	115
RESOURCES AVAILABLE Shared Service with South Hams District Council		2014/15 115
TOTAL RESOURCES AVAILABLE		115