

Meeting Date	26 March 2014
Report Title	Internal Audit Operational Plan 2014/15
Cabinet Member	Cllr Dewar-Whalley – Finance Portfolio
SMT Lead	Mark Radford – Director of Corporate Services
Head of Service	Brian Parsons – Head of Audit Partnership
Lead Officer	Russell Heppleston – Internal Audit Manager
Key Decision	No
Classification	Open

Recommendations	That the Audit Committee review and approve the Internal Audit Operational Plan for 2014/15.
------------------------	--

Purpose of Report and Executive Summary

- 1.1 A risk-based internal audit operational plan has been produced to meet the requirements of the Accounts and Audit Regulations 2011, and has been prepared in accordance with the Public Sector Internal Audit Standards. The Audit Committee is asked to review and approve the Plan.
- 1.2 The purpose of the report is to meet the requirements of the Public Sector Internal Audit Standards in relation to audit planning; and to help to discharge the Section 151 officer's responsibility for financial control; and to inform Management/Members of the planned audit work to be undertaken in 2014/15.

2 Background

- 2.1 The Accounts and Audit Regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'. The 'proper practices' for internal audit are defined as being those which are set out in the Public Sector Internal Audit Standards (PSIAS), which were set out for local government by CIPFA in collaboration with the Chartered Institute of Internal Auditors.
- 2.2 The Plan has been prepared in accordance with the PSIAS and has included the following:
 - Desktop review of strategic documents and plans
 - Interviews with senior officers

- Creation and risk assessment of the 'audit universe'
- 2.3 The Standards require the Head of Internal Audit to establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisations goals (PSIAS 2010 & 2010 A.1).
- 2.4 The Head of Internal Audit is required to review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems and controls.
- 2.5 The Standards state that the Head of Internal Audit must communicate the internal audit plans to senior management and 'the board' (the Audit Committee) for review and approval.

Preparation of the operational plan

- 2.6 The plan gives specific consideration to:
- the arrangements for the prevention of fraud and corruption
 - corporate governance
 - compliance with legislation/changes in legislation
 - compliance with codes of conduct
 - compliance with constitutional rules (e.g. Financial Rules, Contract Rules)
 - the 'national agenda'
 - coordinating work, or at least as much as practical/appropriate, with the external auditors to ensure that best use is made of audit resources, and:
 - Coordinating work, where appropriate and efficient, with the work carried out by Mid Kent Audit for its three other local authority clients.
- 2.7 The plan seeks to:
- provide sufficient coverage of the control environment to allow conclusions to be drawn on its effectiveness and to allow the Head of Audit Partnership to deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement.
 - provide assurance to the external auditors in relation to controls
 - add value and improve the Council's operations
 - help the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes

The Plan

- 2.8 The plan (Appendix I) shows the proposed internal audit work for 2014/15 and incorporates provisional time allocations. Appendix II provides the Committee with an overall summary of the joint MKIP service area reviews, which will be delivered by the audit partnership.
- 2.9 The approach to planning has been standardised across the four partnership sites.

- 2.10 The plan for Swale Borough Council shows a total of 24 audit projects, which is based on the available auditor resources.
- 2.11 The risk assessment has involved considering audit subjects in terms of materiality, inherent risk and control risk, and taking into account changes to systems, revised management arrangements and past history.
- 2.12 The actual time spent on each audit depends on the complexity of the subject, the scope of the work, the quality of the systems and documents that will be examined, the helpfulness of the staff that we need to work with and the issues that arise during the audit. In general terms it takes longer to audit a subject where poor controls are in place. The time allocations shown in the plan are indicative and will be subject to adjustment as necessary when individual engagement briefs are prepared.
- 2.13 The resources available to Internal Audit primarily consist of two full-time operational auditors, supported operationally by an Audit Manager for two and a half days of the week, and strategically by the Head of Audit Partnership.
- 2.14 Each auditor is expected to complete up to twelve projects each year. The Audit Manager works closely with the auditors to ensure that productive time is maximised.
- 2.15 The Plan is flexible in the sense that a new audit topic can be added in the future, subject to the deletion of one of the planned audits.
- 2.16 It is anticipated that greater use of auditor rotation across the four partnership sites will occur in the forthcoming year where it is efficient to do so. Therefore it is anticipated that one auditor may be allocated to undertake similar reviews across several Council clients with a view to gaining efficiencies in time spent on the review area.
- 2.17 The Internal Audit Plan for Swale is sovereign. However, where possible it has been aligned with the audit plans for Ashford, Maidstone and Tunbridge Wells to facilitate the sharing of audit work programmes and to allow the movement of auditors between sites.
- 2.18 The plan sets out the audit work that will be carried out in relation to the key financial systems such as; Council Tax and Council Tax Support, Business Rates, Creditor Payments and Payroll. The financial materiality of these systems largely dictates that the systems need to be reviewed annually.
- 2.19 The plan goes on to set out the other service areas that will be subject to an internal audit; some of which have little or no financial risk but are subject to regulatory, legal, technological or reputation risk. These subjects may be reviewed annually, biennially or triennially depending on their risk profile.
- 2.20 The new Head of Audit Partnership has had only a limited opportunity to be involved in the planning process. If he considers that any significant changes need to be made to the 2014/15 plan, he will report accordingly to the Committee.

