

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Internal Audit Service: Internal Annual Plan
Meeting/Date:	Corporate Governance Panel – 25 March 2015
Executive Portfolio:	Resources: Councillor J A Gray
Report by:	Internal Audit & Risk Manager
Ward(s) affected:	All Wards

Executive Summary

As required by the Public Sector Internal Audit Standards, the Internal Audit & Risk Manager (IARM) has to prepare an annual audit plan for Panel review and approval. The plan has to provide adequate coverage and scope across the Council's risk management, control and governance processes so that the IARM can prepare their annual opinion on the overall adequacy and effectiveness of these arrangements.

The plan for the period April 2015 to March 2016 is attached.

Internal audit resources are currently insufficient to deliver the annual audit plan that is being presented. This is due to the Internal Audit Service carrying one vacant post since October 2014. Efforts have been made to recruit to this post via the normal recruitment process and the use of agency staff but have been unsuccessful.

The internal audit plan for 2015/16 as presented is based on delivering 352 days. Current resources only allow for 250 days to be delivered. A shortfall of 102 days.

It is anticipated that the vacant post will be filled during the year. Taking account of the recruitment problems faced, for planning purposes it has been estimated that the post will only be filled for half of the year and so deliver 102 days this year rather than the 204 days that would be available in a full year. This is a cautious approach.

For the first time the audit plan does not indicate the number of days that are to be spent on each area. This change allows the Panel to focus upon the assurance that it is being provided by internal audit work.

Taking into account the shortfall of audit days, it is still anticipated that delivery of the audit plan as presented is sufficient to allow the IARM to prepare an annual opinion on the Council's control environment.

Changes that occur to the audit plan will be discussed with the Head of Resources and the Chairman of the Panel. Significant changes will be reported to the Panel.

Recommendation:

It is recommended that the Panel approve the Internal Audit Plan for 2015/16.

1. What is this report about/purpose?

- 1.1 This report details the internal audit planning process for the year commencing April 2015.

2. Why is this report necessary/background

- 2.1 The Accounts and Audit Regulations 2015 (AAR2015), which become effective from 1 April 2015, require that the Council ‘...must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance’.
- 2.2 This report outlines the key features of the internal audit planning process for the period commencing April 2015.
- 2.3 The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit Manager to:
- prepare at least annually, a risk-based plan to determine internal audit priorities; and
 - provide adequate coverage across the Council’s systems so as to allow them to provide a written opinion on the overall adequacy and effectiveness of the Council’s control environment.

3. Options considered/analysis

- 3.1 The IARM 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 (as identified by the risk register) and system area. To allow for more effective planning, a number of audit areas have been combined so that audits can address common risk themes across services, rather than be conducted on a service by service basis
- 3.2 Discussions have been held with all Senior Managers to ensure that the strategic plan is reflective of all issues across the Council and to allow new areas to be identified. Panel Members have also been given the opportunity to contribute to the planning process.

The strategic audit plan (excluding specialist computer audit reviews) lists 161 areas.

The following areas were added to the strategic plan this year:

- Project Management : Introduction of Universal Credit,
- Tree management,
- Effectiveness of the Governance Boards, and
- Corporate fraud team performance.

Three areas were deleted from the strategic plan:

- Home improvement agency (assurance is now provided by Cambridge City Council),
 - Poisonous trees & plants, and
 - Service developed ICT systems.
- 3.3 To prepare the annual audit plan, the strategic plan is reviewed and audits placed in priority order based on risk, materiality and previous audit review findings. An estimate of the days required to undertake each review is then made based upon its proposed scope. The highest priority schemes which can be delivered within the resources available are then included in the plan. The Corporate Management Team (CMT) are then consulted prior to the plans submission to the Panel.
- 3.4 Due to the rapid change that is occurring within the public sector and the need to align the audit plan to significant risks, the achievement of the Corporate Plan objectives and the development of assurance maps, there is an ongoing debate within the internal audit profession about the continued relevance of maintaining an audit universe and a long term strategic audit plan.
- 3.5 The Internal Audit & Risk Manager (IARM) having considered the options available has decided that for 2015/16 the status quo will remain. However it is planned to fully review the audit planning process during the year, to ensure that it fully meets the needs of the Council. Any changes to the audit planning process will be discussed with the Panel during the year. It is anticipated that the audit planning process will form part of the formal training plan to be delivered to the Panel in the new municipal year.

