

## INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2012/13

### 1 Introduction

- 1.1 The purpose of this report is to outline the Internal Audit Strategy and Annual Audit Plan for 2012/13.
- 1.2 The main function of the Internal Audit Strategy and the Annual Audit Plan is to ensure that the work of internal audit:
- supports the Council by underpinning the Section 151 Officer's financial responsibilities
  - enables the Annual Governance Statement signed by the Leader and Chief Executive to be a true statement of the Council's position
  - provides comprehensive assurance of all financial, operational and management systems of the Council which has been risk assessed.

### 2 Internal Audit Strategy and Annual Audit Plan

- 2.1 The Internal Audit strategy (appendix 1) outlines the objectives of the internal audit function, how the service will be delivered, reported and monitored. The strategy takes into account the requirements of the Accounts and Audit Regulations 2011 and the Cipfa Code of Practice for Internal Audit.
- 2.2 The strategy also describes how the "audit universe" is compiled and risk scored using a number of weighted measures. The risk scores will be reviewed annually to identify if there have been any significant changes in operation or legislation which would have an impact on the auditable area.
- 2.3 The Internal Annual Audit Plan (appendix 2) is compiled from the risk scored audit universe and local factors as recorded in the strategy and is approved each year by the Council's Section 151 Officer. The audit plan covers the following areas;
1. main financial audits (in line with the joint working protocol with the external auditor (Audit Commission but this will change mid year to Ernest & Young where a new protocol will need to be considered)).
  2. other risk based service or operational areas including contracts and ICT
  3. value for money studies
  4. corporate advice on compliance with Financial Regulations and Standing Orders as to Contracts
  5. support corporate projects and service development to ensure controls are embedded within processes and
  6. contingency time for unplanned work such as S151 Officer requests and investigations (An allocation of non productive time is also provided to ensure training requirements are met for each team member as required).
- 2.4 Internal Audit will continue to work in partnership with other local bodies. This will maintain the audit breadth and experience and support other local bodies. There will be the continued provision of an internal audit service to two large Town Councils and the New Forest National Park Authority, all on a fee earning basis. A separate audit plan is prepared for the NFNPA and

reported to their Audit Committee for approval. Progress against this plan and an annual report is also provided as part of the service.

- 2.5 A further opportunity has been taken this year to provide an Audit Management service to four Dorset District Councils. The management time has been reflected in this years audit plan. To ensure there are sufficient resources to undertake NFDC's annual plan, the Senior Auditor is taking on an enhanced monitoring and performance review, there is also the additional of a temporary Audit Assistant role.
- 2.6 The audit team has also agreed to undertake three quarters of the benefit subsidy testing on behalf of the External Audit, which provides the team with enhanced experience and the opportunity to significantly reduce the external audit fee.
- 2.7 There will however be a small transfer of work, away from the internal audit team to improve independence in processes. This includes the administration of the Corporate Bank & Cash in Transit contracts and completion of Financial appraisals.
- 2.8 At the conclusion of the year the Internal Audit Manager will report on the performance of the team and provide an opinion on the overall assurance level on the control environment. This report will provide evidence for the Annual Governance Statement as required under the Accounts & Audit Regulations 2011. Both reports will be reported to the Audit Committee for consideration and approval.

### **3.0 FINANCIAL IMPLICATIONS:**

- 3.1 There are no financial consequences directly arising from this report. The audit plan has been complied following a risk assessment to help limit the risk of financial loss.

### **4.0 EQUALITY & DIVERSITY AND ENVIRONMENTAL MATTERS:**

- 4.1 There are no equality and diversity or environmental matters directly associated with this report.

### **5.0 CRIME & DISORDER IMPLICATIONS:**

- 5.1 There are no direct crime and disorder implications arising from this report, however these documents do consider the risk of criminal activity.

### **6.0 RECOMMENDATIONS:**

- 5.1 It is recommended that the Audit Committee approves;
  - 1. the Internal Audit Strategy and
  - 2. the Annual Internal Audit Plan 2012/13

For Further Information Contact:

Lucinda Upton  
Internal Audit Manager  
Tel: 02380 285588  
[Lucinda.upton@nfdc.gov.uk](mailto:Lucinda.upton@nfdc.gov.uk)

Glenda Chambers  
Senior Auditor  
Tel: 02380 285588  
[glenda.chambers@nfdc.gov.uk](mailto:glenda.chambers@nfdc.gov.uk)

### Strategy Statement

The overall Strategy of Internal Audit is:

To deliver a risk-based audit plan in a professional, independent and objective manner. To provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to improve it.

The Terms of Reference of Internal Audit are summarised within section 3 of Financial Regulations. These are expanded upon and the measures in place to deliver these are set out below.

### Statutory basis for Internal Audit

The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. Regulation 6 of the Accounts and Audit Regulations 2011 more specifically requires that “a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.

### Definition and Objective

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance 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. (The control environment includes all authority operations, resources, services, and its responsibilities to other bodies).

The authority is required to provide a Governance Assurance Statement to demonstrate the robustness of its arrangements, and Internal Audit will form an important part of providing this enhanced assurance. Internal Audit also has a role in advising managers in relation to issues within its remit, e.g. appropriate controls in new projects/developments so that they are provided on a timely basis.

