

<h1>Audit Committee</h1>	Agenda Item: A.8
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Meeting Date: 14th April 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: No
 Within Policy and Budget Framework: Yes
 Public

Title: Internal Audit Plan 2014-15
 Report of: Director of Resources
 Report Number: RD02/14

Purpose / Summary:

Internal Audit is required, under the mandatory Public Sector Internal Audit Standards (PSIAS), to prepare an annual risk based audit plan for approval by the Audit Committee.

Recommendations:

Members are requested to:

- Receive this report and approve the 2014/15 Audit Plan which is attached as Appendix A.

Tracking

Audit Committee	14 th April 2014
Overview and Scrutiny:	Not applicable
Council:	Not applicable

1.0 BACKGROUND

- 1.1 The Chartered Institute of Internal Audit defines internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. Internal audit helps the Council to achieve its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.”*
- 1.2 Internal Audit is required, under the mandatory Public Sector Internal Audit Standards (PSIAS), to prepare an annual risk based audit plan. Also, the Accounts and Audit Regulations require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control; proper practices are now defined within the PSIAS.
- 1.3 The PSIAS affirm the need for annual risk based audit plans to be developed in order that the ‘Head of Internal Audit’ can form an annual opinion on the Council’s systems of risk management, governance and internal control.
- 1.4 The Draft Audit Plan attached at **Appendix A** has been prepared in line with updated planning methodology. Through consultation with the Council’s senior management, and consideration to the Council’s Corporate Risk Register and Annual Governance Statement Action Plan, the Plan has identified the areas where it is considered that Internal Audit can add the greatest value.
- 1.5 Other sources of assurance were also a factor for consideration, to avoid duplication and ensure the best use of Internal Audit resources and the agreed actions from the recent Grant Thornton review of Internal Audit have also been incorporated into the planning process, particularly around:
 - The rationale for inclusion in the Plan is now explained.
 - A reduction in the proportion of the Plan allocated to routine testing of the main financial systems in favour of a three year rolling programme of financial system reviews.
 - An increase in the proportion of the Plan allocated to risk-based internal audit reviews designed to provide assurance over arrangements for governance, risk management and internal control.

2.0 INTERNAL AUDIT SERVICE DELIVERY

- 2.1 The PSIAS require that the Internal Audit Plan sets out a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.
- 2.2 Internal Audit at Carlisle City Council is delivered through a Shared Internal Audit Service. Cumbria County Council is the host authority for the Shared Service with other participants being Copeland Borough Council, the Office of the Police and Crime Commissioner and Cumbria Constabulary. The Shared Internal Audit Service is governed by a Shared Services Operations Board comprising the Section 151 Officers

of each participating authority and a Shared Services Agreement is in place which has been signed up to by each organisation.

- 2.3 Internal Audit plans for each participating authority are prepared in consultation with the respective organisations' senior management and approved by their Audit Committees. Benefits of a Shared Internal Audit service include sharing of information on risks and good practice across the participating authorities as well as flexibility to respond to emerging issues and risks. Economies of scale are also beginning to be generated as some cross organisational audit reviews are being undertaken.

3.0 ROLES OF MANAGEMENT AND OF INTERNAL AUDIT

- 3.1 It is the role of management to establish effective systems of governance, risk management and internal controls in order to:

- safeguard the Council's resources and prevent fraud;
- ensure the completeness and reliability of records;
- monitor adherence to laws, regulations, policies and procedures;
- promote operational efficiency demonstrate the achievement of value for money; and
- manage risk.

- 3.2 It is the role of Internal Audit to provide independent assurance to senior management and the Audit Committee that the Council has implemented adequate and effective procedures in relation to these responsibilities.

- 3.3 In order to safeguard its independence, Internal Audit does not have any operational responsibilities and is not responsible for any of the decision making, policy setting or monitoring of compliance within the Council.

4.0 INTERNAL AUDIT RESOURCES

- 4.1 The Director of Resources has agreed that Carlisle City will continue to receive 540 direct days of Internal Audit time in 2014/15. This is a sufficient number of audit days in which to provide an opinion on the systems of governance, risk and internal control in line with the PSIAS and in order to support the preparation of the Annual Governance Statement.

