

NAME OF COMMITTEE	AUDIT COMMITTEE
DATE	11 APRIL 2013
REPORT TITLE	INTERNAL AUDIT - PLAN FOR 2013/14
Report of	CHIEF INTERNAL AUDITOR, and S.151 OFFICER
WARDS AFFECTED	ALL

Summary of report:

The 'CIPFA Code of Practice for Internal Audit in Local Government 2006' defines internal audit as 'an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient use of resources'.

The purpose of this report is to provide Members with the opportunity to review and comment upon the internal audit plan for 2013/14. 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, which will subsequently feed into the Annual Governance Statement.

Financial implications:

None, within existing budgets for Internal Audit provision.

RECOMMENDATIONS:

That the Audit Committee review and comment upon the Internal Audit Plan 2013/14 and the linked 2013/14 Computer Audit Plan.

Officer contact:

For further information concerning this report, please contact:
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1. BACKGROUND

- 1.1 The Accounts and Audit Regulations 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 Code of Practice for Internal Audit in Local Government 2006' defines internal audit: 'Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient use of resources'.
- 1.3 The Code requires that the legal, constitutional and professional basis of the service is set out in Terms of Reference which are also presented to this Audit Committee, April 2013 under separate cover.
- 1.4 In addition, an 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 2013/14 also accompanies this plan but under separate cover.

2. INTERNAL AUDIT PLAN FOR 2013/14

- 2.1 The internal audit plan for the forthcoming year 2013/14 is based on the 5 year plan.

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 April 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 1 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; 2 is to an annual audit as a result of the assessed risk to the Council; and, 3 is a lower audit risk and frequency of coverage of once in five years.

Annual Audit Plan 2013/14 (Appendix A)

- 2.6 The 2013/14 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 and the Audit Commission; 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:

Removed: Car Loans 6 days – currently no car loans;
Dartmouth Town Council 5 days – arrangement ended;
Performance Indicators 25 days – change to audit requirements for PIs;
Sustainability 10 days – deferred to 2014/15.

Added: West Devon Borough Council 25 days – shared service;
Specific Counter Fraud activities 10 days – as previously reported to the Committee;
Data Protection and Freedom of Information 8 days – deferred from 2012/13.

- 2.9 The 2013/14 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.

Computer Audit Plan 2013/14 (Appendix B)

- 2.10 For 2013/14, the computer audit work is to be resourced internally from the annual audit plan (26 days), and linked wherever it is practical, to the work in the main audit plan.

2.11 The intention is to maintain the coverage set out in the 5-year Computer Audit Plan presented to the Audit Committee in April 2010.

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 outside of the existing budgets.

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 2003 and 2006 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 Plan 2013/14 Strategy and Terms of Reference 5-Year Internal Audit Plan – Audit Committee June 2010
Appendices attached:	Appendix A – Internal Audit Plan 2013/14 Appendix B – Computer Audit Plan 2013/14

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 provide 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 and so 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; 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; S.151 Officer

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	↔	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.	Chief Internal Auditor; 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	↔	An assessment of risk was applied to an 'Audit Universe', based on a statistical methodology that took account of the: <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; S.151 Officer

Direction of travel symbols ↓ ↑ ↔



**South Hams
District Council**

INTERNAL AUDIT – ANNUAL PLAN 2013/14

The CIPFA. 'Code of Practice for Internal Audit in Local Government' (2006) is still the latest version and defines Internal Audit: Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient use of resources.

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

FUNDAMENTAL SYSTEMS

Fundamental systems are those that the Council's external auditor considers to be so important that a failure in key controls may lead to their withholding or qualifying the opinion on the Council's statement of accounts. We therefore need to audit these systems on an annual basis; days based on the risk score, benchmarking and experience.

