

Report of the: Director of Policy and
Resources

Agenda
Item No:
Meeting: 16 April 2013

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT PLAN 2013/14

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To consider and approve the draft internal audit plan for 2013/14.
- 1.2 New Public Sector Internal Audit Standards were introduced from 1st April. Guidance is due from CIPFA on how these standards should be applied to local authorities.

2. BACKGROUND INFORMATION

- 2.1 The Accounts and Audit (England) Regulations 2011 place responsibility with the council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. The Regulations also require that the council reviews the effectiveness of its internal audit at least once a year and must be considered, as part of the consideration of the system of internal control which informs the Annual Governance Statement.
- 2.2 Professional guidance is set out in the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the 2006 Code), which sets out what is meant by 'proper internal audit practices'. The 2006 Code requires councils to agree terms of reference, an audit strategy and plan for Internal Audit, and to review those items at least annually. However, the 2006 Code is replaced by a new set of Public Sector Internal Audit Standards (PSIAS) from 1st April 2013. CIPFA is preparing an Application Note to accompany PSIAS and provide the details of how to apply the new standards in a local government setting.
- 2.3 This report has been prepared in compliance with the 2006 Code but also within the broad requirements of PSIAS. An assessment will be carried against the requirements set out in the Application Note and any amendments necessary will be reported to the Audit Committee in June.

- 2.4 An important role for the Audit Committee, as set out in the terms of reference, is to assist the council by providing independent assurance on the adequacy of internal control and governance arrangements throughout the council. In undertaking this role the Committee is responsible for:
- Approving (but not directing) Internal Audit's strategy
 - Approving the annual plan of audits
 - Monitoring progress on delivery of the plan and considering the internal control issues that arise from the work undertaken
 - Considering the assurance provided by the annual opinion report.
- 2.5 Internal Audit is a key part of the council's internal assurance and governance system. Internal Audit's terms of reference set out the purpose, authority and responsibility of the service. In the context of the 2006 Code they remain fit for purpose however under PSIAS the Terms of Reference will be incorporated into a larger document called the Audit Charter, which will need to be drafted with reference to the Application Note.
- 2.6 The audit strategy describes how the internal audit service will be delivered and developed in accordance with its terms of reference and how it links to the council's objectives and priorities. The strategy also contains a brief description of the types of audit work to be undertaken, resource implications and reporting and liaison arrangements. The audit strategy has been revised to reflect some of the risks and challenges the council faces during 2013/14 and the impact future resource levels will have in delivering sufficient audit coverage to provide an audit opinion on the adequacy of the council's internal control environment. New external audit arrangements will also impact on the work of internal audit. The reduced external audit costs will be met by targeting high value transactions in the council's accounts and thereby assurance thresholds have been changed.
- The audit strategy also reflects reducing resources as Internal Audit meets its planned 2013/17 budget efficiency savings. This will result in changes in audit coverage such as greater intervals between audit reviews; testing restricted to high risk aspects of council procedures and systems; continually challenging the best use of audit resources through lean processes, appropriate use of analytical review and control risk assessment techniques and reducing failure demand.
- 2.7 The terms of reference and audit strategy will be revised and evaluated against the requirements of the Application Note and any changes will be reported to the Committee in June.
- 2.8 Each year Internal Audit produces a plan of the work to be carried out. All the council's activities are considered and prioritised based on a risk

assessment. Progress in achieving the plan and issues arising from audit work will be reported to this Committee throughout the year.

2.9 A risk-based approach was adopted to compile the plan. Audits are prioritised to target high-risk areas and make the best use of resources available. A number of key documents have been examined, namely:

- Annual assurance statements on the adequacy of internal control submitted for the Annual Governance Statement.
- Strategic Risk Register and position statements submitted by officers with lead responsibility for managing those risks.
- Operational risk registers.
- Fraud risk assessment.
- Council ambitions and financial strategy.
- External audit reports.
- Benchmarking data - both locally and nationally.

2.10 The audit plan is designed to evaluate the controls in place to reduce high impact/high likelihood risks. This includes non-financial risks. Current guidance recommends an operational plan covering one year is prepared and regularly reviewed and updated to reflect new risks and changing circumstances. New Standards will have a significant impact on the 2013/14 audit plan therefore a draft plan for the Audit Committee to consider has been developed and any changes will be reported in June when professional guidance has been evaluated. The plan for 2013/14 is summarised in appendix A and the separate counter fraud plan is identified (appendix B). Regular updates will be provided on progress to provide members with clear assurance on the adequacy of counter fraud arrangements.

2.11 The internal audit plan for 2013/14 comprises of an evaluation of:

- The council's approach to risk management.
- Key controls to reduce the impact of strategic risks.
- Key operational risk controls.
- The council's fundamental financial systems.
- Counter fraud measures.
- Information governance.
- Corporate Governance issues.
- Sources of assurance to support the Annual Governance Statement.

In addition key issues arising from audits completed in 2012/13 are followed up to ensure appropriate action has been taken.

3. OPTIONS FOR CONSIDERATION

3.1 The Committee is asked to consider whether or not the Internal Audit plan will provide sufficient assurance in 2013/14. The Committee may

ask questions and seek clarification as necessary. If it concludes that it does provide sufficient assurance the Committee is invited to approve the Internal Audit plan for 2013/14 and receive an update in June after new professional standards have been considered.

