Internal Audit Plan

2013/14

D R A F T

Sevenoaks
DISTRICT COUNCIL

Background

1. The Accounts and Audit Regulations 2011 requires the Council to have an effective internal audit which would provide an opinion on the adequacy and effectiveness of financial control, as well as to provide reasonable assurance on the Council's overall governance and internal control processes. This includes the arrangements for the Annual Governance Statement, the review of the effectiveness of internal audit and the management of business risks.

2. This requires an annual internal audit plan which:

   - Draws on effective co-operation with External Auditors and other external review agencies, from which the public may gain assurance regarding the effectiveness of the Council's system of internal control.

   - Provides Councillors, the Chief Executive, the Chief Executive Designate, and other senior managers with an overall opinion on the status of the Council's governance arrangements, including internal control and risk management.

   - Supports the Chief Executive Designate in fulfilling his obligations under Section 151 of the 1972 Local Government Act and the Accounts and Audit Regulations 2011, to ensure the Council operates safe and efficient financial and management information systems.

   - Enables the Council to place assurance on the work of Internal Audit in fulfilling its obligations under the Accounts and Audit Regulations 2011, Regulation 4, to establish proper practices for the publication of an Annual Governance Statement; and Regulation 6 to review the effectiveness of the internal audit function.

   - Conducts audit reviews of the Council's risk management, internal control, and governance arrangements in a way that takes full account of the Council's objectives and risks.

   - Aims to improve the Council's risk management, internal control, and governance arrangements by providing line management with practical recommendations arising from audit work; including consultancy and advice and information as necessary or on request.

   - Delivers an audit service that meets standards of performance and quality as laid down in the CIPFA Code of Practice for Internal Audit in Local Government.

Internal Audit's objectives

3. The internal audit function is provided through a shared services arrangement with Dartford Council which came into force in April 2011. Consequently the objective of the team is to provide relevant services for both Councils. However, this plan deals with the teams work for Sevenoaks District Council only, regarding the provision of Internal Audit Services, in fulfilment of the Council's section 151 responsibilities and its obligations under the Accounts and Audit Regulations 2011. To this effect, the objective of the team's work in this area is to give an assurance to the Council on the effectiveness of the overall governance, risk management and internal control processes of the Council.

4. In recognition of the statutory requirement, it is the responsibility of Internal Audit to review, appraise and report upon:

    -   The soundness, adequacy, and application of financial and other management controls.

    -   The extent of compliance with, and the relevant and financial effect on established policies, plans and procedures.

    -   The extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from:

        o   Fraud, bribery, corruption and other offences

        o   waste, extravagance, and inefficient administration, poor value for money and other causes.

    -   The suitability and reliability of financial and other management data developed within the organisation.

    -   The effectiveness of the Council's risk management framework

Proposed Audit Techniques

5. To fulfil our responsibility we propose to adopt the following techniques, the relevant technique adopted will depend on the nature and scope of each audit review:

Risk-based audit

Risk-based auditing takes account of the Council's strategic and operational objectives, and evaluates through audit testing, the management of risks to achieving these objectives, thereby providing an opinion on the quality of internal control within a system. Recommendations for improvements in control are made proportional to the impact and likelihood of existing risks.

Systems-based audit

Where appropriate, Audit may undertake wider documentation, evaluation and testing of financial, operational and management information systems providing an opinion as to the adequacy of control and offering suggestions and advice to enable strengthening of system weaknesses and to assist in the improving the effectiveness of controls.

Systems based auditing provides high quality assurance on management controls for those systems evaluated externally.

Our systems-based audit work is based on the CIPFA System Control Matrices. The matrices draw on the approach, standards, and guidance of a variety of audit and regulatory bodies, including the Audit Commission.

Financial/Probity Reviews

Examination of financial records for compliance with agreed policy, regulations, and procedures.

Investigation of Irregularities

We will undertake enquiries into cases of discovered or reported irregularity including, where required, liaison with other investigatory bodies, such as the National Fraud Initiative (NFI). These usually lead to the enhancement of risk management activities within the Council, and to the strengthening of internal controls.

Advice and Information

We offer advice, information and assistance to all levels of management on internal control, governance and risk management.

IT audit

IT audit is a specialist area and in previous years the work has been undertaken by external consultants working under local management. In 2012/13 we carried out work in this area using internal resources. We hope to continue to do so in 2013/14.