Internal Audit Staffing

- 3.6 The Panel are aware that with effect from 20 October 2014, an auditor (0.6fte) was seconded to the post of Accountancy Manager. It is likely that this secondment will be for a twelve month period. CMT agreed to the recruitment of a temporary auditor to back-fill the auditor post. The opportunity was also taken, as part of the zero based budget review to review the staffing of the service. This led to the auditor post becoming full time with the cost of the additional hours being found from reducing the 'hired staff' budget. The Internal Audit establishment consists of 2.8fte.
- 3.7 Despite recruitment advertising and seeking an interim auditor via an agency, at the time of writing this report it has not proved possible to recruit to the auditor position. This has not only affected the delivery of the 2104/15 audit plan but also affects the delivery of the 2015/16 plan. A cautious approach to the calculation of the available audit days for 2015/16 has therefore been taken.
- 3.8 The 'hired staff' budget allows for additional audit days to be purchased to supplement the in-house team or for the IARM to acquire specific expertise to supplement the in-house team.

- 3.9 The service budget also allows for technical computer audit provision. This service has been provided since 2006 by an external contractor. The contract with our current provider ended in January 2015. It is important that the Council continues to undertake technical computer audit reviews as the IT network and infrastructure underpins virtually all services that are delivered. A new contract is to be let. It is anticipated that due to the value of the contract it will be required to be let in compliance with EU procurement rules. The tendering process has not yet commenced due the on-going discussions with Cambridge City Council and South Cambridgeshire District Council regarding the IT shared service and the uncertainty regarding the assurance requirements of the partner authorities. It is envisaged that a contract will be in place by September 2015. Panel will be kept informed of developments.
- 3.10 1,906 days (excluding technical computer audit) will be available to deliver the necessary assurances and provision of help and advice across the areas listed in the four year strategic plan commencing April 2015.

4 Year Strategic Plan		Days	Internal Audit	'Hired staff'
Internal Audit Service resources		2,916		
Less	Leave, sick, elections etc	366		
	Staff development & training	67		
	Management	272		
	Risk Management & Insurance	210		
	Support CGP	40		
	Contingency	55		
Available audit resources		1,906		
Deployed as follows:				
	2015/16	352	352	
	2016/17	518	468	50
	2017/18	518	468	50
	2018/19	518	468	50
Total resources required		1,906	1,756	150

- 3.11 The total estimated days required to deliver the 4 year strategic plan is 1,985. This is 79 days higher than the estimate of the total resources required as shown in the table above. If an auditor had been recruited as envisaged, then there would be sufficient resources available to deliver the plan. Indeed there may be the possibility to further reduce the 'hired staff' audit days required across the strategic plan period.

Internal Audit Plan

- 3.12 The audit plan needs to be dynamic to reflect changing circumstances (risks, operations, programs, systems and controls)

and it is anticipated that there will remain the need to advance, defer, add or remove audits throughout the year.

- 3.13 The internal audit plan for 2015/16 is attached. It lists all the areas that, without any change in circumstances, require review during the year. Panel are recommended to approve this plan, but allow the IARM to amend it as he considers necessary. The IARM will consult with both the Head of Resources and Chairman of the Panel on any amendments that are planned. Significant changes to the plan will be reported to the Panel.
- 3.14 The internal audit plan does not contain any reviews that could be classified as a 'consultancy' review within the terms of the Internal Audit Charter. If any 'consultancy' work is undertaken then the Head of Resources and Chairman of the Panel will be informed.

Other Sources of Assurance

- 3.15 The PSIAS require the audit plan planning process to take into account what other sources of assurance will be available during the year.

Managers have been requested to provide details of any planned reviews from which assurance could be obtained so as to avoid/minimise duplication of effort. With the exception of the statutory external audit of the accounts no external assurances have been identified for 2015/16.

4. Comments of Overview & Scrutiny Panel

- 4.1 Not applicable

5. Key Impacts/Risks

- 5.1 The risk register contains two risks relating to internal audit.

The agreed internal audit plan and agreed audit actions are not delivered leading to a shortfall in assurance on the internal control environment and criticism by the external auditors.

The service is not compliant with the Public Sector Internal Audit Standards leading to the inclusion of significant non-compliance issues in the Annual Governance Statement

The controls in place to manage these risks has reduced both the residual risk scores to 'low'.

- 5.2 Having insufficient or inexperienced auditors to deliver the audit plan, both in year and across the strategic plan period is a key risk. Budget resources are sufficient to allow the strategic plan to be met. Staff resources are considered during the quarterly review of the audit plan. If the IARM believes that staff resources are insufficient, then the matter will be reported to the Panel.

- 5.3 All members of the internal audit service are qualified internal auditors. Their training needs are identified and reviewed at monthly 1-2-1 meetings with the IARM. The training budget is considered sufficient to allow the identified training needs to be met and so deliver the agreed plan. In addition, external specialists can be brought in when required to supplement the in-house team.
- 5.4 An external review of the internal audit service was carried out in January 2014 and reported to the Panel in May 2014. There were no issues identified that showed that the internal audit service is not in compliance with the PSIAS. The Panel also receive an annual self-assessment from the IARM and updates on progress against any actions that have been identified.