	Priority Rating	Council Objective		Proposed Quarter	2013/14 Days
Main Accounting System and Budgetary Control	1	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	13
Payments	1	All	Pays the Council's creditors promptly and accurately and processes other internal debit items. Linking systems and audits: Main Accounting; Treasury Management; Council Tax (Refunds); Business Rates (NDR) Refunds; Housing Benefits; Petty Cash. Computer audit: Access to system. Audit to include the controls over the use of purchase cards.	2	11
Payroll	1	All	Ensures accurate calculation and timely payment of salaries and wages to employees. Linking systems and audits: Main Accounting; Computer audit: Access to system. Audit to include any redundancy payments and process for increments.	3	10
Council Tax	1	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	14

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FUNDAMENTAL SYSTEMS (Continued)

	Priority Rating	Council Objective		Proposed Quarter	2013/14 Days
Business Rates (NDR)	1	All	Calculates, bills, accounts for and assists in recovery of cash paid by NDR payers. Linking systems and audits: Main Accounting; Council Tax; Creditors; Computer audit: Access to system.	3	12
Housing Benefits and Council Tax Support	1	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	15
Benefit Debtors	1	All	Review of system of recovery for amounts due relating to Housing Benefits. Linking systems and audits: Main Accounting; Council Tax; Creditors; Computer audit: Access to system.	4	5
Debtors	1	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	2	10
Treasury Management	1	All	Manages the Council's cash flow and invests monies to maximise the interest earned. Linking systems and audits: Main Accounting; Creditors; Cash Collection; Computer audit: Access controls re Financial Director software.	3	7
Capital Expenditure and Receipts	1	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	10
TOTAL: FUNDAMENTAL SYSTEMS					107

OTHER SYSTEMS AND AUDIT WORK

The planned audit work is presented as 'Other Essential' audits where there is requirement for them to be completed annually, and 'Other' those completed once in 5 years Both are in service group order.

The 'Priority Rating' is derived from a statistical assessment of risk that includes the value of transactions, complexity, susceptibility to fraud or error, last audit coverage, impact on other systems and political sensitivity. A rating number of 1 is audit work carried out annually as required in cases of high internal risk plus external influences such as the External Auditor; 2 is an annual audit as a result of the assessed risk to the Council; and, 3 a lower audit risk and frequency of coverage (once in 5 years). Those audits brought forward from last year will have their rating enhanced with a plus sign (+).

Council's Priorities The link to the Council's published priorities. Proposed Quarter column shows the proposed quarter of the year in which a specific audit will be started. It has been drawn up giving regard to known audit needs, service and external pressures. However, the plan is flexible enough to take account of unforeseen matters for both internal audit and service managers, so the proposed quarter is effectively indicative.

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OTHER ESSENTIAL SYSTEMS AND AUDIT WORK					
	Priority Rating	Council Objective		Proposed Quarter	2013/14 Days
ASSETS					
Salcombe Harbour	2	Various	Audit work based on a sub-plan, having regard to emerging risks, to ensure coverage of all harbour activities over a period of 5 years.	3	10
Dartmouth Lower Ferry	2	Various	Audit work based on a sub-plan, having regard to emerging, to ensure coverage of all ferry activities over a period of years.	3	9
Sub-Total					19
ENVIRONMENT SERVICES					
Street Scene, including Car and Boat Parking	2	Various	Audit covers all aspects of the Street Scene services including car parking based on a rolling sub-plan, having regard to emerging risks, with pay and display, season tickets and standard charges as key areas.	4	9
Sub-Total					9
ENVIRONMENTAL HEALTH & HOUSING					
Private Sector Housing Renewal	2	Homes	Coverage will include system for providing disabled facilities grants & other related grant and loan schemes, with a counter fraud view.	3	8
Sub-Total					8
ICT & CUSTOMER SERVICES					
Performance Indicators, and Data Quality	2	All	Our work on performance indicators is a requirement of the Council's Data Quality Strategy.	2	5
Use of the Internet & E-Mail	2	All	Review of the use of the Internet & E-mail with the aid of dedicated software, to ensure the Council's policy is adhered to.	2	10
Computer Audit	2	All	Computer audit subject to a separate planning process (Appendix B) .	4	26
Sub-Total					41
OTHER					
Audit of Government Grants – RDPE Rural Community LAGs	2	Various	Quarterly and ad hoc audit and submission of grant claims prepared by Devon Renaissance on behalf of the 'Accountable Body' (the Council).	1/2/3/4	50
Follow Up Of Previous Year's Audits	2	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	6

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OTHER ESSENTIAL SYSTEMS AND AUDIT WORK (Continued)