VFM audit

Value for money considerations will be factored into our approach were relevant and appropriate. This would enable us to determine whether managers are making use of the opportunities and resources available to them for obtaining good value for money.

Audit Approach

6. In order to make best use of staff resources and to maximise the team's effectiveness, the need for audit reviews in individual areas is considered based on a risk assessment, which evaluates:

- materiality

- the inherent risk associated with the activity (high risk activities are those which involve access to cash or complex activities where errors, loss or fraud could arise)

- the controls in place to prevent and detect losses and errors

- knowledge from previous audit reviews

- Legal or regulatory compliance

7. This risk assessment is then translated into an annual operational plan, which sets out the areas to be covered in the current year, taking into account resource constraints.

8. In compiling the Plan for 2013/14 we have taken into account:

- The internal audit strategy

- the financial risk assessment of the Council's activities

- strategic and operational risks assessments

- shared services and partnership arrangements

- discussions with senior officers

- brought forward work from 2012/13

- the incidence of irregularities over the past year

- resources available

- significant changes arising from external and internal pressures

- organisational changes within the last 12 months

- the results of external audit work, or external regulatory assessments from other review agencies

- professional guidance were applicable

9. **The Plan for 2013/14**

The table below lists the audits we would undertake during 2013/14 and a summary of the scope of each review. As part of the process we carry out an annual review of key financial systems. These are usually systems with high inherent risks, usually areas of major income and expenditure where a failure to manage risks effectively

might result in material financial loss, or significant damage to the Council's reputation. The reviews are intended to ascertain the arrangements management have in place to manage operational or business risks and to give an assurance regarding their effectiveness. Where the audit opinion has remained "Good" over the last two years, it is proposed to carry out a scaled down review, which would incorporate only key controls; aspects not covered in previous reviews, or areas which may have given rise to concerns since the previous audit review. This approach is consistent with the risk based audit approach inherent in the Council's internal audit strategy.

Key Financial Systems and other Financial Systems

Audit area	*Review objectives*
1. Main accounting system • Agresso based system • TASK based system	To give assurance on: • the controls over entries to the main accounting system; and that data is processed completely; accurately and authenticated.
2. Budget Preparation & Control	To give assurance on: • the robustness of the budget preparation process, including profiles • budgetary control process and monitoring arrangements, including action to identify and prevent significant variances
3. Cash and Bank Reconciliations • Main SDC account • Tax and Benefit account	To give assurance on: • the reconciliations process, including timelines and the promptness of action taken to address unexplained variances,
4. Treasury Management	To give assurance on: • the effectiveness of the treasury management system in meeting its service objectives. This would be a light touch review covering areas key controls and compliance arrangements.
5. Payroll	• to give an assurance regarding the accuracy, completeness and authenticity of payroll transactions, including overtime payments.
6. Creditors • Agresso and TASK based systems	To give assurance on: • the creditors system regarding fitness for purpose and compliance with Council procedures.

7. Debtors • Agresso based system • TASK based system	To give assurance on: • the promptness with which debtors accounts are identified and accurately processed for payment, including where appropriate, the taking of recovery action
8. Council Tax /NNDR	To give assurance on: • the effectiveness of the service in delivering its service objectives and the implementation of shared services arrangements. Key areas to be examined would include any areas of concerns raised in previous internal and external audit reports; in addition to the arrangements for implementing the requirements of new legislation and statutory requirements.
9. Council Tax and Housing Benefits	To give assurance on: • the effectiveness of the service in delivering service objectives and the shared services arrangements. Including any areas of previous internal or external audit concerns; including the arrangements for implementing the requirements of new legislation and statutory requirements
10. Review of Housing	• this audit would review the new structure within housing to assess its fitness for purpose in delivering Council policy and statutory requirements. Including an assessment of the HERO Scheme and arrangements to deal with the implications of the single room allowance. In view of the scale of proposed regulatory changes, the precise scope of this review would be discussed and agreed with management prior to commencing the work.
11. Car Parking Income	To give assurance on: • the effectiveness of the service regarding the security and prompt banking of income collected and the recovery process.
12. Contract Management Arrangements	To give assurance on: • the review will focus on a selection of contacts entered into over the last 12 to 18 months; as well as proposed, to give an assurance that they complied with Council policies and procedures, including statutory requirements. Also that there are robust arrangements in place to manage

