

Audit Committee Meeting	Agenda Item:
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Meeting Date	8 March 2012
Report Title	Internal Audit Operational Plan 2012/13
Portfolio Holder	Cllr Dewar-Whalley - Finance
SMT Lead	Mark Radford – Corporate Services Director
Head of Service	Brian Parsons – Head of Audit Partnership
Lead Officer	Brian Parsons – Head of Audit Partnership
Key Decision	No
Classification	Open

Recommendations	That the Audit Committee note the contents of the Internal Audit one-year operational plan for 2012/13
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Purpose of Report and Executive Summary

- 1.1 The report sets out the Internal Audit one-year operational plan for 2012/13 and asks that the Audit Committee note the contents.
- 1.2 The purpose of the report is to meet the requirements of the statutory Code of Practice for Local Government in the United Kingdom in relation to audit planning; and to help discharge the section 151 officer's responsibility for financial control and to inform Management/Members of the planned audit work to be undertaken in 2012/13.

2 Background

- 2.1 The Committee previously received a report on the Internal Audit Strategic Plan at its meeting on 19 September 2011. The report explained the process for the creation of the plan and the elements that were considered in deciding its content.
- 2.2 The strategic plan set out the proposed work of the Internal Audit team for the three financial years, 2011/12, 2012/13 and 2013/14. The Audit Committee approved the plan.
- 2.3 The approved strategic plan has been used to create the operational work programme for 2012/13, shown at Appendix I.
- 2.4 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 Code of Practice for Internal Audit in Local Government in the UK – published in 2006 by CIPFA.

- 2.5 The Code of Practice requires the Head of Internal Audit to prepare a risk-based plan to implement the audit strategy.
- 2.6 The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation.
- 2.7 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 operational plan

- 3.1 The majority of the work of Internal Audit is identified in the three-year strategic audit plan which takes full account of organisational objectives and priorities. The operational plan is predominantly an extract from that plan.
- 3.2 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 is practical, with the external auditors to ensure that best use is made of audit resources, and:
 - coordinating work with the other three teams that form the Mid Kent Audit Partnership
- 3.3 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

- 3.4 The plan (Appendix I) shows the projected internal audit work for 2012/13.
- 3.5 The plan shows a total of 24 audit projects to reflect the available auditor resources.
- 3.6 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, and past history.
- 3.7 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.
- 3.8 The resources available to Internal Audit 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.
- 3.9 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.
- 3.10 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.
- 3.11 The majority of the time of the Swale auditors is spend on Swale audit projects; however they also work on other partnership sites where it is efficient to do so. This is reciprocated on a quid-pro-quo basis.
- 3.12 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.
- 3.13 The plan sets out the audit work that will be carried out in relation to the key financial systems; Benefits, Council Tax, NNDR, General Ledger, Creditor Payments, Debts Receivable and Payroll. The financial materiality of these systems and the expectations of the external auditors dictate that these systems are reviewed annually.
- 3.14 The plan goes on to set out the other services areas that will be subject to an internal audit; some of which have little or no direct 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.

- 3.15 The plan shows an audit of 'Legal Services – Practice Review and Case Management System'. The audit of the shared service will actually be carried out by the Maidstone audit team but the report will be provided jointly to Maidstone, Swale and Tunbridge Wells. A review of the shared Payroll system will be carried out by the Swale audit team, whereby the one piece of audit work will cover the two partner authorities. Similarly, an audit review of the joint Parking Services Enforcement arrangements will be carried out shortly by the Maidstone team. This is an efficient use of audit resources and is a benefit of the shared audit service as well as having the effect of reducing the audit costs for the shared services which are being audited.

Reporting the work

- 3.16 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 Chief Executive, the appropriate Director and the Head of Finance.
- 3.17 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.
- 3.18 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 Chief Executive and the respective Director.
- 3.19 If the report identifies that only minimal or limited controls are in place and the Head of Service fails to respond adequately to the original audit report 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.

