

## NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

### AUDIT AND GOVERNANCE COMMITTEE – 26 MARCH 2014

Title of report	<b>INTERNAL AUDIT PLAN 2014-15</b>
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Purpose of report	To inform the committee of the proposed Internal Audit Programme of Work for 2014-15
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Council Priorities	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	Not Applicable
Equalities Impact Assessment	Not Applicable
Human Rights	None
Transformational Government	Not Applicable
Consultees	Corporate Leadership Team
Background papers	<a href="#">Public Sector Internal Audit Standards</a> <a href="#">Internal Audit Charter</a>
Recommendations	<b>THAT THE COMMITTEE</b> <b>1. NOTES THIS REPORT AND COMMENTS AS APPROPRIATE.</b> <b>2. APPROVES THE 2014-15 INTERNAL AUDIT ANNUAL PLAN.</b>

## **1. INTRODUCTION**

- 1.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.
- 1.2 This is achieved through Internal Audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems are designed and working, with consulting activities available to help to improve those systems and processes where necessary.
- 1.3 Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. Internal Audit endeavours to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.
- 1.4 The Three Lines of Defence Model (Appendix A) is a valuable framework that explains Internal Audit's role in assuring effective management of risk and its position in corporate governance. The first line of defence is formed by managers and staff who are responsible for identifying and managing risks as part of their accountability for achieving objectives. The second line of defence provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk. The third line of defence is provided by internal audit. Its main roles are to ensure that the first two lines are operating effectively and advise how they could be improved.

## **2. INTERNAL AUDIT PLAN**

### **2.1 Overall Strategy**

- 2.1.1 The Internal Audit Charter sets out the Internal Audit activity's purpose, authority and responsibilities. The Charter establishes Internal Audit's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the Audit and Governance Committee, authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.
- 2.1.2 The key aim of the service is to provide an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. This helps the organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.1.3 The key areas of work, supporting the aim of the service and to provide the Chief Audit Executive's annual opinion:

- Risk management and control assurance;
- Assessment of internal control effectiveness and efficiency;
- Supporting the Audit Committee by demonstrating the importance of good governance and ensuring internal control improvements are delivered;
- Supporting organisation change to improve processes and service performance;
- Fostering an awareness of risk and control across the organisation; and
- The ability to respond to urgent events.

2.1.4 The annual audit plan is produced following consultation with key stakeholders and considering risk registers, reports from external agencies (e.g. External Audit) and legislative updates as well as exercising professional judgement. The outcomes from the audit plan underpin the Chief Audit Executive's Annual Opinion on the Council's internal control environment. This opinion supports the Council's Annual Governance Statement.

2.1.5 The planning approach is to prioritise high risk areas of the council's operations. This is balanced by the need to provide assurance over key financial systems that are fundamental to the successful operation of the Council. The plan needs to balance between core assurance that internal control, governance and risk management is functioning effectively and seeking value added activity valued by management.

## 2.2 Resources Available

2.2.1 The Audit Team to deliver the audit plan at North West Leicestershire District Council consists of a Senior Auditor (0.6 FTE) and an Internal Auditor (0.49 FTE). Table 1 shows a calculation of the available audit days for 2014/15.

**Table 1: Resources Available**

<b>Total Days</b>	<b>284</b>
<i>Less leave/bank holidays/elections/sickness etc</i>	49
<i>Less training and development</i>	8
<b>Available Days</b>	<b>227</b>
Management/PSIAS/Opinion/Plan/Reporting	32
Admin & Meetings	20
<b>Available Audit Days</b>	<b>175</b>

## 2.3 Internal Audit Annual Plan 2014-15

2.3.1 Audit planning is undertaken on an annual basis and audit coverage will be based on the following:

- the Council's risk register;
- consultation with the Council's Leadership Team and management;
- consultation with the Audit & Governance Committee; and
- the requirements as agreed with External Audit (KPMG).

2.3.2 Audits are conducted using a risk based approach. This enables the finite resources of the team to be focussed on risk areas that have been identified which may prevent the achievement of the council's aims and objectives.