4. ANALYSIS OF OPTIONS

4.1. The Internal Audit Plan for 2013/14 is designed to target high risk areas and provides Internal Audit with an appropriate mandate to deliver a robust audit opinion and provide the Audit Committee with the assurance required. Members should ask sufficient questions to ensure Internal Audit coverage will provide sufficient assurance to fulfil their role as set out in the Committee's terms of reference.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1. There are no additional resources implications however regular reviews of internal control help safeguard the council's assets and help ensure that value for money is achieved in the use of resources.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1. An Integrated Impact Assessment is not required.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1. The council's external auditors support this approach. The plan was discussed with Directors, Assistant Directors and key finance staff and their comments were incorporated wherever possible.

7.2. There are no conflicts of interests to declare.

8. RECOMMENDATIONS

8.1 That the Audit Committee:

- (i) considers whether the draft Internal Audit plan for 2013/14 will provide the Committee with sufficient level of assurance to fulfil its role
- (ii) approves the draft Internal Audit plan for 2013/14
- (iii) receives revised Internal Audit terms of reference, strategy and plan for 2013/14 following evaluation against professional guidance.

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Background Papers used in the preparation of this report:
CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006

Internal Audit Plan 2013/14

Audit Area	Planned Days	Audit Areas
Fundamental Financial Systems	160	Fundamental financial systems as agreed with external audit are: Payroll, Creditors, Debtors, Cash Receipting, Main Accounting Ledger, Council Tax and Housing Benefits, Council Tax/NNDR, Treasury Management, Fixed Asset Register, CareFirst (Adult Social Care payments feeder system)
Corporate Governance	23	Evaluation of council arrangements against best practice standards. Revised governance arrangements
Risk Management	15	Annual review of risk management arrangements, strategic and key operational risk controls
IT Audit	65	Project Management Controls, IT Charging policy, Government Connect, Remote Access, Change control, IT Procurement, Security of Mobile Devices, Internet/Email Controls
Commissioning / Contract Audit	60	Contracts/ Commissioning, Leisure Contract Management, Procurement Framework
Fraud Prevention and Detection	170	Whistleblowers Hotline, National Fraud Initiative (Data Matching), Fraud preventative measures, Search Fees, Normnaby Hall, Waters Edge Gifts and Hospitality, Pecuniary Interests,. Prevention Services – Fresh Start,
Environmental Audits	15	Audit of the annual return & evidence pack
Council-wide Systems	180	Partnership Arrangements, Budgetary Control, Data Quality, Information Governance, Data protection and FOI, Lone Working, Social Media Policy, Income Generation, Impact Assessments, Public Health, Self Service Portal, Payment Card Security, Performance Management,

Audit Area	Planned Days	Audit Areas
People – Adult Services	35	External Residential Care, Assessment & Review, Safeguarding
People – Specialist	20	Policies for the Protection of Children, Youth Offending Team
People – School Improvement	90	School Audits, Education Welfare,
People – Commissioning and Localities	85	Integrated Youth Support, Budgetary Control, Troubled Families Programme, Personal Care Budget, Income Audit follow up, Maintenance of School Buildings
Policy & Resources - Finance	70	Financial Regulations, Housing Benefit subsidy, Welfare Reforms, LT&B Shared Service Governance, Pensions Assurance, Efficiency savings, Bank Accounts Changes
Policy & Resources - Human Resources	55	Professional Personnel system, Training & Development, Disciplinary Procedures, Pay Policy & Allowances
Policy & Resources – Business Support	10	Pannel
Policy & Resources -Legal Services	30	Councillors Allowances, Legal Services, RIPA, VCS Funding
Places – Customer Services	25	Complaints Procedures, Grants, Concessionary Fares
Places – Technical & Environment	75	Safer Neighbourhoods, Civica/APP, Home Improvements and Disabled Adaptations, Countryside Stewardship, Emergency Planning, Homlessness
Places – Planning and Regen	55	Commercial Property, Bees Knees, BDUK project, Regional Growth Grant, Development Control, Area Improvement Initiatives
Places- Community Services	65	Flood Management, Building Cleaning, Schools Catering, Waste Management, Community Transport
Consultancy, Advice	165	Advice and unplanned work as requested
Other	126	Follow up work. Audit plan and performance monitoring and reporting
TOTAL	1594	

Internal Audit Counter Fraud Plan 2013/14

Audit Area	Planned Days	Purpose
Creating and maintaining the anti fraud culture		
Publicity, raising staff awareness, responding to survey results, carrying out training	5	Continued development of counter fraud arrangements, promotional and awareness raising activities, refresh to risk assessments.
Refreshing the strategy and risk assessment	5	Maintain a strategy that is fit for purpose and in line with best practice
Setting up a joint reporting mechanism and joined up working with all sections	2	Ensure co-operation across all departments, and bodies outside the council to be able to accurately assess fraud risk for the council
Anti Money Laundering arrangements	3	eLearning training for all staff on the Counter Fraud Strategy and Anti Money Laundering
Prevention		
Designing out fraud through input to service changes	10	Advice in areas where changes to systems are proposed.
Deterrence		
Fraud Newsletter and council wide communications	5	Publication of a quarterly newsletter and issue of alerts and council wide communications
Detection		
Data Matching - NFI	30	Audit assistance in the annual exercise of data matching.

IDEA Duplicate Creditor Matches	10	Annual Exercise to identify duplicate invoices and recover sums
Anti-fraud, Theft & Corruption - Hotline	30	Audit response to allegations received via the Whistleblowers' Hotline
Investigation		
Proactive - Misuse of council funds and assets	20	Rolling programme of audits – social media, gifts & hospitality,
Proactive Investigation high risk income collection areas	50	Targeted audits based on a risk assessment of income collection – 2013/14 Fresh Start, search fees, Normanby Hall, Waters Edge visitors centre,
Reactive investigations	As required	(funded from support and advice)
Totals	170	