

## AUDIT AND RISK COMMITTEE REPORT

<b>TYPE OF REPORT:</b> Audit	<b>Portfolio:</b> Performance
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If not for publication, the paragraph of Schedule 12A of the 1972 Local Government Act considered to justify that is paragraph 3.	

**Committee:** Resources and Performance – Audit & Risk Committee  
**Date:** 23<sup>rd</sup> June 2015  
**Subject:** Strategic Internal Audit Plan 2015-18

<b>Summary</b>	This report provides Committee Members with the opportunity to review the proposed Strategic Internal Audit Plan for 2015-18.
<b>Recommendation</b>	To note the Strategic Internal Audit Plan for 2015-18.

### 1.0 Introduction and Background

- 1.1 According to the Terms of Reference of the Audit and Risk Committee, one of the Core Functions is to review the Internal Audit's Strategic Audit Plan.
- 1.2 The Strategic Internal Audit Plan 2015-18 is attached to this report as **Appendices 1 and 2**. The plan indicates the work proposed by the Audit Manager for Internal Audit function for the next three years. The first year is defined and although the work can be adjusted if necessary to accommodate any major occurrences during the year, it is usual for the plan to be completed as shown. The next two years are more flexible and simply provide an indication of the work that is anticipated.
- 1.3 The overall strategy of the Internal Audit is reviewed on annual basis and is attached as **Appendix 3**.

### 2.0 Purpose of the Audit Plan

- 2.1 The Strategic Audit Plan is intended to:
  - Ensure all identified areas are audited over the life of the plan, taking in to account clients' audit requirements and the major risks facing the council.

- Ensure there are adequate resources to undertake the required audits.
- Provide a basis for monitoring actual performance of the Internal Audit function.

2.2 The audit work performed to fulfil the plan informs the Audit Manager's opinion that is required in the Annual Governance Statement.

### **3.0 Preparing the Plan**

3.1 The plan was produced on the assumption that the Council will continue in its current form and with the risks that have been identified in the Corporate Risk Register. If either of these changes significantly, the plan will need to be reviewed for any impact on the workload of the Internal Audit function. Any proposed amendments to the plan will be reported to the Committee.

3.2 Within the plan there are 8 Core Audits that are considered by the external auditors, Ernst and Young (EY), and the Audit Manager to be fundamental and are carried out to some extent on an annual basis. These cover systems that are essential to the business of the Council. These audits are:

- Council Tax and Non-Domestic Rates
- Creditors and Payments
- General Ledger (incl. Budgetary Control)
- Housing and Council Tax Benefits
- Treasury and Cashflow Management (incl. Bank Reconciliations)
- Payroll
- Sundry Debtors
- Inventories and Asset Management

The audit of these systems will consist of an in-depth audit in alternate years with a more light-touch approach in the intervening years, unless there are any significant changes in the area concerned.

3.3 The rest of the plan consists of the audit of other, non-fundamental systems and computer systems that are not integral to other audits. There is some allowance for specific tasks that are known to be required and contingencies for other work that previous experience has shown can arise.

3.4 The approach to producing the plan has changed as a result of the External Quality Assessment of Internal Audit completed in 2014. In response to the recommendation that a risk based plan should be produced to comply with the Public Sector Internal Audit Standards (PSIAS), an Assurance Framework has been developed. This provides a structured analysis of the Council based on five high level domains that support the Council's business and one domain covering the operational aspects, rather than the Directorate model used previously.

3.5 Within these domains, audit areas have been identified and risk assessed based on factors such as Materiality (Value and Volume); Significance/ Profile; Complexity of the system; Change; Regulatory/ Contractual matters; External Monitoring; Prior Audit results; Susceptibility to fraud and

corruption; and Staff turnover. A risk rating of High, Medium or Low is allocated according to the result of the assessment. Based on the rating, a time scale between audits is applied. The audit plan is based on this risk assessment process covering all six domains to ensure all aspects of the Council are covered to some degree.

- 3.6 On 1<sup>st</sup> April 2015 the majority of the Investigations Unit transferred to the Department of Work and Pensions (DWP) under the Single Fraud Investigations Service. The Council has made arrangements ensure some capacity for fraud investigation was maintained here. As a result an Investigation Officer/ Internal Auditor role has been retained and allowance has been made in the Audit Plan for such work to be carried out. More detail on this role will be reported to the Committee in the annual Fraud Report.
- 3.7 In preparing the plan, the Audit Manager calculated the available audit days by deducting allowances for annual leave, Bank Holidays, training and some management time from the gross number of working days in the year for the staff in the section. This was compared with the number of days required by the draft plan to establish if the resources available are adequate to provide the assurance needed.
- 3.8 The draft was plan was discussed with the Assistant Director and presented to Management Team for discussion and acceptance.
- 3.9 Both the Audit Manager and the Assistant Director are satisfied that the resources are sufficient, after the level of contingencies have been adjusted, and that the proposed plan will provide the level of assurance required.
- 3.10 During the course of the year, the Committee may request that additional audits are undertaken or that ones already in the plan are brought forward, and the resulting reports presented at future meetings.