2.3.3 The areas identified for audit review from the Council's risk register and from consultation with key stakeholders have been assessed to order to prioritise them. The auditable areas have been assessed based on the inherent risk within the area

and the quality of controls in place. The risk assessment is subjective and based on the professional judgement of the Chief Audit Executive, however it does provide a good indication of the higher risk areas.

- 2.3.4 The proposed 2014/15 Annual Audit Plan is shown in Table 2 below and the detailed plan is shown in Appendix B. The plan will be subject to ongoing review to ensure that it remains aligned with the council's objectives and the risks identified by management in the risk registers. Any changes will be reported to the Corporate Leadership Team and the Audit and Governance Committee.

**Table 2: 2014-15 Annual Audit Plan**

Key Financial Systems	64
Assurance	36
Risk Based Internal Audits	50
Follow up Reviews	10
Advisory	5
Contingency	10
<b>Total Audit Days</b>	<b>175</b>

A contingency has been included in the plan to allow for ad-hoc or fraud investigations. Due to the limited resources available, only 10 days have been included.

Three of the Council's key financial systems (Benefits, Council Tax and NNDR) are provided by the Leicestershire Revenues and Benefits Partnership, and therefore the audits will be undertaken by the internal auditors at Hinckley and Bosworth Borough Council (CW Audit Services).

External expertise will be brought in to undertake the ICT Key Controls and Governance audit. The cost will be met from the department's agency budget.

No consultancy engagements have been agreed for 2014-15, 5 days has been included to provide any advice requested from managers and staff.

The timings shown within the Internal Audit Annual Plan assume that the expected controls will be in place.

There are insufficient resources to undertake an audit of all the areas identified from consultation with key stakeholders and the areas identified from the risk register. These areas are listed in Appendix C. There are a number of high priority areas which will not be reviewed in 2014-15.

## 2.4 Limitations

- 2.4.1 The matters raised in the audit reports will only be those which are brought to our attention during the internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all the improvements that may be required. Whilst every care will be taken to ensure that the information contained in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained therein. Our work does not provide absolute assurance that material errors, losses or fraud do not exist.

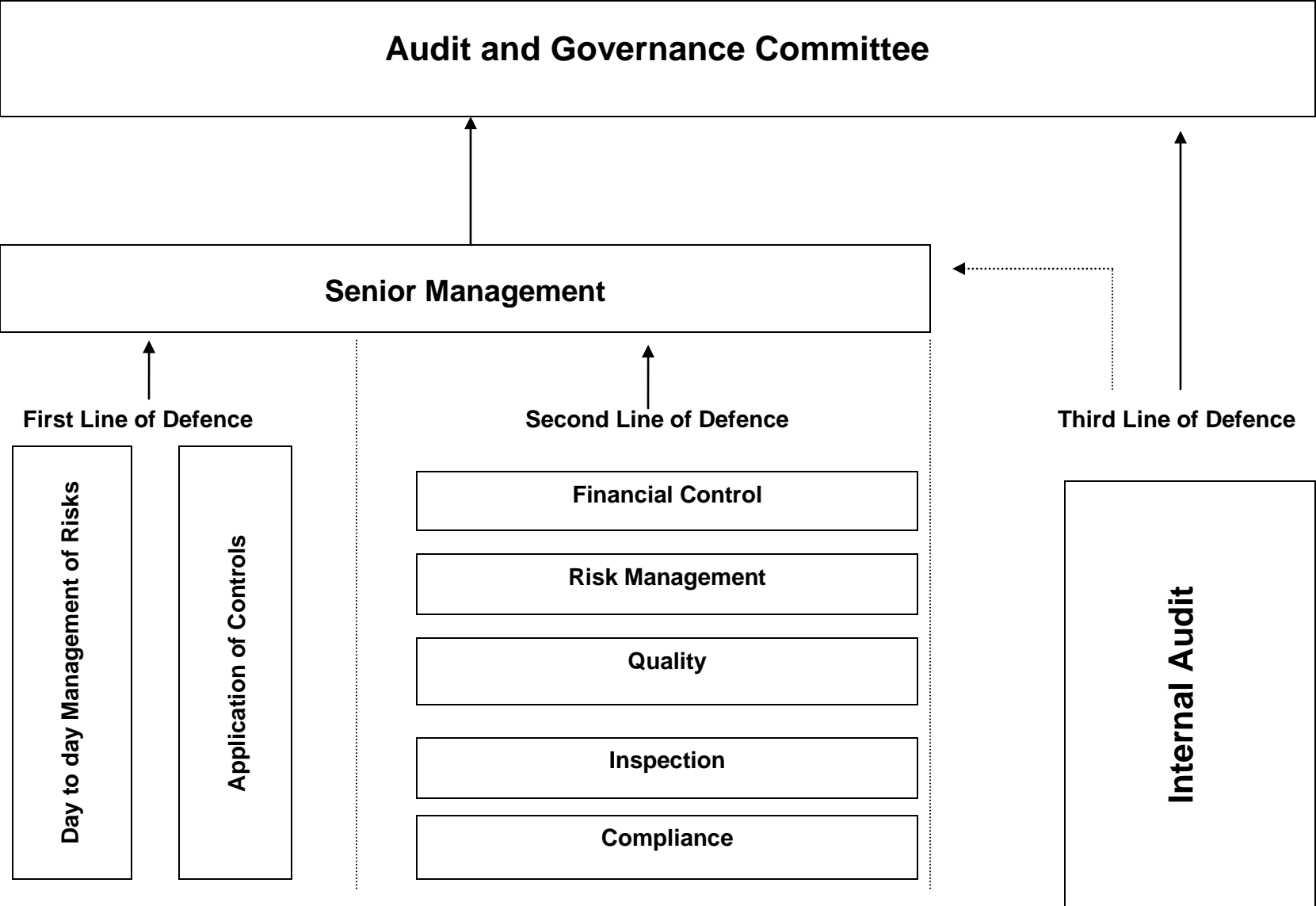
## 2.5 Review of the Available Resources

