

<b>Title of Report:</b>	<b>Internal Audit – Workplan for 13-14</b>
<b>Report to be considered by:</b>	Governance and Audit Committee
<b>Date of Meeting:</b>	08 July 2013
<b>Forward Plan Ref:</b>	GA2678

**Purpose of Report:** To outline the proposed work programme for internal audit for the coming year.

**Recommended Action:** Review and approve the plan.

**Reason for decision to be taken:** To ensure that there is an effective internal audit in place for the Council

**Other options considered:** None

**Key background documentation:** None

The proposals will help achieve the following Council Strategy principle:

**CSP9 - Doing what's important well**

Portfolio Member Details	
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<b>Date Portfolio Member agreed report:</b>	22 April 2013

Contact Officer Details	
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### Implications

**Policy:** none

**Financial:** none

**Personnel:** none

**Legal/Procurement:** none

**Property:** none

**Risk Management:** Internal Audit plays a key role in helping to identify and mitigate risk to the delivery of Council services

**Equalities Impact** none required

**Assessment:**

<b>Is this item subject to call-in?</b>	Yes: <input checked="" type="checkbox"/>	No: <input type="checkbox"/>
<p>If not subject to call-in please put a cross in the appropriate box:</p> <p>The item is due to be referred to Council for final approval <input type="checkbox"/></p> <p>Delays in implementation could have serious financial implications for the Council <input type="checkbox"/></p> <p>Delays in implementation could compromise the Council's position <input type="checkbox"/></p> <p>Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months <input type="checkbox"/></p> <p>Item is Urgent Key Decision <input type="checkbox"/></p> <p>Report is to note only <input type="checkbox"/></p>		

# Executive Summary

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## **1. Introduction**

- 1.1 This report sets out the proposed plan of work for internal audit over the next three years.
- 1.2 The report outlines the method used to compile the plan, which is based around risk.

## **2. Proposals**

- 2.1 The audit plan sets out a range of proposed audits. In addition work carried out in the previous year will be followed up. A copy of the audit plan is at appendix C.
- 2.2 The main areas of focus will be the "Key Financial Systems" and the anti fraud work, particularly the National Fraud Initiative.

## **3. Equalities Impact Assessment Outcomes**

- 3.1 There is no decision to be made and therefore no Equality Impact Assessment has been undertaken.

## **4. Conclusion**

- 4.1 The work of internal audit is designed to provide the Council with assurance on the state of the Council's internal control framework. The work is also designed to highlight and remedy weaknesses identified in the Council's service delivery systems.

# Executive Report

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## 1. Introduction

- 1.1 The purpose of this report is to set out a risk based plan of work for Internal Audit that will provide assurance to the Governance and Audit Committee on the operation of the Council's internal control framework and support the Committee's review of the Annual Governance Statement.
- 1.2 In the past the work of internal audit was regulated by the "Code of Practice for internal audit in local government" - produced by CIPFA. However, from 1.4.13 the Relevant Internal Audit Standard Setters (RIASS) - CIPFA for Local Government - have adopted the "Public Sector Internal Audit Standards" based on the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). These provide a:
- (1) Definition of Internal Auditing
  - (2) Code of Ethics
  - (3) International Standards for the professional practice of internal auditing (including interpretations and glossary)
- 1.3 CIPFA are due, in March, to produce some guidelines on the interpretation and application of the new standards, and once these have been received, the work and methods of internal audit will need to be reviewed to ensure compliance.
- 1.4 The report covers the following points:
- (1) Audit objectives and outcomes
  - (2) How audit work is planned to ensure significant local and national issues are addressed.
  - (3) Basis for the opinion of the Chief Internal Auditor on the internal control framework
  - (4) Methods of providing and resourcing the service.
- 1.5 The main areas of focus will be the audits of the "Key Financial Systems", anti fraud work, and review of the key strategic risks that are the responsibility of the Chief Executive
- (1) The audits of the "Key Financial Systems", in Customer Services and Finance, are carried out annually, partly because of the scale and materiality of them and partly as the Council's external auditor relies on the work Internal Audit does on these systems. These audits are highlighted in the audit plan with an F.
  - (2) The main element of anti fraud work is in relation to the National Fraud Initiative, which is a data matching exercise run by the Audit Commission. In addition a review of the Council's overall anti fraud framework is planned
  - (3) The key strategic risks that are the responsibility of the Chief Executive are:

Children's and Adults safeguarding  
Budget Management  
Health and Safety  
Information Security  
Civil Contingencies planning  
Business Continuity  
Performance Management

## **2. Audit Objectives and Outcomes**

2.1 The CIPFA Code of Practice for Internal Audit in Local Government provided the following definition of the purpose and role of 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 and effective use of resources."

2.2 The new Public Sector Internal Audit Standards provide the following definition that replaces the previous definition.

"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"

2.3 The difference between the definitions appears minimal and translated into plain English, Internal Audit is there to help Services deliver the Council Strategy by identifying and helping to mitigate weaknesses in service delivery systems and procedures.

2.4 The objectives for Internal Audit are set out in the Audit Charter which forms an appendix to the Terms of Reference of the Governance and Audit Committee. The full charter is attached at appendix B.

2.5 The main outcomes from the work of Internal Audit are:

- (1) Audit reports produced at the conclusion of each audit, for the relevant Head of Service and Director.
- (2) Monitoring reports on progress with implementation of agreed audit recommendations.
- (3) An annual assurance report and an interim update report for Management Board and Governance and Audit Committee on the outcomes of Internal Audit work.