6. What actions will be taken/timetable for implementation

- 6.1 The audit plan will be delivered from April 2015. Retendering the technical computer audit contract will commence early in the new financial year so as to be in place by September 2015. The recruitment process for a temporary internal auditor continues.

7. Link to the Corporate Plan

- 7.1 The Internal Audit Service through the audit plan contributes to all four of the strategic themes and outcomes. Specifically it supports CMT and Heads of Service by undertaking reviews that provide assurance that:
- laws and regulations are being met,
 - business and financial processes and systems are managed effectively; and
 - assets are safeguarded.

It also improves the performance of the Council by assessing current risks, considering emerging risks, identifying efficiency gains and process improvements.

8. Consultation

- 8.1 The IARM has consulted on audit plan coverage with all members of the CMT and each Head of Service. In addition, all members of the Panel have been given the opportunity to raise any issues that they feel need to be included in the strategic audit plan.

9. Legal implications

- 9.1 The AAR2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

The PSIAS require that a risk based audit plan is prepared annually. The audit plan has been prepared on a risk basis and allows the AAR2015 to be met.

10. Financial implications

- 10.1 The service budget is sufficient to deliver both the annual audit plan and the strategic plan. Without compromising the level of service currently provided, the opportunity will be taken during 2015/16 to review the hired staff budget to see if any savings can be taken

11. Other implications

- 11.1 Not applicable.

12. Reasons for the recommended decisions

- 12.1 The Panel's terms of reference require it to approve internal audit plans.
- 12.2 This report sets out the process by which the 2015/16 audit plan has been prepared, the resources that are currently available and the steps that are being taken to procure computer audit coverage. The audit plan coverage is considered sufficient by the IARM so as to allow the Panel to meet its terms of reference through supporting the Managing Director and the Council in reviewing the comprehensiveness and reliability of its governance structures and the internal control environment.

List of appendices included

The 2015/16 Internal Audit Plan.

ACCESS TO INFORMATION ACT 1985

Strategic Audit Plan

The Council's Risk Register

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Internal Audit Service

Internal Audit
&
Assurance Plan
2015 - 2016

2015 – 2016 Internal Audit & Assurance Plan

The Internal Audit & Assurance Plan for the period April 2015 to March 2016 has been prepared in accordance with the Public Sector Internal Audit Standards.

The Standards require 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 2 March 2015 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 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 risk register.

The detailed audit plan will be prepared on a 3+9 basis – that is a detailed three month frozen plan, supported by a rolling nine month fluid plan. A summary of the audits planned during the year are listed below.











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, Internal Audit will also be involved in providing advice and assistance to managers, advising on new project developments, dealing with any whistleblowing allegations received and attending quotation openings to observe managers compliance with the Code of Procurement. The outcomes from this work will inform the annual assurance opinion.




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 changes to the proposed plan so as to ensure that reviews are undertaken of areas identified as being of greatest risk to the achievement of Council objectives. The Head of Resources and Chairman of the Corporate Governance Panel will be informed of any changes before they are introduced.

David Harwood
Internal Audit & Risk Manager
12 March 2015

2015 – 2016 Internal Audit & Assurance Plan

Inherent risk	Risk area	Residual risk
	Delivery of the 'Facing the Future' programme Data protection and information management Housing - homeless families Delivery of affordable housing Compliance with the Transparency Code	
	Budgetary control and management information Housing benefits (overpayments) S106 agreements	
	Review of 2 x service & supply contracts Shared services : IT services : Building control : Legal services Data quality and performance indicators	
	Community Chest grants	
	Payroll	
	Achievement of VFM and service standards One Leisure Delivery of corporate and service plans Charging for Council services Legal debt collection & recovery LGSS contract management Effectiveness of the Governance Boards Staff appraisal scheme Bank reconciliation National fraud initiative	
	Continuous audit Council tax & business rates Accounts receivable (debtors) Main accounting system Accounts payable (creditors)	

Risk register categories:

Very high	
High	
Medium	
Low	

2015 – 2016 Internal Audit & Assurance Plan

In addition to the assurance that will be provided on the areas listed above, time has also been made available to deal with the following areas:

- providing help and advice to managers;
- follow-up reviews of agreed actions introduced;
- attendance at quotation openings,
- managing whistleblowing allegations;
- reviewing and investigating NFI output;
- quality assessment of work undertaken and file review; and
- supporting the work of the Corporate Governance Panel through the delivery of training, preparation of the annual governance statement, effectiveness reviews and annual reporting.

End