- 2.5.1 The key issue for consideration is whether the Internal Audit Plan has the appropriate high level coverage and is focussed on the key areas of risk facing the Council. The Audit and Governance Committee should ensure that there is adequate coverage to provide appropriate assurance. Key considerations:
- Is the risk appetite and resource allocation appropriate given the level of risk the council is currently facing?
  - Are there any high risk areas that are not being covered by the plan?
  - Is there an appropriate balance between assurance and advisory work to ensure the effective utilisation of Internal Audit expertise?
  - Is there sufficient contingency to enable a flexibility of response to changing needs?
- 2.5.2 Management and the Audit and Governance Committee need to accept that not all high level risks identified will be reviewed in 2014-15 due to insufficient resources within the in-house audit team. This will have an impact on the Annual Opinion provided by the Chief Audit Executive as full coverage has not been undertaken.

## 2.6 Conformance with Standards

- 2.6.1 There are a number of areas of the standards that the audit planning process does not fully conform with and will be developed for the 2015-16 Internal Audit Plan. These areas are:
- The risk based plan takes into account the organisation's assurance framework;
  - The risk based plan incorporates or is linked to a strategic or high level statement about:
    - a) How the internal audit service will be delivered?
    - b) How the internal audit service will be developed in accordance with the internal audit charter?
    - c) How the internal audit service links with the organisation's objectives and priorities?
  - The risk based plan sets out how internal audit's work will identify and address local and national issues and risks;
  - The input of senior management and the board has been considered in the risk assessment process;
  - The risk based plan explains how internal audit's resources have been assessed;
  - The risk based plan includes the approach to using other sources of assurance and any work that may be required to place reliance upon the source; and
  - The CAE had carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance.