### Status

Internal Audit is responsible to the Head of Customer and Financial Services for line management purposes, and helps to deliver the statutory financial responsibilities of the Executive Director (Section 151 Officer). However Internal Audit is independent in its planning and operation. The Internal Audit Manager has direct access to the Chief Executive Officer, all levels of management, the Monitoring Officer and elected members (via the Audit Committee). Internal Auditors have the authority to:

- enter any Council premises or land at any reasonable time, subject to any statutory requirements;
- have access to all records and documents concerning any past or prospective financial transaction of the Council;
- require, and receive, any necessary explanations concerning any matter under examination;

- require any employee of the Council to produce any Council property under their control.

### **Delivery of the audit service**

The Internal Audit Manager is responsible for delivering the audit service in accordance with its Terms of Reference. To ensure that this can be achieved, there are appropriate arrangements for:

1. Determining and planning the work to be carried out (i.e. an audit plan is prepared and based on an assessment of the risk)

In order to prepare the audit plans, the Internal Audit Manager considers both the National (i.e. economic climate) and Local issues (corporate plan, service action plans, Medium Term Financial Plan and risk registers). This also informs the Audit Universe to ensure all risk assessed areas are considered which may have an impact on delivery of key objectives and priorities and compliance with legislation and the Council's Constitution.

A risk assessment is undertaken by scoring a number of factors, which are weighted to give an overall score which dictates how often the area should be reviewed. (This assessment and model used is supported by the Institute of Internal Auditors. It considers the size of the area, the control environment and Inspection regimes).

2. providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills (both in general audit and technical areas) and support facilities (such as IT facilities, equipment and management and administration processes).

The Internal Audit Manager is a qualified Chartered Accountant, with a team who all hold or are working towards professional qualifications. There are also specialisms in areas such as financial management, Business Process Reengineering, Fraud and contract audit.

### **Producing the audit plan**

The Internal Audit service will be delivered on the basis of a Strategic Audit Plan covering a 4-year period and a detailed Plan for each financial year. The plan sets out the number of person-days required for Internal Audit to adequately review the areas involved, and indicates the risk score for each planned audit assignment. The over-riding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a risk assessment process.

Where resources available are not considered by the Internal Audit Manager to be adequate for such an opinion to be provided, this will be reported to the Section 151 Officer and the Audit Committee.

### **The Plan balances the following requirements (in addition to the risk assessed audit universe):**

- The need to ensure the Audit Plan is completed to a good practice level (target is 100%);
- The need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control (on which External Audit will place reliance). It is important to maintain the Joint Working Protocol with the External Auditor to ensure reliance can be placed on each others work and to enable greater efficiencies through avoidance of duplicated work. The protocol provides for a three year audit plan cycle, where areas can be reviewed by walkthrough instead of a full compliance audit.

- The need to appropriately review other strategic and operational arrangements and developments; These areas of work may include time where Auditors facilitate service reviews and pro-actively support the Council with major developments, new projects or initiatives. Main stream work covers existing services, coverage is based on risk assessment with the high risk audits undertaken first and covers specialists audits such as contracts and ICT.
- The need to have uncommitted time available to deal with unplanned issues which may need to be investigated e.g. allegations or Section 151 requests.
- Ongoing consultancy work, which primarily provides advice on compliance with the Councils Financial Regulations and Standing Orders as to Contracts.

Progress against the audit plan, and the content of the plan itself, will be kept under review by the Internal Audit Manager and routinely reported to the Audit Committee. Given the length of the Strategic Audit Plan this ongoing review will be particularly important to ensure it continues to tackle topical issues. Where there is a need for material changes to the plan a revised plan will be re-submitted to the Audit Committee. The Audit Committee will also be advised of performance against the audit plan. Internal Audit will comply with the Auditing Practices Board's Guidance for Internal Auditors, as interpreted by CIPFA's Code of Practice for Internal Audit in Local Government in the UK, and staff are expected to comply with any other appropriate professional standards.

The Internal Audit Manager will ensure that there is an up to date Audit Manual is in place setting out expected standards for the service, and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments. Relevant training will be provided to ensure auditors have the level of skills necessary to undertake their roles.

Internal Audit will aim to co-operate effectively with the external auditor and ensure that appropriate reliance can be placed on Internal Audit's activities. The reporting approach for Internal Audit is set out in the Audit Manual and Internal Audit shall comply with this protocol as the most efficient method of delivering the outcomes of its work.

In the delivery of each assignment, Internal Audit will prepare a draft report which will be discussed with management to discuss factual accuracies and the draft recommendations. These meetings should be held within two weeks of completion of the audit testing. The Manager is expected to respond to the report following the meeting within a further one week. This final report will be issued to the relevant Service Manager(s), relevant Heads of Service(s) and all Offices who are responsible for an action. Where limited or no assurance can be provided the report will also be copied to the Section 151 Officer. All reports will be shared with the External Auditor as required.