- 4.2 The PSIAS also reflect the requirement for internal audit plans to be flexible in order to respond to new and emerging risks to the organisation. Some capacity is therefore built into the Plan to allow Internal Audit to respond to such issues. However, should this contingency be exhausted during the year, the approved Plan may need to be revised. In this event, revisions would be considered and agreed by the Director of Resources and reported to the Audit Committee, including the need for any additional audit resources if appropriate. Any request for significant consulting activity by Internal Audit would be approved by the Audit Committee in line with the requirements of the Public Sector Internal Audit Standards.

5.0 CATEGORIES OF INTERNAL AUDIT WORK

- 5.1 **Corporate Reviews** – these are reviews which are strategic in nature or which cut across the entire Council. These reviews are designed to provide assurance that the Council has effective governance and risk management arrangements to mitigate strategic risks.
- 5.2 **Departmental Risk-Based Audit Reviews** – these reviews have been identified in consultation with senior management and following reviews of the Annual Governance Statement Action Plan and Corporate Risk Register. These reviews are spread across service areas following a risk assessment to ensure that Internal Audit resources are targeted at the areas where the greatest benefit will be achieved.
- 5.3 **Financial System Reviews** – following the Grant Thornton review of Internal Audit, a revised approach is now being taken to the reviews of the Council’s main financial systems. A three-year programme has been devised which will ensure that each main financial system is reviewed in depth at least once every three years. The programme is attached at Appendix B.
- 5.4 **Governance System Reviews** – a provision is included for cyclical reviews of key governance systems. These are performance management, risk management and compliance with local code of corporate governance.
- 5.5 **Computer Audit** – the Plan includes provision for computer audit work which will provide assurance over the technical controls in place for key IT systems and processes.
- 5.6 **Follow Up of Previous Audit Recommendations** – a provision for follow up work is included in the Plan to ensure that any significant agreed actions from previous internal audit reports have been fully implemented.
- 5.7 **Advice, Guidance and contingency** – capacity has been built into the Plan for formal advice and guidance to all services across the Council as well as contingency to respond to emerging risks. Contingency time also makes provision for a small amount of audit reviews that are in progress at the year-end
- 5.8 **Counter Fraud** – the Plan includes a provision for counter fraud work including the National Fraud Initiative (NFI). Capacity is also built into the Plan for reactive work should irregularities occur requiring Internal Audit to advise management on their investigations.
- 5.9 A summary of the number of days allocated to each category of audit work is shown below.

	2014/15	
Category	Days	% of total days
Risk-based audit reviews	325	60
Main financial systems	60	11

Governance systems	20	4
Computer audit	20	4
Follow up of previous audits	20	4
NFI/counter fraud work	15	3
Audit Committees	15	3
Overhead (audit planning and management time)	35	6
Contingency	30	5
2014/15 agreed days	540	100

5.10 Key changes from the 2013-14 Audit Plan are:

- An increase in the percentage of the Plan devoted to risk based audit reviews which is a reflection of the requirement of the Public Sector Internal Audit Standards for Internal Audit to provide assurance on the Council's arrangements for governance, risk and internal control.
- A reduction in the proportion of the Plan to be spent on main financial system reviews in line with the revised approach following the Grant Thornton review of Internal Audit and the PSIAS.
- A reduction in work carried forward from the previous year's plan. Where work is underway at the year-end, this will be completed early in 2014/15 and provision is built into the Plan for this. However, where work has not commenced at the year-end, the area will be risk-assessed as part of the planning for 2014/15 and areas will not automatically be carried forward. This is to ensure that audit resources are targeted at the areas considered to be of most relevance in 2014/15.

6.0 PERFORMANCE STANDARDS

6.1 Performance measures are currently being developed in consultation with the Shared Services Operations Board and will be reported to the Audit Committee alongside the first progress report for the 2014/15 Audit Plan. Regular liaison meetings with the S151 Officer will continue to be held to discuss ongoing issues.

7.0 CONSULTATION

7.1 Members of the Senior Management Team (SMT) have individually considered their respective areas of the Audit Plan and SMT as a collective considered the Draft Audit Plan at its meeting on Tuesday 18th March.

8.0 CONCLUSION AND REASONS FOR RECOMMENDATIONS

8.1 The Draft Audit Plan has been prepared in line with expected practice; Internal Audit is required, under the mandatory Public Sector Internal Audit Standards (PSIAS), to prepare an annual risk based audit plan for review and approval by SMT and the Audit Committee.