Three Lines of Defence



## 2014-15 Internal Audit Plan

Audit Area	Type	Priority	Auditor	Qtr	Audit Days
Benefits	Key Financial System	High	CW Audit Services	-	-
Business Rates Retention	Risk Based	High	In-house Audit Team	2	6
Capital	Key Financial System	High	In-house Audit Team	2	5
Cash and Bank	Key Financial System	High	In-house Audit Team	2	6
Contracts & Procurement	Risk Based	High	In-house Audit Team	1	6
Council Tax	Key Financial System	High	CW Audit Services	-	-
Creditors	Key Financial System	High	In-house Audit Team	4	8
Debtors	Key Financial System	High	In-house Audit Team	4	8
Decent Homes Improvement Programme	Risk Based	High	In-house Audit Team	2	10
Ethics	Assurance	High	In-house Audit Team	2	8
Fraud	Assurance	High	In-house Audit Team	1	8
Governance	Assurance	High	In-house Audit Team	1	6
Grant Income	Key Financial System	High	In-house Audit Team	4	5
Housing – Other Capital Works	Risk Based	High	In-house Audit Team	1	8
ICT Key Controls	Key Financial System	High	External Contractor	-	-
ICT Security/Back Up	Key Financial System	High	In-house Audit Team	4	2
Information Sharing	Risk Based	High	In-house Audit Team	3	6
IT Governance	Assurance	High	External Contractor	-	-
Main Accounting	Key Financial System	High	In-house Audit Team	4	8
NNDR	Key Financial System	High	CW Audit Services	-	-
Payroll	Key Financial System	High	In-house Audit Team	4	8
Performance Management	Assurance	High	In-house Audit Team	2	6
Planned Housing Maintenance	Risk Based	High	In-house Audit Team	1	8
Planning Policy/Local Plan	Risk Based	High	In-house Audit Team	2	6
Rent Accounting	Key Financial System	High	In-house Audit Team	4	8
Risk Management	Assurance	High	In-house Audit Team	3	8
Treasury Management	Key Financial System	High	In-house Audit Team	3	6
<b>TOTAL</b>					<b>150</b>

## 2014-15 Internal Audit Plan – Non Coverage

<b>Audit Area</b>	<b>Type</b>	<b>Priority</b>
Partnerships	Risk Based	High
Records Management	Risk Based	High
Project Management	Risk Based	High
Safeguarding	Risk Based	High
Commissioning	Risk Based	High
Data Protection	Risk Based	High
Emergency Planning	Risk Based	High
Responsive Repairs & Voids	Risk Based	High
Coalville Market	Projects	Medium
Improving Customer Experience	Projects	Medium
Mobile Working	Projects	Medium
Waste Transfer Station	Projects	Medium
Business Continuity	Risk Based	Medium
Human Resources	Risk Based	Medium
Vulnerable People	Risk Based	Medium
Anti-Social Behaviour	Risk Based	Medium
CCTV	Risk Based	Medium
Disabled Facilities Grant	Risk Based	Medium
Asset Management (Council Buildings)	Risk Based	Medium
Economic Development	Risk Based	Medium
Asset Management (Housing Stock)	Risk Based	Medium
Planning Enforcement	Risk Based	Medium
S106 Agreements	Risk Based	Medium
Garages	Risk Based	Low
Insurance	Risk Based	Low
Member Allowances	Risk Based	Low
Equalities	Risk Based	Low
Housing Options/Homelessness	Risk Based	Low
Safer & Stronger	Risk Based	Low
Housing Strategy	Risk Based	Low
Leisure Centres	Risk Based	Low
LLPG	Risk Based	Low
Recycling	Risk Based	Low
Older Persons	Risk Based	Low
Affordable Housing	Risk Based	Low
Health & Safety	Risk Based	Low
Inventory	Risk Based	Low
Complaints Management	Risk Based	Low
Land Charges	Risk Based	Low
Environmental Health	Risk Based	Low
Food Safety	Risk Based	Low
Petty Cash/Cash Floats	Risk Based	Low
Air Quality	Risk Based	Low
Planning	Risk Based	Low



<b>Audit Area</b>	<b>Type</b>	<b>Priority</b>
Building Control	Risk Based	Low
Tenant Allocations/Choice Based Lettings	Risk Based	Low
Street Action	Risk Based	Low
Waste Management	Risk Based	Low
Commercial Rents	Risk Based	Low
Licensing	Risk Based	Low
Ashby TIC	Risk Based	Low