

Audit Committee Meeting	Agenda Item:
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Meeting Date	19 September 2011
Report Title	Internal Audit Strategic Plan
Portfolio Holder	Performance and Finance
SMT Lead	Corporate Services Director
Head of Service	Head of Audit Partnership
Lead Officer	Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendation	That the Audit Committee approves the three-year Internal Audit Strategic Plan.

Purpose of Report and Executive Summary

- 1.1 The report sets out the three-year Internal Audit Plan and asks that the Audit Committee consider and approve the Plan.

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' are defined as being those which are set out in the Code of Practice for Internal Audit in Local Government in the UK – published in 2006 by CIPFA.
- 2.2 The Code of Practice requires the Head of Internal Audit to prepare a risk-based plan to implement the audit strategy.
- 2.3 In preparing the plan the Head of Internal Audit is required to take account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes. Where the outputs from those processes are not judged to be sufficiently reliable, the Head of Internal Audit must undertake his own risk assessment. The Head of Internal Audit has to consult stakeholders on the draft plan and revise the plan if appropriate.
- 2.4 The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation.
- 2.5 Once the planned work has been determined, it has to be compared to resource availability. Where there is an imbalance between the two, the audit committee

needs to be informed of proposed solutions. The audit committee must then approve, but not direct, the internal audit plan.

- 2.6 The Code states that the Head of Internal Audit is responsible for the delivery of the audit plan. Significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the audit committee.

3 Proposal

Preparation of the Plan

- 3.1 The majority of the work of Internal Audit is identified in the three-year strategic audit plan which has been prepared to take full account of organisational objectives and priorities.
- 3.2 The strategic plan is prepared using a risk based approach to potential subjects for audit which are identified through a range of sources; the most important of which is through discussion with Heads of Service and Directors. A series of meetings took place earlier this year between the Audit Manager and Heads of Service to commence the audit planning process.
- 3.3 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', for example, shared services, transparency, localism and big society
 - coordinating work, or at least as much as is practical, with the external auditors to ensure that best use is made of audit resources
- 3.4.1 The plan seeks to:
- provide sufficient coverage of the control environment to allow conclusions to be drawn on its effectiveness
 - give adequate coverage to allow the external auditors to place reliance on the work of Internal Audit
 - allow objective examination, evaluation and reporting on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

The Plan

- 3.5 The draft strategic audit plan is set out at Appendix I.
- 3.6 The Plan shows the audit work that is planned for the years 2011/12, 2012/13 and 2013/14.
- 3.7 The Plan has been prepared on a risk basis. This has involved scoring each of the potential audit subjects in terms of materiality, inherent risk and control risk, taking into account changes to systems, revised management arrangements, past history and the views of Heads of Service.
- 3.8 The risk approach allows all potential audits to be ranked according to a scoring matrix and then a 'cut off point' to be used to match the potential audits to the available auditor resources. In deciding which subjects appear 'above the line' consideration also has to be given to the need to review areas of governance; these do not score particularly highly in the risk assessment because they have no direct financial cost but are nonetheless extremely important to the proper operation of the Council. In addition, in the final assessment of 'what is in and what is out', common sense and experience are applied.
- 3.9 Although it is not possible to audit all activities of the Council with the resources that are available, the areas that will not be audited are considered to have a lower level of risk.
- 3.10 The numbers shown in the various columns are the numbers of audit days which are anticipated to be necessary to complete the individual audit projects. In the majority of cases the allocation has been provisionally set at 15 days. This is a fairly typical allowance for completing a reasonably detailed audit and includes all of the elements of the audit process, from the creation of the initial Brief to the completion of the follow-up. The time allocation is used as planning guide, whereby the time allocation should not generally be exceeded and opportunities will be taken to complete the audit work more quickly where this is possible.
- 3.11 The actual time spent on the 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.
- 3.12 The 'available audit days' is identified through a resource assessment. The chargeable day target is set at 85% of available days. This provides a challenging but achievable target for the operational auditors and means that they must robustly focus their work on the projects that are allocated to them from the Internal Audit Plan. Each auditor is expected to complete twelve projects each year. The Audit Manager works closely with the auditors to ensure that productive time is maximised.