9.0 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

9.1 Internal Audit supports the delivery of the Council Priorities as set out in the Council Plan by providing independent assurance over the arrangements in place across the Council to deliver priorities and objectives.

Contact Officer: Gill Martin **Ext:** 7294
Audit Manager
(Cumbria Shared Internal Audit Service)

Appendices attached to report: **Appendix A – 2014/15 Draft Audit Plan**
Appendix B - 3 Year Cyclical Reviews of Financial and
Other Key Governance Systems

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Economic Development – not applicable

Governance – not applicable

Local Environment – not applicable

Resources – not applicable

APPENDIX A

CARLISLE CITY COUNCIL – DRAFT INTERNAL AUDIT PLAN 2014/15

Department	Review	Description	Reason for inclusion & links to corporate priorities	Days
Corporate	Delivery of Savings Targets	<p>A review to provide assurance that the Council has effective arrangements in place to deliver key savings proposals and to ensure continued operation of governance and internal control arrangements following service transformations.</p>	<p>Delivery of savings is a significant challenge for the Council and reduced resources will inevitably lead to changes in risk, governance and internal controls.</p> <p><i>This review will support the effective delivery of all council priorities.</i></p>	25
Corporate	Fees and Charges	<p>A review to consider the Council's local charging policy and how it supports the Council's strategic and financial objectives.</p> <p>It will examine how charges are set and monitored and compliance with legal requirements. There is also the potential to benchmark income levels with other comparable authorities.</p>	<p>Fees and charges is a key area of control and accountability to support sound financial management and major income streams are relied upon.</p> <p><i>This review will support the effective delivery of all council priorities.</i></p>	25

Corporate	Counter Fraud Arrangements	<p>The Council has a zero tolerate approach to fraud and has in place a number of measures to deter and detect fraudulent practice. It investigates all suspected cases of fraud and irregularity</p> <p>This is a review to provide assurance that appropriate arrangements and controls are in place to mitigate the risks of inadequate arrangements to countering, investigating and reporting fraud.</p>	<p>There are a number of policies and procedures in place to help counter fraud. Training in this area is also key measure to raising awareness and identifying potential fraudulent activity.</p> <p><i>This review will support the effective delivery of all council priorities.</i></p>	20
Corporate	Customer Services 'Digital by Default'	<p>Effective and efficient Customer Services is fundamental to the operations of the Council and there is a drive to get key council services on line and provide streamlined and efficient self-serve options to customers.</p> <p>This review will look to provide assurance that the appropriate controls are in place to mitigate the risks associated with Customer Services self-service and integration with back office systems.</p>	<p>This audit will support ICT developments within Customer Services and will consider the relevant service strategies in place.</p> <p>It will also formally follow up on the 2013-14 audit recommendations concerning the functioning of the CRM system and its integration with back office systems.</p> <p><i>This review will support the effective delivery of all council priorities.</i></p>	25

Chief Executive's Team	Workforce Development and Training	A review to provide assurance that appropriate controls are in place to mitigate the risks associated with the corporate arrangements in place over workforce planning and staff development.	<p>This audit follows on from the 2013-14 audit review concerning the arrangements in place over devolved development and training arrangements.</p> <p><i>We will work together with partners to develop a skilled and prosperous workforce, fit for the future.</i></p>	20
Deputy Chief Executive's Team	Tullie House	A review to provide assurance that appropriate controls are in place to mitigate the risks associated with this management agreement and the adequacy of the arrangements in place over the safeguarding associated assets.	<p>The Tullie House Trust manages the service and related museum assets on behalf of the Council and there is a legal agreement in place which defines this arrangement and the responsibilities of the associated parties.</p> <p><i>We will develop vibrant sports, arts and cultural facilities, showcasing the City of Carlisle; and we will work more efficiently through partnerships to achieve the City Council's priorities.</i></p>	20

Deputy Chief Executive's Team	Sports Development	A review to provide assurance that appropriate controls are in place to mitigate the risks associated with strategic planning and service delivery arrangements concerning sports and leisure facilities.	<p>Sports Development is a core function and the Council has many partners with which it works with to deliver its Sports Strategy and to manage its leisure facilities.</p> <p><i>We will develop vibrant sports, arts and cultural facilities, showcasing the City of Carlisle; and we will work more efficiently through partnerships to achieve the City Council's priorities.</i></p>	15
Economic Development	Property Portfolio	A review to provide assurance that appropriate controls are in place to mitigate the risks associated with its strategic asset management arrangements.	<p>The Council has a wide and diverse property portfolio and has a key role to play in supporting the local economy.</p> <p><i>We will support the growth of more, high quality and sustainable, business and employment opportunities.</i></p>	20