	Priority Rating	Council Objective	Proposed Quarter	2013/14 Days	
OTHER (continued)					
Contingency (unplanned)	2	Various	An allowance for the numerous unexpected audit tasks and control advice to managers, including investigation of any suspected irregularities.	1/2/3/4	55
Sub-Total				111	
NON-FINANCIAL/CORPORATE					
Corporate Governance	2	All	Audit of the Council's Local Code of Corporate Governance for 2012.13 and subsequent report with the S.151 and Monitoring Officer to the Audit Committee. To include Gifts and Hospitality and Equality issues and links to the Annual Governance Statement.	1	8
Exemptions to Contract Standing Orders or Financial Instructions	2	All	To review applications from managers for exemption to Contract Procedure Rules in certain circumstances, normally in respect of procurement of goods and services.	1/2/3/4	5
System of Internal Control (SIC) and Annual Governance Statement (AGS)	2	All	Internal Audit in its annual report to the Council must include an opinion on the internal control environment and bring to the Council's attention any issues that will impact on the preparation of the AGS. (Control Environment = achievement of objectives, policy and decision making, complying with policies etc., risk management, financial management, best value and performance management) 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	6
Risk Management/Business Continuity	2	All	Audit of the Council's risk management process as required by the Council's Strategy, and business continuity. Budget also includes: Advice to the Risk Management Group and individual risk workshops. Also separately planned, audits based on the Council's risk register depending on resource availability: 2013/14 Contract Management, Use of Agency Staff.	1	5
Sub-Total				24	

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OTHER ESSENTIAL SYSTEMS AND AUDIT WORK (Continued)

	Priority Rating	Council Objective		Proposed Quarter	2013/14 Days
SHARED SERVICES					
West Devon Borough Council	1	All	Internal audit service based on a risk based audit plan agreed with the S.151 Officer and WDBC Audit Committee.	1/2/3/4	105
Teignbridge District Council	-	All	Exchange of audit knowledge and resources where mutually beneficial, as highlighted in previous reports to members. Mutual assurance of significant areas of each Councils' audit plans agreed by the Audit Committees.	-	-
Sub-Total					105
TOTAL: OTHER ESSENTIAL					317

OTHER SYSTEMS AND AUDIT WORK

	Priority Rating	Council Objective		Proposed Quarter	2013/14 Days
ASSETS					
Beach and Water Safety	3	Various	Consideration of the arrangements in place. Last audited in 2008/09.	1	4
Countryside Recreation & Management	3	Various	Consideration of controls over related income and expenditure. Last audited in 2008/09.	2	5
Outdoor Sports and Recreation	3	All	Consideration of controls over related income and expenditure. Last audited in 2008/09.	2	8
Sub-Total					17

ENVIRONMENTAL HEALTH & HOUSING

Emergency Planning	3		Review of the requirements and the Council's arrangements for civil emergencies and disaster planning. Last audited in 2006/07.	1	8
Food Safety	3		Reviewing the Council's arrangements to ensure food safety requirements are met. Last audited in 2006/07.	1	8

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South Hams District Council Internal Audit: 2013/14 Audit Plan

Appendix A

OTHER SYSTEMS AND AUDIT WORK (Continued)

	Priority Rating	Council Objective	Proposed Quarter	2013/14 Days
ENVIRONMENTAL HEALTH & HOUSING				
Licensing	3	Audit to consider processes relating to legislative requirements on the Council in respect of various licence types. Last audited in 2009/10.	1	8
Pollution Reduction	3	Review of income and expenditure in relation to the Council's responsibilities. Last audited in 2008/09.	1	8
Sub-Total				32
FINANCE & AUDIT				
Allocation of HQ Costs	3	All A review of the controls over allocating HQ costs to ensure that CIPFA guidelines are being met.	2	4
Sub-Total				4
ICT & CUSTOMER SERVICES				
Council Tax Collection	3	All Review of the costs of collecting local taxes. Last audited 2009/10.	2	5
Sub-Total				5
PLANNING, ECONOMY & COMMUNITY				
Planning Policy including S.106 Agreements	3	Various Review of the processes relating to planning policy with particular emphasis on the management of S.106 Agreements. Last audited 2010/11.	1	8
Community Development including Grants and Loans	3	Various Audit to provide assurance that the controls ensure that Community Grants and Loans are made in accordance with the Council's policy. Last audited 2008/09.	2	8
Sub-Total				16
CORPORATE/NON-FINANCIAL				
Advice to Information Compliance and Other Groups	3	All Attending several officer groups to provide advice. Time previously charged to Contingency.	1/2/3/4	3
Contract Management (linked to the Council's Risk Register)	3	Various Work on this corporate risk to be carried out in association with the Strategic Risk Management Group of officers.	1	6
Freedom of Information and Data Protection	3	All To review the arrangements that the Council has made for the necessary processes to meet the requirements of the Freedom of Information Act, and continues to comply with the Data Protection Act. Last audited at SH 2007/08.	3	8