	performance and delivery.
13. Review of Shared Services Recharges	To give assurance regarding: • the reliability and accuracy of the processes in place to identify and allocate relevant shared service costs and the allocation of all such costs in accordance with existing agreements.
14. Review of Section 106 Agreements	To give assurance regarding: • the effectiveness of the arrangements in place for implementation of Section 106 agreements.
15. Annual Governance Statement	To give assurance regarding: The process in place for delivering the Annual Governance Statement and to co-ordinate the production of the statement, ensuring compliance with Statutory requirements and professional guidance.
16. Review of Information Management Council-wide	This review will examine the Council's strategic arrangements for information security and management of information resources including its implications for statutory compliance and regulatory requirements. The audit will also consider retention arrangements and information sharing with internal as well as external partners.
17. Review of IT	This review will examine the arrangements within IT to deliver its service remit, including capacity issues in relation to skills, manpower, hardware, software and other relevant resources required to deliver a quality, reliable and resilient service. In addition, the implementation of recommendations from Penetration Testing Report and other external responses will be examined.
18. Dunbrik Depot	This review will seek to give an assurance regarding the effectiveness of systems within the Dunbrik Depot in meeting relevant service objectives and compliance with Council procedures and policies; including Health and Safety Arrangements. The exact allocation of this time and systems chosen would be informed by the outcome of the updated operational risk registers. However, it is likely that the time would be spent looking at two or three key areas of depot activities which have not been reviewed by internal audit over the last few years
19. Review of Corporate Health and Safety arrangements	This review will examine the Council's arrangements for Health and Safety in order to give an assurance regarding fitness for purpose and compliance with statutory requirements.

Audit area	Review objectives
20. Review of Safeguarding	This review will examine the Council's arrangements for "safeguarding" in order to give an assurance regarding fitness for purpose and statutory compliance.
21. Review of Planning/Development Control	The review will examine the Council's arrangements for delivering its statutory responsibilities and council policy regarding planning and development control. This will include arrangements for implementing changes in recent statutory requirements. This review will be carried out in the later part of the year, in view of propose organisational changes.
22. Repair and Maintenance Arrangements	This review will examine the Council's arrangements for repairs and the maintenance of Council property and assets, in order to give an assurance regarding fitness for purpose and compliance with Council policy. This area has not be examined by internal audit recently. Thus the scope of the review will include both property and value for money considerations.

Arrangements to prevent fraud and corruption

audit area	review objectives
Contracts	To check that contract payments are only made in accordance with contract terms and when properly authorised.
Cashing up	To check that officers are able to account for all income received by them on the day of the cashing up.
Housing Benefits	To check the robustness of the process to prevent and detect fraud in accordance with National Fraud Initiative requirements.
Special investigations	To carry out investigations into suspected frauds, losses etc in accordance with the Fraud Response Plan.

Follow up of recommendations made in previous audit reports

Audit reports	To follow up recommendations made in previous reports, to confirm that agreed action has been implemented effectively within the agreed time scales.

10. Audit Programme and Resource Plan for 2013/14

Areas to be audited	Planned days 13/14	Actual days 12/13
1. Main Accounting System	5	10
2. Budgetary Control	5	5
3. Cash and Bank Reconciliations	5	5
4. Treasury Management	5	5
5. Payroll	5	5
6. Creditors	5	10
7. Debtors	5	5
8. Council Tax/NNDR	10	15
9. Council tax Housing Benefits	10	15
10. Review of Housing (B/F from 2012/13)	20	0
11. Car Parking Income	10	10
12. Contract Management Arrangements	10	15
13. Shared Services Recharges	15	0
14. Review of Section 106 Agreements	15	0
15. Annual Governance Statement	10	15
16. Information Management Council-wide	20	10
17. Review of IT	15	15
18. Dunbrik	20	20
19. Review of Corporate H&S Arrangements	20	0
20. Review of Safeguarding Arrangements	10	0
21. Review of Planning/Development Control	20	0
22. Repair and Maintenance Arrangements	15	0
Sub-Total	**255**	**160**

SEVENOAKS DISTRICT COUNCIL
ANNUAL AUDIT PLAN 2013/14

Areas to be audited	Planned days 13/14	Actual days 12/13
Brought forward total	**255**	180
Arrangements to prevent and detect fraud and corruption	Planned days 13/14	Actual days 12/13
Contracts – payments	10	10
Housing Benefits/ Participation in the National Fraud Initiative (NFI)	*10*	*10*
Sub Total	*20*	*20*
Other Activities for 2013/14	**Planned days 13/14**	**Actual days 12/13**
Follow up of actions agreed in previous reports	20	*25*
Advice, information and guidance	30	*20*
Contingencies	35	*30*
Sub Total	**85**	**75**
Total Direct Days	**360**	**255**
Audit Planning and Monitoring etc.	**20**	**25**
Grand Total resources Required	**380**	***N/A**

*Note: Seven reviews are planned for 2013/14 which were not carried out in 2012/13. These amounted to a total of **115 days** and are shown as zero, under 2012/13. Hence the total days available for both years are not directly comparable.