- 3.13 Not only is it important to ensure that output meets the target set in the Plan, it is also vital that the principal output, the audit report, is of good and consistent quality, produced on a timely basis and of value to the client. The achievement of the right balance of quantity and quality is a significant aspect of the work of the Audit Manager and ultimately the Head of Audit Partnership.
- 3.14 The resources available to Internal Audit from 2012/13 will consist of two full time operational auditors, supported operationally by an Audit Manager for three days of the week, and strategically by the Head of Audit Partnership.
- 3.15 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. It is anticipated that this will occur on a reasonably frequent basis over the period of the Plan.
- 3.16 The majority of the time of the Swale auditors will be spent on Swale audit projects; however they will also work on other partnership sites where it is efficient to do so. This will be reciprocated on a quid pro quo basis.
- 3.17 The Internal Audit Plan for Swale is sovereign. However, where possible it has been aligned with the Audit Plans for Maidstone, Ashford and Tunbridge Wells to facilitate the sharing of audit work programmes and to allow the movement of auditors between sites.
- 3.18 The existence of the audit partnership allows other shared services to be audited just once and for the results of the audit to be reported to each partner Council. For example, Swale shares a payroll system with Maidstone and this means that just one payroll audit will be carried out but with the outcomes reported to both Councils.
- 3.19 The plan starts by setting out the audit work that will be carried out in relation to the key financial systems; Benefits, Council Tax, NNDR, General Ledger, Accounts Payable, Accounts Receivable and Payroll. The financial materiality of these systems and the expectations of the external auditors dictate that these systems are reviewed annually.
- 3.20 The plan goes on to set out the other service areas that will be subject to an internal audit; some of which have little of no financial risk but are subject to regulatory, legal, technological or reputation risk.
- 3.21 The frequency of audit is based on the risks identified but also on the judgement of the Head of Audit. The financial systems are reviewed annually whereas some other areas are reviewed only once in three years.
- 3.22 The planned audit projects shown for 2011/12 to 2013/14 are achievable with the level of audit resources that has been agreed with the Strategic Management Team. SMT has also agreed that, in the event of the need for a significant, additional unplanned audit project, for example the need to investigate a fraud or

other irregularity, additional budget may be provided to allow in-house staff resource to be supplemented as necessary.

4 Alternative Options

- 4.1 There is a requirement under the Code of Practice that the Head of Internal Audit should prepare a risk-based plan to implement the audit strategy. There are no alternative options. The resources available to Internal Audit are a matter for decision by Strategic Management Team and Members, subject to the statutory requirement 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'.

5 Consultation Undertaken or Proposed

- 5.1 All Heads of Service and the two Directors have been consulted as part of the process of preparing the three-year strategic internal audit plan. The Plan was reported to a meeting of the Strategic Management Team on 2 August 2011. A number of changes were made to the plan as a result.

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 to manage the risks to their delivery.
Financial, Resource and Property	The Internal Audit budget is used to provide an adequate and effective internal audit of the Council's accounting records and its system of internal control. The estimated annual budget for 2012/13 is circa £210,000 (including internal recharges). This compares to the 'original estimate' of £323,320 in 2009/10, which was the year prior to the commencement of the audit partnership
Legal and Statutory	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' are defined as being those which are set out in the Code of Practice for Internal Audit in Local Government in the UK – published in 2006 by CIPFA.
Crime and Disorder	None identified at this stage
Risk Management and Health and Safety	The Internal Audit Plan sets out a series of projects to examine the adequacy of the controls that the Council 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: Strategic Audit Plan 2011/14

8 Background Papers

8.1 There are no background papers.

Audit Plan 2011-14 Team Swale				Appendix I	
			2011/12	2012/13	2013/14
	Scope	HOS			
Fundamental Financial Systems					
Benefits	Financial Controls - Payments	Service Delivery			15
Benefits	Overpayments and Recovery	Service Delivery	15		
Benefits	Claim Applications and Assessments	Service Delivery		15	
Council Tax	Recovery and Enforcement	Service Delivery			15
Council Tax	Valuation, Liability and Billing	Service Delivery	15		
Council Tax	Collection and Refunds	Service Delivery		15	
NNDR	Valuation Liability and Billing	Service Delivery			15
NNDR	Collection and Refunds	Service Delivery	15		
NNDR	Recovery and Enforcement	Service Delivery		15	
General Ledger	Budget Setting	Finance		15	

			2011/12	2012/13	2013/14
	Scope	HOS			
Fundamental Financial Systems					
General Ledger	Budgetary Control	Finance	15		
General Ledger	Feeder Systems	Finance			15
Accounts Payable and Credit Cards	System and transactions	Finance	10	15	10
Accounts Receivable	System and transactions	Finance		15	
Payroll	System and transactions	OD	(20MBC)	20	(15MBC)
Operational Systems and Processes					
Chief Executive Directorate					
Environmental Enforcement	Street Wardens -litter, fly tipping, abandoned cars, illegal gypsy sites etc	Service Delivery	15		
Car Parking	Income - system and security	Service Delivery		15	
Car Parking Enforcement	SBC/MBC Enforcement Contract	Service Delivery	20(MBC)		

