

**INTERNAL AUDIT PLAN
(Report by the Audit & Risk Manager)**

1. PURPOSE

- 1.1 To allow the Panel to comment on the internal audit plan for the 12 month period commencing August 2011 before it is finalised. The plan is attached.

2. STRATEGIC AND ANNUAL PLANNING

- 2.1 The Audit and Risk Manager is required, by the 2006 CIPFA Code of Practice for Internal Audit, to provide an Opinion on the overall adequacy and effectiveness of the Council's control environment each year. This opinion is a key input to the review of the assurance framework, the preparation of the annual assurance statement and, in turn, the Corporate Governance Statement considered by the Panel at its September meeting.
- 2.2 The annual audit plan runs from August to July each year to maximise the currency of the information which provides the majority of the information on which the Opinion is based.
- 2.3 The Internal Audit Service maintains a four year strategic audit plan, listing all the risk and system areas that are considered likely to affect the Council's internal control environment. The strategic plan shows the relative importance of each risk, from the risk register, and system area and the frequency with which it should be audited. A number of audit areas have then been combined so that audits can address common risk themes across services, rather than be conducted on a service by service basis.
- 2.4 To prepare the annual audit plan, the strategic plan is first reviewed and audits placed in priority order. The highest priority schemes which can be delivered within the resources available are then included in the annual audit plan which, following the comments of this Panel, will be determined by the Managing Director (Resources) as the Council's chief financial officer.

3 RESOURCING THE AUDIT PLAN

Internal Audit Staff

- 3.1 The Internal Audit structure was reduced to the Audit and Risk Manager and 1½ full time equivalent (FTE) auditors last year. The main elements of their work are the delivery of the annual audit plan,

provision of a wide range of advice and assistance to staff across the Council and undertaking certain fraud and whistleblowing investigations.

- 3.2 There have been two opportunities to increase the time available for audits or the effectiveness of those audits. Firstly, it has been possible to increase resource due to the good progress that has been made in introducing risk management across the Council and the steady fall in insurance claims over the last few years. Secondly, the concept of “lean” auditing has been developed whereby there is increased emphasis on the most significant risks in an audit area and use of audit techniques that will ensure adequate coverage for the least resource input.

Specialist Services

- 3.3 No specialist computer audit reviews are included in the audit plan as these are undertaken by an external contractor. The current contract for this service ends on the 30 June. Discussions are currently underway with neighbouring authorities on a joint tendering exercise. The Panel will be updated on the current position at the meeting.
- 3.4 As part of the reduction in audit resources agreed last year it was recognised that some 50 days per year may need to be bought in to meet the resource requirements of the strategic audit plan over its four year cycle. The computer audit contract will also request prices for non-computer audits that could be utilised as and when necessary.

Key Financial System Reviews

- 3.5 There is an assumption made by the majority of Council's that a significant amount of work is required to be completed each year on the key financial systems, to satisfy the requirements of the external auditors. Reviews in these areas have been undertaken for many years and there are few significant control weaknesses identified. This is borne out by the assurance opinions that have been given. See Annex A.
- 3.6 In order to ensure that audit resources are used to the best advantage, the audit plan is based on a new approach to the review of the key financial systems known as continuous auditing.
- 3.7 Continuous auditing requires the key controls within each system to be identified and for all transactions affected by those controls to be captured, analysed and exceptions that fall outside the expected controls to be flagged for further review and investigation. This approach also has the added benefit of reducing compliance testing and introducing an additional proactive anti-fraud control.
- 3.8 This is an innovative approach and consequently there is a need to consider any risks associated with the change. The main risk relates

to any difficulties in preparing reports to identify transactions that may be circumventing controls from each individual system but the audit section has specialist software available that it is anticipated will overcome any problems that arise. It is estimated that this approach may generate a saving of up to 40 audit days per year.

- 3.9 This new approach has been discussed with the external auditors. They have commented that it may require a significant amount of 'up front' time investment. This has been acknowledged and is allowed for within the audit plan.

4. CONCLUSION

- 4.1 There was a 1.5 FTE reduction in audit staff last year which meant that it would probably be necessary to buy-in up to 50 audit days per year on top of specialist computer audit.
- 4.2 The proposed audit plan adequately covers an appropriate proportion of the 4 year strategic plan.
- 4.3 Increasing the time available for audits and introducing "lean" and continuous auditing of financial systems may well mean that it will not be necessary to purchase the majority of the 50 audit days this year. This will be regularly monitored.