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OTHER SYSTEMS AND AUDIT WORK (Continued)

	Priority Rating	Council Objective	Proposed Quarter	2013/14 Days
CORPORATE/NON-FINANCIAL				
Partnership Management	3	All To review the arrangements for the management of partnerships including governance.	1	8
Safeguarding Children	3	All A review of the Council's responsibilities and arrangements.	2	5
Shared Services	3	All A review of the process for identifying and creating a shared service, to include governance issues, recharging etc. Following on from 2012/13 equivalent.	1	5
Use of Agency Staff	3	All To review the Council's use of Agency staff and the contractual arrangements made.	2	5
Sub-Total				40
COUNTER FRAUD				
Specific Counter Fraud Work	3	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 to be carried out, but will include future presentation of the necessary checklists to Members.	2	10
Sub-Total				10
TOTAL: OTHER SYSTEMS AND AUDIT WORK				124
AUDIT MANAGEMENT				
Audit Administration	-			20
Audit Management, including Audit Planning	-			20
Audit Monitoring Reports to Management and the Audit Committee	-			15
Training	-			15
Miscellaneous e.g. corporate documents etc.	-			5
TOTAL				75
TOTAL RESOURCES REQUIRED 2013/14 From totals above				623

South Hams District Council Internal Audit: 2013/14 Audit Plan

Appendix A

RESOURCES AVAILABLE	2013/14 Days
Chief Internal Auditor	234
Senior Auditor	260
Auditor	260
Sickness Basis of Estimate: CIPFA Guidance plus 10	-18
Bank Holidays	-27
Annual Leave	-86
TOTAL RESOURCES AVAILABLE	623

Allan Goodman, Chief Internal Auditor

March 2013



**South Hams
District Council**

SOUTH HAMS DISTRICT COUNCIL

INTERNAL AUDIT

ANNUAL COMPUTER AUDIT PLAN – 2013/14

AUDIT AREAS	Priority Rating	Council Objective	Proposed Quarter	2013/14 Days
Installation & Healthcheck, including: Using CIPFA Guidance – <ul style="list-style-type: none"> • Database Management • Environment Controls • Input Data and Running Files • Access control • Back-up • Disaster Recovery 	1	All	4	7
Security and Strategy CIPFA Guidance - <ul style="list-style-type: none"> • Integrated ICT Strategy; and • ICT Security Strategy. 	3	All	4	6
E Commerce CIPFA Guidance - <ul style="list-style-type: none"> • Contractual and Operational Procedures; • Legal Conditions; • Security of Processing; and • Data Protection Act implications. 	3	Various	4	6
Other Reviews <ul style="list-style-type: none"> • Telecommunications Network; and • Other – through liaison with the external auditors and updating of the risk assessment. 	2	All	4	7
TOTAL RESOURCES REQUIRED				26
RESOURCES AVAILABLE				2013/14 Days
Computer Audit in Main Audit Plan (Appendix A)				26
TOTAL RESOURCES AVAILABLE				26

The computer audit plan was also derived from an audit assessment of all of the systems within the Council requiring audit, 'the Computer Audit Universe'. Once these systems were identified an assessment of risk was applied, based on a statistical methodology in the same way as the main audit plan (see Appendix A). The 5-year computer audit plan is based on the CIPFA 'Computer Audit Guidelines'. The priority rating has been simplified. Work will be carried out either annually or once twice in 6 years depending on the audit risk. Our computer audit plan also upholds the Council's aims and priorities as with every audit we are seeking continuous improvement of services, making best use of available resources to fulfil priorities and deliver services with skill, competence and integrity.