Chief Executive Directorate	Scope	HOS	2011/12	2012/13	2013/14
Mobile Homes Licensing	Compliance and enforcement	Service Delivery	15		
Project Management	Compliance review - E.g. Gateway or similar strategic/high risk project	Corporate Strategy and Communications	15		
Performance Management Framework	Framework Review	Corporate Strategy and Communications		15	
Corporate Equality Plan	Framework Review	Corporate Strategy and Communications		10	
Sustainable Community Strategy	Compliance review	Corporate Strategy and Communications			15
Street Cleansing	Contract review	Commissioning and Customer Contact			15
Refuse Collection - Waste & Recycling	Contract and Performance Review	Commissioning and Customer Contact	20		
Grounds Maintenance	Contract review	Commissioning and Customer Contact		15	
Seafront Services	Services Review	Commissioning and Customer Contact	15		
Procurement/ Contract Procedure Rules	Compliance review	Commissioning and Customer Contact			15

Chief Executive Directorate	Scope	HOS	2011/12	2012/13	2013/14
Appointment of Consultants	Compliance review	Commissioning and Customer Contact	15		
Leisure Centre Management	Swale Community Leisure Trust/ Serco Contracts review	Commissioning and Customer Contact	15		
Receipt and Opening of Tenders	Compliance review	Commissioning and Customer Contact			5
Customer Services/CRM/Complaints	Service review	Commissioning and Customer Contact		15	
Corporate Services Directorate					
Freedom of Information	Compliance review	Director of Corporate Services	15		
Data Protection	Compliance review	Director of Corporate Services			15
Risk Management	Service review	Director of Corporate Services			Peer Review
Emergency Planning	Service review	Emergency Planning Partnership			15
Business Continuity	Service Review	Business Continuity Partnership		15	
Property Management	Building and Facilities management	Facilities/Estates	15		

Corporate Services Directorate	Scope	HOS	2011/12	2012/13	2013/14
Property Management	Property Income	Facilities/Estates		15	
Property Management	Strategic Management of the Council's property portfolio	Facilities/Estates			10
Health and Safety	Corporate responsibility	Facilities/Estates	15		
Income, Cash Collection and Banking	Compliance review	Finance	15		
Bank Reconciliation	Service review			10	
Insurance	Service review	Finance	15		
Publication of Corporate Expenditure over £500	Compliance review	Finance	10		
VAT management	Compliance review	Finance		15	
Treasury Management	Compliance review	Finance	10		
IT Physical and Environmental Controls	Service review	IT	15		
IT Network Controls and Network Resilience	Service review	IT			15
IT Disaster Recovery	Service review	IT	15		
PC/Internet Controls	Service review	IT		15	
IT File Controls	Service review	IT			15
Legal Services	Shared Service - Practice review and Case Management System	Legal Services		(20MBC)	

Corporate Services Directorate	Scope	HOS	2011/12	2012/13	2013/14
Members Allowances and Expenses	Service review	Legal Services	10		
Elections	Compliance review	Legal Services		20	
Compliance with Officer Code of Conduct (officers)	Declaration of Interest, gifts and hospitality etc	Organisational Development	5		
Workforce Planning/Talent Management	Skills and Competencies, equal opportunities	Organisational Development			15
Regeneration Directorate					
Sports Development and Schemes	Operations, grants and Income	Economy and Communities			15
Arts Development	Art at the Centre project review	Economy and Communities	15		
CCTV	Contract review	Economy and Communities	15		
Leisure Centre Trust	Faversham Pool - Governance arrangements	Economy and Communities		15	
Community Halls and Centres	Service review	Economy and Communities			10
Economic Development	Economic Development and Regeneration	Economy and Communities			10
Government Community Service Grant Schemes	Heritage Lottery, HCA, Arts Council, Sports England bids, LEADER funding etc	Economy and Communities	10		
Housing Options -	Affordable housing and choice based lettings	Housing Services			15

Regeneration Directorate	Scope	HOS	2011/12	2012/13	2013/14
Homelessness- waiting list and Homelessness Advice	Includes rent deposit scheme	Housing Services		15	
Private Sector Housing Conditions and Empty Homes	Licensing of landlords	Housing Services	15		
Housing Assistance policy	Housing Grants	Housing Services	15		
Staying Put	Compliance review	Housing Services		15	
Dev Control Administration - Planning Applications and fees	Service review	Development Services			10
Development Control Enforcement (Inc Appeals)	Compliance review	Development Services			15
Building Control operations (Partnership with Medway and Gravesham)	Partnership review	Development Services		15	
Section 106 Agreements	Service review	Development Services	15		
Compliance with Planning Code of Conduct	Compliance review	Development Services		15	
Community Infrastructure Levy (2014 Post S106)	Compliance review	Development Services			20
Project Management	Confirm audit from Project register				20

	Scope	HOS	2011/12	2012/13	2013/14
National Fraud Initiative - submissions	Anti Fraud arrangements	Corporate	10	10	10
Fraud Survey	Audit Commission Survey	Corporate	*1	*1	*1
TOTAL AUDITS			30	24	24