5. RECOMMENDATION

- 5.1 It is recommended that the Panel:
- a) identify any comments they wish to make to the Director of Commerce and Technology before he finalises the audit plan; and
 - b) note the introduction of continuous auditing.

ACCESS TO INFORMATION ACT 1985

Strategic Audit Plan
The Council's Risk Register

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Internal Audit Service

**Internal Audit
&
Assurance Plan
2011 - 2012**

2011 – 2012 Internal Audit & Assurance Plan

The Internal Audit & Assurance Plan for the period August 2011 to July 2012 has been prepared in accordance with best practice as contained in the 2006 CIPFA Code of Practice for Internal Audit.

The Code requires that Internal Audit provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment and that the opinion should inform the Annual Statement of Assurance on Corporate Governance.

The plan has been developed to take account of this requirement and provides the opportunity for reviews of corporate governance, risk management and operational controls to be undertaken as well as the more traditional financial areas.

All the risks present in the risk register as at 31 May have been included within the four year strategic audit plan, although not all, when considering the service issues identified or alternative assurance available, are required to be audited. Reviews that have clear links to risks within the risk register (identified by an extract of the register) will consider the effectiveness of the controls that are in place to manage the risks identified. They will also consider the manager's assurance opinion entered into the register.

A summary of the audits planned for the period are listed on the following pages, together with the name of the Liaison Officer responsible for dealing with any audit report or other issue that arises from an audit review.

The annual assurance opinion that I provide will be based upon the findings of the reviews carried out.

In addition to undertaking the audits detailed in the plan, the review of fraud related risk areas will continue. Internal audit are also likely to be involved in providing advice and assistance to managers, advising on new project developments and dealing with any whistleblowing allegations received.

Whilst it is envisaged that all the audits contained in the plan will be undertaken, the identification of any new risks or significant changes in residual risk scores, may require audits to be substituted so as to ensure that reviews are undertaken of areas identified as being of greatest risk to the achievement of Council objectives. Chief Officers and Heads of Service will be informed of any changes before they are introduced.

David Harwood
Audit & Risk Manager
28 June 2011

Corporate Systems

Corporate governance arrangements: T Parker

8

A review of the robustness and completeness of Corporate Governance procedures against the CIPFA/SOLACE framework and the assurance framework that has been introduced. The audit will be completed so as to inform the September 2012 governance statement.

Business continuity: C Meadowcroft

12

Risk: 6	<i>Inherent</i>	Very High	<i>Residual</i>	High
Risk: 145	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 162	<i>Inherent</i>	Medium	<i>Residual</i>	Low
Risk: 165	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 172	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 176	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 177	<i>Inherent</i>	Very High	<i>Residual</i>	High
Risk: 183	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 184	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 187	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 200	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 203	<i>Inherent</i>	Medium	<i>Residual</i>	Low

- 6 Service recovery and/or business continuity plans are inadequate resulting, over both the short and medium term, in the Council's inability to provide an appropriate service.
- 145 Loss of access to or loss of physical structure of all or part of Pathfinder House following a significant event.
- 162 A pandemic flu outbreak occurs affecting Huntingdonshire leading to significant staff absence, resulting in the inability of the Council to provide full services and/or meet targets.
- 165 Risk management software becomes unavailable because it is no longer supported leading to the loss of the risk register and impacts on the risk management process.
- 172 Loss of IT systems result in inability to deal with customer enquiries and/or accept payments.
- 176 Loss of telephony at the Call Centre results in customer dissatisfaction and service targets not being met.
- 177 Power loss to main server rooms causes significant failure or loss of IT systems including telephony, data systems, software and hardware.
- 183 Financial interfaces become unstable and business systems are not updated resulting in decisions based on poor or absent data.
- 184 Disruption in services provided by the Document Centre result in Annual Bills and other statutory documents not being issued correctly or on time.
- 187 An interruption in software systems prevents key Home Improvement Agency functions from being carried out.
- 200 Inability to access eFin results in disruption to services leading to invoices not being paid correctly or on time and delayed income collection.
- 203 Document Centre services affected by a major IT failure or breakdown resulting in printing/scanning requests not completed and possible additional costs.

The risk register recognises business continuity and service recovery to be a 'very high' risk. This audit will review the business continuity management procedures in place across a sample of Services and the new arrangements in place to manage this area at senior manager level. .