Conclusion

- 3.20 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 systems of internal control in accordance with the proper practices in relation to internal control'.
- 3.21 The Head of Audit Partnership is satisfied that completion of the attached operational plan for 2012/13 will meet the statutory duty and will allow the relevant risks to the achievement of the Council's operational and strategic objectives to be reviewed.

4 Alternative Options

- 4.1 The alternative option would be to not have a plan of audit work and for Internal Audit work to be unplanned and reactive. This would not make best use of audit resources, it would not provide an effective audit service and it would not meet the statutory duty, so could not be advocated.

5 Consultation Undertaken or Proposed

- 5.1 The Strategic Plan, from which the operational plan is drawn, was provided to Strategic Management Team and to the meeting of the Audit Committee in September 2011.
- 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 will 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	Becoming a High Performing Organisation
Financial, Resource and Property	The work of Internal Audit includes the examination of all aspects of internal control but inevitably contains a strong emphasis on reviewing the adequacy of financial controls. The process helps to provide assurance in relation to the Council's financial management arrangements.
Legal and Statutory	Internal audit is a statutory requirement under the Accounts and Audit Regulations 2011
Crime and Disorder	None identified at this stage
Risk Management and Health and Safety	Internal Audit contributes to the overall risk management environment by reviewing the adequacy of controls that management has put in place to manage risks.
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 Plan 2012/13

8 Background Papers

8.1 None

APPENDIX I

Internal Audit Plan 2012/13					
Team - Swale					
					Approx Audit Days
		Scope	Service	HOS	
Fundamental Financial Systems					
1	Benefits	Claim Applications and Assessments	Revenues and Benefits	Service Delivery	15
2	Council Tax	Collection and Refunds	Revenues and Benefits	Service Delivery	15
3	NNDR	Recovery and Enforcement	Revenues and Benefits	Service Delivery	15
4	General Ledger	Budget Setting		Finance	15
5	Accounts Payable and Credit Cards	System and transactions	Finance	Finance	15
6	Accounts Receivable	System and transactions	Finance	Finance	15
7	Payroll	MBC and SBC System and transactions	HR	HR	20
Operational Systems and Processes					
Chief Executive Directorate					
8	Car Parking	Income - system and security	Parking	Service Delivery	15
9	Performance Management Framework	Framework Review	Policy and Performance	Corporate Strategy and Communications	15
10	Leisure Centre Management	Swale Community Leisure Trust/ Serco Contracts review	Contract Management	Commissioning and Customer Contact	15
11	Receipt and Opening of Tenders and E-procurement facilities	Compliance review	Commissioning	Commissioning and Customer Contact	15
12	Customer Services/CRM/ Complaints	Service review	Customer Services	Commissioning and Customer Contact	15

	Corporate Services Directorate				
13	Property Management	Property Income	Property	Property Services	15
14	Health and Safety	Corporate responsibility	Property	Property Services	15
15	Bank Reconciliation	Service review			10
16	PC/Internet Controls	Service review	IT	IT	15
*	Legal Services	Shared Service - Practice review and Case Management System	Legal Services	Legal Services	*(20 MBC)
17	Elections	Compliance review	Democratic Services	Legal Services	20
Regeneration Directorate					
18	CCTV	Contract review	ECS	Economy and Communities	15
19	Leisure Centre Trust	Faversham Pool - Governance arrangements	ECS	Economy and Communities	15
20	Community Halls and Centres	Review of Asset Transfer and Commissioning process	ECS	Economy and Communities	10
21	Homelessness- waiting list and Homelessness Advice	Includes rent deposit scheme	Housing Options	Housing Services	15
22	Staying Put	Compliance review	Staying Put	Housing Services	15
23	Building Control operations (Partnership with Medway and Gravesham)	Partnership review	Building Control	Development Services	15
Audit Support					
24	NFI x 2	Project Management	Corporate	Corporate	15
-	Fraud Survey	Audit Commission Survey	Corporate	Corporate	
	TOTAL DAYS				360
	TOTAL AUDITS				24