Available Resources

11.   Total staff resources available for direct work is estimated at 415 days, plus 25 days for planning and monitoring. This is equivalent to 50% of total resource available for internal audit within the joint shared services team.

Internal Audit Performance

12.   During 2013/14, the team will continue to work in compliance with the CIPFA Code of Practice for Internal Audit in Local Government, and will measure itself against the performance indicators detailed below. It will also take into consideration of the new Public Sector Internal Audit Standards once they are adopted.

13.   The following seven performance indicators relating to the delivery of the audit plan are proposed and are consistent with current professional benchmarks:

	Measure	*Target 2013/14*
1	*Percentage of internal audit time spent on direct activity*	*80% of available time.*
2	*Percentage of Final Reports issued within 15 working days of completing field work*	*95 % following feedback meeting*
3	*Percentage of audits completed within allocated time.*	*90% of audits achieved within allocated time.*
4	*Percentage of audit briefs issued within 10 days of audit start date.*	*90% of audits*
5	*Client satisfaction with audits carried out*	*90% client satisfaction as indicated by the responses to the post audit questionnaires.*
6	*Value to the Council – Percentage of audit recommendations agreed and implemented by management*	*95% of audit recommendations accepted and completed within the agreed timescale.*
7	*Ability to delivery effective assurance*	*95% of planned work to be completed by 31 March 2012*

Reporting Protocol

14.   Internal audit work undertaken is reported to clients (service managers, heads of services and directors), the culmination of the year's work being an annual report to Council Members. Our reports provide an overall audit opinion as to the adequacy of the control environment within the area examined. The annual report will contain an overall opinion on the adequacy of internal control, governance and risk management within the Council.

Audit Opinion

15.   The audit opinion is formed following discussions with offices/management, observation of working practices, and the testing of systems.   This is to ascertain whether key controls are in place and whether they are being complied with, or whether there are compensating controls, which provide the same level of overall control and protection against identified risks. Definitions of the five levels of opinions, as previously agreed by members are:

Good   *Controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against significant foreseeable risks.   Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.*

Satisfactory   *Controls exist to enable the achievement of service objectives, obtain good corporate governance, and Protect the Council against significant foreseeable risks.   However, occasional instances of failure to comply with the control process were identified and opportunities still exist to protect the service against potential risks.*

Adequate   *Controls are in place and to varying degrees are complied with but there are gaps in the process, which leave the Council exposed to some minor risks. There is, therefore, a need to introduce additional controls and improve compliance with existing ones, to reduce the risk to the Council.*

Unsatisfactory   *Controls are considered insufficient with the absence of at least one critical control mechanism.   There is also a need to improve compliance with existing controls, and errors and omissions have been detected.   Failure to improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.*

Unacceptable   *Controls are generally weak or non-existent, leaving the system open to abuse or error.   A high number of key risks remain unidentified and therefore, unmanaged.*

16.   We aim to involve auditees at key stages of the audit process and to ensure their agreement to audit findings and recommendations. The table below sets out how auditees will be involved in the audit process this year. There are no changes to the process from last year.

Audit stage	Involvement
Agreement of brief at the start of the audit	Head of Service
Feedback and discussion of main findings arising from an audit	Service Manager/Head of Service
Agreed report	Chief Executive Chief Financial Officer Director as appropriate Head of Service Service Manager
Audit satisfaction questionnaire completion	Head of Service/Service Manager as appropriate
Half yearly progress reports	Management Team and Performance & Governance Committee
Annual Report Annual Plan	Management Team and Performance & Governance Committee Committee

Audit Recommendations

17.   We will continue to report recommendations by highlighting the significance of each item in relation to risk and materiality. Thus recommendations will be graded as follows:

High – Fundamental weaknesses in the system or process under review

Medium – System weaknesses which leave the system open to minor risks

Low – Desirable but non-threatening improvements