## **3. Audit Planning**

3.1 The work programme for Internal Audit for the period 2013-16 is attached at appendix C. The plan analyses the different areas of Council activity that Internal

Audit fees require auditing. The Plan is laid out by, Corporate Audits, then by Head of Service and for each audit covers:

- (1) The key risks that the audit will cover
- (2) The level of risk associated with the subject, as assessed by Internal Audit
- (3) The complexity of the audit.
- (4) The type of audit
- (5) An initial estimate of the number of days that will be required to complete the audit, and the year in which the audit is planned

3.2 The process of putting the plan together is extensive in terms of the documents and people who are consulted. The following identifies the key drivers:

- (1) The Council Strategy. This is reviewed to ensure that audit resources are used to support the delivery of Council objectives.
- (2) The Council's risk registers, particularly the Strategic Risk Register. This is used to highlight areas where assurance is required for controls that are in place to significantly reduce levels of risk to the Council.
- (3) Results of previous audit, inspection and scrutiny work, by internal teams and external agencies, is considered.
- (4) The views of stakeholders, Heads of Service, Corporate Board, Management Board are considered.
- (5) Plans are made available to the Council's external auditor to ensure that there is no unnecessary duplication of effort.

3.3 The work programme is based on levels of risk. The risk registers are used to inform the level of risk where appropriate and this is supplemented by an audit view of risk. This takes account of:

- (1) Results of risk self assessments (Strategic and Operational Risk Registers);
- (2) Complexity/scale of system and processes / volume and value of transactions;
- (3) Fraud and corruption - eg the risk of fraud or corruption occurring;
- (4) Inherent risk - eg degree of change/instability/confidentiality of information;
- (5) Internal Audit knowledge of the control environment based on previous audit work.

#### **4. Audit approach and opinion**

4.1 The work of Internal Audit forms the basis of the opinion given by the Chief Internal Auditor on the Council's internal control framework. The work of Internal Audit is regulated by the Public Sector Internal Audit Standards. This sets out the standards and methods that should be applied in doing the work. At an operational level Internal Audit have a procedure manual that explains in detail how work is delivered.

In addition an Audit Protocol is published to all Heads of Service setting out how the service operates. A copy of this is at Appendix D

4.2 There are a number key elements to the process that ensure the output from audit is fit for purpose.

- (1) Consultation takes place at various stages of each audit with the service under review (Terms of reference, rough and formal draft and final reports and action plans are all discussed and agreed with the service under review)
- (2) Audits are followed up to ensure that agreed actions are implemented. (Method and approach to follow up work varies depending on the nature of the issues identified in the original audit)
- (3) All audit work is reviewed before being released. (The review process is ongoing during the course of each audit)
- (4) The External Auditor relies on the work of Internal Audit, and will raise any concerns in their annual audit letter, to date no concerns have been raised.

4.3 The work produced by Internal Audit is designed to identify and remedy weaknesses in the internal control framework. Weaknesses that are identified are categorised according to their severity (fundamental, significant, moderate and minor).

4.4 Taken together, the above provides a sound basis for the Chief Internal Auditor to provide an annual opinion of the internal control framework of the Council.

## **5. Service provision and resources**

5.1 Resources have been reduced for the section, in order to support the need to reduce the Council's budget. The Chief Internal Auditor now has the support of 6 FTE's compared to 8 FTE's in previous years. Corporate Board take the view that this is the minimum level of resource to provide adequate assurance to the Council.

## **Appendices**

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Appendix A – Equality Impact Assessment – Stage 1

Appendix B - Internal Audit Charter

Appendix C - Internal Audit Workplan

Appendix D - Internal Audit Protocol

## **Consultees**

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**Local Stakeholders:** N/a

**Officers Consulted:** Corporate Board

**Trade Union:** N/a

## Equality Impact Assessment – Stage One

<b>Name of item being assessed:</b>	
<b>Version and release date of item (if applicable):</b>	
<b>Owner of item being assessed:</b>	
<b>Name of assessor:</b>	
<b>Date of assessment:</b>	

<b>1.</b>	<b>What are the main aims of the item?</b>

<b>2.</b>	<b>Note which groups may be affected by the item, consider how they may be affected and what sources of information have been used to determine this.</b> (Please demonstrate consideration of all strands – age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex; sexual orientation)
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Group Affected	What might be the effect?	Information to support this.

<b>Further comments relating to the item:</b>

<b>3.</b>	<b>Result</b> (please tick by clicking on relevant box)
<input type="checkbox"/>	<b>High Relevance</b> - This needs to undergo a Stage 2 Equality Impact Assessment
<input type="checkbox"/>	<b>Medium Relevance</b> - This needs to undergo a Stage 2 Equality Impact Assessment
<input type="checkbox"/>	<b>Low Relevance</b> - This needs to undergo a Stage 2 Equality Impact Assessment
<input type="checkbox"/>	<b>No Relevance</b> - This <b>does not</b> need to undergo a Stage 2 Equality Impact Assessment

**For items requiring a Stage 2 equality impact assessment, begin the planning of this now, referring to the equality impact assessment guidance and Stage 2 template.**



<b>4. Identify next steps as appropriate:</b>	
Stage Two required	
Owner of Stage Two assessment:	
Timescale for Stage Two assessment:	
Stage Two not required:	

**Name:**

**Date:**