Reporting the work

- 2.21 A written report is provided to the respective Head of Service on completion of each audit project. The Internal Audit report sets out the findings, conclusions and recommendations arising from the audit. A copy of every report is provided to the appropriate Director, the Chief Executive and the Head of Finance (s151 officer).
- 2.22 Heads of Service are required to complete an action plan setting out how they will address the recommendations. The action plan is assessed for adequacy by the Audit Manager.
- 2.23 A follow-up is carried out approximately six months after the original report was issued, to establish whether the proposed action has been implemented in practice. The results of the follow-up are reported in writing to the respective Head of Service, with copies to the appropriate Director and the Chief Executive.
- 2.24 If the initial report identifies that only minimal or limited controls are in place and the Head of Service fails to respond adequately or if it is found that the agreed action has not been taken at the time of the follow-up, the matter will be reported to the next meeting of the Audit Committee. The Head of Service will be invited to attend the meeting to explain the action that will be taken to address the control weaknesses.
27. The outcomes from Internal Audit reviews are reported to the Audit Committee twice a year. An Interim Report is prepared to show the results of work in the first half of the financial year and is reported to the Committee in November. The Annual Internal Audit report shows the work for the complete financial year and is reported to the Committee in June to support the Annual Governance Statement. The annual report contains the opinion of the Head of Audit Partnership on the overall adequacy and effectiveness of the Council's framework of governance, risk

3 Proposal

- 3.1 The Public Sector Internal Audit Standards require that the Head of Internal Audit communicates the internal audit plan to the Audit Committee for review and approval.
- 3.2 The Head of Internal Audit has prepared the risk-based plan to determine the priorities of the internal audit activity, consistent with the Council's goals.
- 3.3 The Audit Committee is asked to review and approve the Plan.

4 Alternative Options

- 4.1 There is no suitable alternative action.

5 Consultation Undertaken or Proposed

- 5.1 The operational plan has been drawn up after detailed discussion with senior management.
- 5.2 There is an ongoing process of dialogue with Heads of Service in relation to internal audit work, including meetings between the Audit Manager and the respective Head of Service to discuss the plan of audit work relative to their area of responsibility. These discussions inevitably lead to amendments to the plan.
- 5.3 Before any actual audit work commences, the respective Head of Service is consulted on the timing, scope and objectives of the audit project.

6 Implications

Issue	Implications
Corporate Plan	The Internal Audit plan has been prepared to take account of the corporate plan priorities, together with the systems in place to deliver the priorities and manage the risks to their delivery.
Financial, Resource and Property	The Plan includes audit reviews involving finance, resource and property.
Legal and Statutory	None identified at this stage
Crime and Disorder	None identified at this stage
Risk Management and Health and Safety	The Internal Audit operational plan sets out a series of projects for 2014/15 to examine the adequacy of the controls that the individual Head of Service has put in place to manage a very broad range of risks to the delivery of strategic and operational objectives.
Equality and Diversity	None identified at this stage
Sustainability	None identified at this stage

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report
- Appendix I: Internal Audit – Internal Audit Operational Plan 2014/15
 - Appendix II: Mid Kent Shared Service Audit Plan 2014/15

8 Background Papers

8.1 None