Balancing the budget: S Couper

15

To achieve a balanced budget the Council is required to identify and make savings of approximately £2m by 2015/16. This review will examine the savings identified to date and consider if the calculation of the savings is robust.

Maintaining high standards of Member conduct: C Meadowcroft

5

To review the progress that has been made against the IDeA Charter for Elected Member Development. A review of registered interests will also be undertaken.

Financial Systems

Identification and continuous auditing of key controls

110

Identification and testing of the effectiveness of key controls within a number of the Council's key financial systems. This will include quarterly testing of compliance with agreed processes to provide assurance on the controls operation.

Systems /processes to review include:

Human resources and pay systems

Debtors

Council tax

Creditors; and

Main accounting systems.

Loans and investments: S Couper

5

Risk: 47 *Inherent* **Very High** *Residual* **Very High**

47 Council's funds not invested appropriately leading to losses or poor returns resulting in unexpected service cuts.

This audit will review the management of loans and investments against the Treasury Management Strategy. The implementation of previously agreed audit actions will also be reviewed. This area was last reviewed in June 2009 and received an adequate assurance opinion.

Housing benefits: J Barber

12

Risk: 27 *Inherent* **High** *Residual* **Medium**
 Risk: 143 *Inherent* **Very High** *Residual* **Low**
 Risk: 144 *Inherent* **High** *Residual* **Medium**

27 An interruption in the benefit system service or inadequate numbers of trained/skilled staff may lead to benefits not being paid correctly or on time.

143 Economic downturn leads to increased demand for Housing Benefit and Customer Services that cannot be met from existing resources resulting in a fall in service levels and damage to the Council's reputation.

144 Housing Benefit fraud goes undetected leading to loss of funds from public purse.

To review on an annual basis the administration of the Housing Benefit systems. This year's audit will consider administration and assessment, training and performance review.

Total Allocation 127

Commerce & Technology

One Leisure: S Bell

18

To continually review across the five Centres specific areas of their operation.

The risk register contains 13 risks relating to leisure and these will be reviewed with the Head of Service prior to the scope of the audit being agreed.

Bank reconciliation: S Couper

6

This area was last reviewed in January 2010 and received an adequate opinion.

The review will examine the procedures in place to ensure that all bank accounts are regularly reviewed and reconciled to the appropriate feeder systems.

Total Allocation 24

Central Services

Legal debt collection & recovery: C Meadowcroft 8

As part of the Sundry Debtors cyclical review, a risk based approach is to be completed on the legal case management system and all aspects of the debt recovery process. This area was last reviewed in June 2008 and received an adequate assurance opinion.

Land charges: C Meadowcroft 6

Risk: 69	<i>Inherent</i>	High	<i>Residual</i>	Low
Risk: 153	<i>Inherent</i>	Very High	<i>Residual</i>	High
Risk: 228	<i>Inherent</i>	Medium	<i>Residual</i>	Medium

69 Arrangements for the management of land charges are not robust leading to the provision of inaccurate land charges information

153 Competition and economic downturn affecting volume of land charge searches, leading to reduction in Council income

228 Personal search companies claim refund of fees following admission by government that charging for personal searches was incompatible with the Environmental Information Regulations resulting in detrimental effect to Council budget

A review of the systems and procedures used to administer and collect Land Charge income. This area was last reviewed in 2001. Consultancy advice was provided in March 2008 as part of a wider review of service delivery.

Staff recruitment: C Garbett 10

Risk: 3	<i>Inherent</i>	Very High	<i>Residual</i>	Medium
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3 The Council has difficulties in recruiting or retaining skilled staff due to its reputation or failure to provide appropriate support to staff.

A review of the recruitment procedures that both HR and individual Directorates follow (to include internal vacancy management) to ensure that best employment practices are being complied with (advertising, application evaluation, references, contracts of employment etc.) This area was last reviewed in June 2007 and received a limited assurance opinion.

Total Allocation 24

ICT Audit

Delivering the Web Strategy: C Hall 6

Risk: 150	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 151	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 181	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 182	<i>Inherent</i>	Low	<i>Residual</i>	Low

150 Insufficient resources to deliver the objectives of the web strategy

151 The My Council application may be over engineered.

181 The SharePoint Environment or HDC Website becomes unstable resulting in disruption to online services.

182 Web authors unable to access the authoring environment to update Council website resulting in inaccurate information and increased calls to the Call Centre

The Council's website and associated systems play a key part in service delivery. This review will consider how the web strategy has been delivered and examine its management and operational responsibilities, including channel migration, content development and control. This area was last reviewed in May 2004 and received a limited assurance opinion.