#### **4.0 Format of the plan**

- 4.1 The plan is presented in two parts. The first part is the Annual Plan (**Appendix 1**), which deals with 2015-16 only and contains a brief description of the intended scope of each audit together with the planned quarter for the work to take place. The second part is the Strategic Plan (**Appendix 2**) and this provides an indication of allocations for audits in 2016-17 and 2017-18 so that coverage of all areas of the Council can be seen. However the allocations for the later years are indicative only and may change as circumstances arise.

#### **5.0 Outcomes**

- 5.1 As in 2014/15, the Audit Manager will continue to produce regular monitoring reports indicating:
  - The audit work completed
  - The results of Follow-ups carried out, especially any issues outstanding

- Work ongoing
- Progress against the Audit Plan
- Results against the Performance Indicators

5.2 This will enable Members to monitor progress against the agreed annual plan and identify any specific reports of interest to be brought to the next meeting.

Audit Title	Risk Rating	Days	Q'tr	Scope
<b>Core Systems</b>				
<b>Brought forward from 2014/15</b>				
Council Tax incl CT Support Scheme (2014/15)	High	5	1	Fundamental reviews of core financial systems, especially relevant to the external audit's year end requirements. However these reviews will look further than the key controls required by the external auditors, to include general testing to enable Internal Audit to provide the required assurance to the Council over its internal controls and to produce the Audit Manager's Annual Report.
Creditors & Payments (2014/15)	High	5	1	
Business Rates Retention Scheme (2014/15)	High	15	1	
Accounts Receivable (2014/15)	High	24	1	
Treasury & Cashflow Management (2014/15)	High	18	1	
Payroll (incl members expenses) (2014/15)	High	5	1	
		<b>72</b>		
<b>2015/16</b>				
Creditors and Payments	High	15		
Accounts Receivable	High	10		
Asset Register and Inventories	High	15		
Council Tax & Business Rates	High	10		
General Ledger & Budgetary Control	High	15		
Housing Benefits	High	10		
Payroll (incl members expenses)	High	15		
Treasury& Cashflow Management (Incl Bank Recs)	High	10		
<b>Total Core Systems</b>		<b>100</b>		
<b>Risk Based Audits</b>				
<b>Governance and Reputation</b>				
Policies	Medium	15	2	Identify all policies and check review dates and approval by Cabinet/Council.
Business Continuity	Medium	15	3	Coverage of BC plans, updates and testing.

Audit Title	Risk Rating	Days	Q'tr	Scope
<b>People</b>				
Recruitment	Medium	15	2	Especially verification of higher qualifications and professional memberships.
Performance and Appraisal	Low	10	2	Adequacy and timeliness of appraisals.
<b>Financial</b>				
Contracts	Medium	15	4	Application of the training on contract letting/management.
S106 funds/ CIL	Medium	15	2	Ascertain if s106 funds are being recorded and used in accordance with the agreements.
<b>Infrastructure</b>				
ICT Disaster recovery	Medium	15	1	Backup process and testing of plans.
Communications incl Internet and Social Networking	Low	10	4	Especially the use of social media by the Council.
<b>Information</b>				
DPA,FOI & EIR	Medium	15	1	Procedures for dealing with requests for data/ information.
Transparency Agenda	Low	10	4	Collation and update of information published on website.
<b>Operational and service delivery</b>				
Careline Community Services	Medium	15	4	
CCTV	Medium	15	2	
Civics	Low	10	2	
Civil Enforcement and car parking	High	15	3	
Housing options and allocations	Medium	15	3	
<b>Total Risk Based Audits</b>		<b>205</b>		