The action plan records;

- Risks which are not adequately controlled at the time of the audit
- Audit recommendation which has scored as per table 2, which brings the risk to an acceptable level
- Managers comments
- Responsible officer taking the action
- Agreed deadlines

Table 1 provides the levels of opinion that can be provided with a short description;

Table 1

<b>Opinion</b>	<b>Description</b>
Substantial Assurance	Strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect the key controls of the objectives of the system.
Reasonable Assurance	A sound system of internal control but minor weaknesses were found in the system design or compliance. Results would not have a material risk to the achievement of the system objectives.
Limited Assurance	Some weakness in the system of control designed or the level of compliance which result in risk to the achievement of system objectives.
No Assurance	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objective.

Table 2 provides a description of the three priority levels given as recommendations, together with a expected timeframe for implementation;

<b>Priority</b>	<b>Description</b>
High	Fundamental weakness which presents immediate risk. Requires urgent attention. Actions are monitored.
Medium	Significant control weakness where the risk is nor imminent or only a moderate nature. Needs addressing but not urgent. Actions are monitored.
Low	The weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Action is only recommended for consideration. Actions not actively tracked unless manager requests it. Will be followed up on next audit.

Internal Audit tracks progress made on all recommendations. It is the responsibility of the manager to implement and provide relevant evidence of the agreed actions. Any high priority recommendations which are not implemented within agreed timescales will be reported to the Audit Committee. Formal follow up reviews will be considered by the Internal Audit Manager on a case by case basis.

### **Working with other bodies**

This strategy is written for New Forest District Council, however the internal audit team also acts as the internal auditor for New Forest National Park Authority and Town Councils. From May 2012, the Internal Audit Manager is also providing a management service to four District Councils in Dorset.

The Internal Audit Manager is available to all Councils whether working on or off site. The team has been temporarily restructured to ensure there are sufficient resources to undertake the work. The Senior Auditor role has been allocated a proportion of time for monitoring, reviewing and performance managing audit work (no self review). Opportunities will be taken to ensure this arrangement provides improved performance measures, systems and working practices based on compliance with the Cipfa Code of Practice.

**Annual Internal Audit Plan 2012/13**

		<b>% of total time</b>
<b>Total Number of days</b>	<b>1248</b>	
Non Productive Time (Training, Corporate Meetings and Team Meetings and Office Routine)	131	10
Contingencies	55	4
Management of NFDC and Partners	100	8
<b>Total Productive time</b>	<b>962</b>	<b>78</b>
External Audit Work (Town Councils, NFNPA and Dorset Partners)	165	13
<b>Total NFDC Productive time to allocate</b>	<b>797</b>	<b>65</b>

<b>Audit Class and Titles</b>	<b>Allocated Time (Days)</b>	<b>Total Number of Days per audit class</b>	<b>% of Audit Class by Total Productive Time Allocated</b>
<b>Main Financial Audits</b>		<b>225</b>	<b>28</b>
Main Accounting inc Bank Reconciliations	25		
Treasury Management	5		
Asset Management	10		
Income Manager	10		
Payroll	20		
Accounts Payable	10		
Accounts Receivable	15		
Rent Accounting	15		
Council Tax	20		
Housing Benefits	20		
National Non Domestic Rates	15		
Benefit Subsidy Claim Testing	60		
<b>Systems Audits Inc Follow Ups</b>	<b>243</b>	<b>243</b>	<b>30</b>
Write Offs/Ons	5		
Personnel	10		
Development Control	15		
Refuse	12		
Vehicle and Plant Maintenance	10		
Building Maintenance	20		
Health and Safety	5		
Community Safety	5		
Governance Review	8		
Partnerships	10		
Business Continuity	5		
Risk Management	10		
Insurance	12		
Procurement	15		
Contract Audits	30		

H&L Centres	15		
VAT	10		
Engineering Works	9		
Licensing	5		
Building Control	12		
Leader (grants)	3		
Safeguarding	5		
Delegations	5		
Payment Card Industry Verifications	5		
Experian Verification	2		
<b>ICT</b>		<b>53</b>	<b>7</b>
IT – Audit Trails	8		
New IT systems & Agresso Development	20		
ICT Audit	25		
<b>Advisory Core</b>		<b>47</b>	<b>6</b>
Authorised Signatories	10		
Financial Regulations	15		
Standing Orders and Wider Contract Project	22		
<b>Gen L and D</b>		<b>7</b>	<b>1</b>
Audit Commission	7		
<b>Corporate Projects, Value for Money Studies &amp; Consultancy</b>		<b>80</b>	<b>10</b>
Corporate Projects including Ringwood Gateway & Housing	38		
Continuous Monitoring	27		
Bank Implementation	15		
<b>Corporate Fraud and Irregularities</b>		<b>67</b>	<b>8</b>
Investigations	25		
Banking Irregularities	12		
Incident Reporting Process Improvement	5		
Preparation of a new training module	5		
Tenancy and SPD Fraud	15		
Telephone and Mobile Monitoring	5		
<b>Contract - Corporate Support</b>		<b>75</b>	<b>10</b>
Waivers (advice and reporting)	5		
Contract Advice	70		
<b>TOTAL</b>		<b>797</b>	<b>100</b>