IT staff - continuity planning: C Hall

5

Risk: 25	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 222	<i>Inherent</i>	High	<i>Residual</i>	Medium

- 25 The Council becomes over reliant upon a limited number of key Information Technology & Systems specialists leading to the loss of information or IT related services when these staff are unavailable (e.g. during a flu pandemic).
- 222 Increased risk that key staff are attracted by improving opportunities in the private sector as the public sector becomes more uncertain and under increasing financial constraints

This review will examine the extent to which the Council has become reliant upon a limited number of key IT specialists, and the controls in place to ensure that the IT services are able to be maintained if staff are absent over either the short and long term.

GIS & LLPG: C Hall

10

The Geographic Information System and Local Land and Property Gazetteer systems have not been audited previously. The review will examine the procedures and practices in place to ensure that the latest data is held within these systems and that it is being used effectively across the Council.

Technical computer audit reviews

Specialist computer auditors have not yet been appointed. Audits in this area will be discussed with the Head of Information Management.

Total Allocation 21

Environmental and Community Services

Repair and maintenance of Council property & equipment: P Jose

8

Risk: 186	<i>Inherent</i>	Very High	<i>Residual</i>	Medium
Risk: 221	<i>Inherent</i>	High	<i>Residual</i>	Medium
Risk: 229	<i>Inherent</i>	Very High	<i>Residual</i>	Medium

- 186 Failure to maintain Council's assets , results in assets not fit for purpose and/or possible accidental injury to users/occupiers. Failure to maintain Council's assets , results in assets not fit for purpose and/or possible accidental injury to users/occupiers.
- 221 Failure to maintain building could result in disrepair and consequent injury/death to staff, customer or contractor and adverse effects.
- 229 Failure to provide protect and maintain the Council's property portfolio (Corporate buildings specifically Pathfinder House, Castle Hill House, Eastfield House) resulting in an unsuitable working environment and / or possible accident or injury to staff/ visitors.

The audit will examine the procedures in place for managing the routine servicing of plant and equipment across all service areas (excluding specialist equipment in the Operations Division workshop) so ensuring that best value is obtained when commissioning work. This area was last reviewed in 2004 and received a limited assurance opinion.

Parks & Open Spaces: E Kendall

8

This audit will examine the management of parks and open spaces, including Hinchingsbrooke Country Park and Paxton Pits. The audit will exam cash receipting, purchasing and stocks and the servicing of playground and sports equipment. This area was last reviewed in 2004 and received a limited assurance opinion.

Markets: E Kendall 6

This audit will examine the management of street markets, including trading agreements and income management. This area was last reviewed in 2006 and received a limited assurance opinion.

Total Allocation 22

Fraud related review

Internet monitoring: C Garbett / C Hall 10

This review will examine employees' use of the internet and the controls in place to identify potential misuse.

Mobile and office telephone use: C Hall 10

A review of mobile and office telephone use to ensure that agreed procedures are being followed.

National fraud initiative: S Couper 5

The continuing review and investigation of transactions identified from the 2010 NFI data submissions.

Total Allocation 25

Contracts

Selection of contractors and awarding contracts: S Couper 8

To ensure that the issues identified in the September 2009 Corporate Governance Statement with regard to compliance with the Code of Procurement have been properly addressed. This review that will examine the procedures followed for the selection of contractors and the awarding of contracts.

Service & Supply contracts 5

To undertake an in-depth review of a service or supply contract that has been entered into during the year. The contract selected for review will be determined during the year.

13

**Key Financial Systems
Assurance opinions**

	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
Council Tax	✓✓	✓✓	✓✓	---	✓	✓
NNDR	✓✓	✓✓	✓✓	✓✓	✓	✗
Housing Benefits	✓	✓✓	✓✓	✓✓	✓✓	✓✓
Main Financial System	---	✓✓	---	✓✓	---	---
Creditors	---	✓	✓	✗	✓✓	✓
Debtors	---	✓	---	---	✓	---
HR/Payroll	✗✗ #	✓	✓	✓✓	---	✓

The significant risks identified did not relate to the payroll aspects of the audit.

Substantial	✓✓
Adequate	✓
Limited	✗
Little	✗✗