Audit Title	Risk Rating	Days	Q'tr	Scope
<b>External Audits</b>				
Water Management Alliance		5	1	
Leisure Trust		15		
<b>Total External Audits</b>		<b>20</b>		
<b>Total for Planned Audits</b>		<b>397</b>		
<b>Other Work</b>				
PRP Calculations		3	1	Annual check of PRP calculations
Audit Committee		15		Support and report writing
National Fraud Initiative		70		Work on returned data matches
Risk Management		20		Ongoing review and co-ordinating revisions to the risk register
Review of Statement of Accounts		5	1	Annual proof read of draft Statement of Accounts
Fraud Prevention and Detection		75		To develop measures to prevent and detect corporate fraud.
VAT healthcheck		3		Work with the Council's VAT advisors.
Follow ups		10		Allowance for follow-up of audit recommendations
Contingency		45		
<b>Total Other Work</b>		<b>251</b>		
<b>Grand Total</b>		<b>643</b>		

**APPENDIX 2**

<b>Audit Title</b>	<b>Risk Rating</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
<b>Core Systems</b>				
Creditors and Payments	High	15	12	20
Accounts Receivable	High	10	20	12
Asset Register and Inventories	High	15	12	20
Council Tax & Business Rates	High	10	20	12
General Ledger & Budgetary Control	High	15	12	20
Housing Benefits	High	10	20	12
Payroll (incl members expenses)	High	15	12	20
Treasury& Cashflow Management (Incl Bank Recs)	High	10	20	12
<b>Total Core Systems</b>		<b>100</b>	<b>128</b>	<b>128</b>
<b>Governance and Reputation</b>				
Strategic planning [Corporate and Directorate]	Medium		15	
Policies	Medium	15		
Risk management	Medium			
Democratic Services	Medium			
Performance management and reporting	Low			
Communications	Low		10	
Health and safety including home working	Low			
Legal services and compliance	Medium			
Culture and ethics	Medium			15
Partnership working	Medium			10
Business Continuity	Medium	15		
<b>People</b>				
Recruitment	Medium	15		
Training (including CPD for staff with professional qualifications required for their role)	Low		10	
Performance and appraisal	Low	10		
Conduct and discipline	Low			
Attendance management [Including flexitime, sick leave and Special leave]	Medium		15	
Prevention of fraud and corruption	Medium			
Leavers	Medium			
Gifts and hospitality	Medium			10
Staff car leasing	Low			10
<b>Financial</b>				
External funding and grants received	Medium			15
Procurement [Including use of corporate credit cards]	Medium		15	



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<b>Audit Title</b>	<b>Risk Rating</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Contracts [To include letting, management, and use of Framework Contracts]	Medium	15		
Grants / funding to third parties	Medium		15	
Taxation / VAT	Medium			
Insurance	Medium			15
Allocation of Capital funds	Medium			
S106 funds / CIL	Medium	15		
<b>Infrastructure</b>				
<u>Buildings and land</u>				
Council Offices and sites, including Tourist Information Centre	Medium			
Industrial estates and commercial property	Medium			10
Amenity property and land incl Toilets, Car Parks and parks	Medium		15	
<u>Other Infrastructure</u>				
IT network security, including mobile working	Medium			15
IT disaster recovery	Medium	15		
Programme and project management	Medium			
IT change management	Medium		15	
Internal Communications [Including Intranet and Ciphernet]	Low			
Communications [Including Internet and social networking]	Low	10		
Vehicle fleet	Medium			
LEAN reviews	Medium			
<b>Information</b>				
Information legislation [DPA, FOI & EIR]	Medium	15		
Information management and security	Medium			15
Document management [Electronic and physical, retention and destruction]	Low			
Data quality and interpretation [including use of spreadsheets and databases]	Medium			
Informing the Customer	Medium		15	
Transparency Agenda	Low	10		
<b>Operational and Service Delivery</b>				
Alive Leisure - oversight and accountability	High			
Alive Management - oversight and accountability	High			

**APPENDIX 2**

<b>Audit Title</b>	<b>Risk Rating</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Allotments	Low		10	
Arts Trust	Low			
Care and Repair	High		15	
Careline Community Services	High	15		
CCTV	Medium	15		
Cemeteries and Crematorium	Medium			15
Civics	Low	10		
Civil enforcement and car parking	High	15		
Community safety and neighbourhood nuisance	Medium		15	
Drainage control	Medium			
Electoral services	Low			
Emergency planning and management	Medium		15	
Environmental quality	Medium		15	
Food safety	Medium			15
Graphics and Print room	Low			10
Health improvement				
Heritage (Archives and events)				
Housing standards	Medium			
Housing strategy	Medium			
Housing options and allocations	Medium	15		
Licensing	Low		10	
Local Development Framework (LDF)	Low			
Local Land and Property Gazetteer	Low			
Local Land Charges	Low			
Markets	Low			
Planning Control	Medium			
Planning enforcement	Medium		15	
Planning Support	Medium			10
Refuse collection and recycling	Medium			15
Regeneration and economic development	Medium			
Resort Services	Low			
Street cleansing	Medium			10
Tourism and tourist information	Low			10
Town Centre and Market management	Low		10	
<b>Total</b>		<b>305</b>	<b>358</b>	<b>328</b>



## Internal Audit Strategy 2015-16

### **Introduction**

Regulation 5 of the Accounts and Audit Regulations 2015 states that local authorities '*...must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*'.

This strategy is a high level statement of how the Internal Audit service will deliver the required assurance on the Council's internal control systems.

The Council's Internal Auditors will conduct all audit work in accordance with the Public Sector Internal Audit Standards (PSIAS), which define internal audit as:

*'Internal Auditing 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.'*

### **Internal Audit Objectives**

Internal Audit's objectives are to:

- Provide an independent and objective internal audit service that helps the Council to meet its stated objectives
- Support the Assistant Director in the discharge of her duties as Section 151 Officer (the officer responsible for the proper administration of the financial affairs of the authority).
- support and assist in embedding corporate governance, effective internal controls and risk management throughout the Council
- help to identify areas for improvement and make recommendations to address these
- offer advice and assurance on achieving effective internal controls
- comply with the Public Sector Internal Audit Standards (PSIAS).

Under the PSIAS the Audit Manager must produce a risk-based audit plan which takes into account the requirement to express an annual internal audit opinion on the effectiveness of the internal controls.

To this end, an Assurance Framework has been developed to enable a structured analysis of the internal controls to take place and in turn the

framework is supported by a risk analysis of each identified sphere of audit. The whole process enables a risk based plan to be produced.

## **Outcomes**

The Internal Audit team will work with a risk based audit plan that is designed to provide the required assurance on the system of internal controls.

On completion of each audit a report, which will describe the scope of the work undertaken and the results of that work, will be provided to the relevant Director, the Assistant Director as S151 Officer and Portfolio Holder. Where necessary recommendations will be made to rectify any control weaknesses or improve service delivery. Any such recommendations will be followed up at an agreed interval, but usually six months after the report is finalised, to assess progress in implementation.

Progress against the plan will be reported to the Audit and Risk Committee at regular intervals. All reports will be made available in full to the members of the Committee via a secure area on InSite.

Managers will also be able to seek advice from the team on possible control issues if necessary.

At the end of the financial year, the Audit Manager produces an Annual Report which includes Annual Audit Opinion as described below.

## **Annual Audit Opinion**

Internal Audit's role is to understand the key risks to the Council and to examine and evaluate the adequacy and effectiveness of its systems of risk management, governance and internal control. Each year the Audit Manager will provide her opinion on the effectiveness of the internal control environment to the Audit and Risk Committee. It will be influenced by the individual opinions provided for each piece of audit work undertaken and the progress made by managers in implementing previously agreed actions. The opinion will be supported by sufficient, reliable and relevant evidence

## **Resources**

The internal audit service will be provided by an in-house team consisting of an Audit Manager, one full time Auditor, one part time Auditor and a fulltime Investigation Officer/ Internal Auditor. The team will operate according to the Public Sector Internal Audit Standards.

The available resources are calculated as shown in the table below:

	<b>Days</b>
Total working days available	995
Less:	
Annual Leave	96
Bank Holidays ( Including extended Christmas closure)	48
Training (non-qualification)	20
Section administration	88
Management	100
<b>Total audit time available</b>	<b>643</b>
Core Systems	172
Risk based and external audits	225
Fraud prevention and detection	145
Risk Management	20
Follow-ups, reviews and Audit Committee support	36
Contingency	45
<b>Total allocated</b>	<b>643</b>

In addition to the in-house team, provision is made in the budget for the use of an external provider to undertake specialist audits if necessary. The Council has access to IT auditors via the contract the Norfolk Internal Audit Consortium has in place with TIAA Ltd for the provision of their internal audit services.

To maintain the skills and knowledge levels required, training assessments of the team will be carried out on an annual basis as part of the Council's appraisal process. The Audit Manager will be responsible for prioritising the identified needs and ensure that the most effective use is made of the available training resources.

### **Key Performance Indicators**

<b>PI Ref</b>	<b>Indicator</b>	<b>Target</b>
AUD 1	Delivery of the Audit Plan	95%
AUD 2	Productive time	60%

### **Audit and Risk Committee**

The Terms of Reference relating to the Audit and Risk Committee include a requirement to review and approve, but not direct the Internal Audit Strategy. It is intended that this Strategy will be reviewed on an annual basis and the results presented to the Committee for approval along with the Audit Strategic Plan.

**The next date for review will be – March 2016.**