Economic Development	Housing - Private Sector Landlords	A review to provide assurance that appropriate controls are in place to mitigate the risks associated with the management of private sector tenancies.	<p>The use of private sector landlords plays a key role in achieving the Council's strategic housing priorities.</p> <p><i>We will address Carlisle's current and future housing needs; and we will support the growth of more high quality and sustainable business and employment opportunities.</i></p>	15
Economic Development	Resource Centre	A review to provide assurance that appropriate controls are in place to mitigate the risks associated with this contractual arrangement in place and the management and use of the facility.	<p>The Resource Centre is a key community resource which is managed by the YMCA. It also directly supports strategic aims concerning supporting vulnerable people.</p> <p><i>We will support the growth of more high quality and sustainable business and employment opportunities.</i></p>	15

Governance	Land and Property Lettings	A review to provide assurance that this key function has the appropriate internal controls in place to mitigate known risks in service delivery.	<p>The Council has a wide and diverse property portfolio; this review links to the review of the strategic management of the Property Portfolio.</p> <p><i>We will support the growth of more high quality and sustainable business and employment opportunities.</i></p>	20
Local Environment	Street Cleaning	A review to provide assurance that this key service has appropriate internal controls in place to mitigate known risks in service delivery.	<p>This review supports the 'clean up Carlisle' programme and the efficiencies achieved through the revised street cleaning programme and the use of up to date plant and equipment.</p> <p>It also considers the corporate 'love where you live' campaign which focuses on promoting environmental awareness and education.</p> <p><i>Together we will make Carlisle clean and tidy</i></p>	20

Local Environment	Recycling	<p>Recycling is a core service operation, different aspects of which are delivered in-house and by external contractors.</p> <p>This will be a review to provide assurance that this key service has appropriate internal controls in place to mitigate known risks in service delivery.</p>	<p>Recycling is a key part of the <i>'love where you live'</i> campaign which focuses on promoting environmental awareness and education.</p> <p>This review will consider new and revised service delivery arrangements and associated performance. It will also formally follow up the audit recommendations relating to previous concerns raised in respect of effective and efficient contract management arrangements.</p> <p><i>Together we will make Carlisle clean and tidy.</i></p>	20
Local Environment	Bereavement Services	<p>A review to provide assurance that this key service has appropriate internal controls in place to mitigate known risks in service delivery.</p>	<p>There have been recent changes to the general management and administrative arrangements. Management seek assurance that these changes comply with expected financial procedures.</p> <p><i>Together we will make Carlisle clean and tidy.</i></p>	15

Resources	Procurement	A review to provide assurance that this key function has appropriate internal controls in place to mitigate known risks associated with its strategic procurement planning and management arrangements.	<p>There have been some key changes in the management and delivery of the procurement function over the last 12 months.</p> <p>Also, effective collaboration with other neighbouring authorities and other consortiums are key strategic measures to help ensure effective management and value for money achievements.</p> <p><i>As a corporate function, this reviews support the effective delivery of all council priorities.</i></p>	15
Resources	Job Evaluation	A review to provide assurance that the arrangements and controls in place are sufficient to mitigate known risks associated with continuing need for Job Evaluation.	<p>This is a management priority for audit review predominantly due to changing workforce and the impact this has on roles and responsibilities.</p> <p><i>We will work together with partners to develop a skilled and prosperous workforce, fit for the future.</i></p>	15

Resources	Use of Casuals, Interim and Agency Workers	A review to provide assurance that adequate arrangements are in place to deliver value for money where external staffing resources are used.	Management priority for audit review due to reducing size of the substantive workforce and the reliance which is placed on alternative staffing arrangements. <i>This is a cross cutting review which supports the effective delivery of all council priorities.</i>	20
Main Financial System Reviews	Three year rolling programme of financial system reviews	Eleven main financial systems have been identified and 3 of these will be reviewed in 2014-15 and 4 in 2015-16 and 2016-17. <i>See detail at Appendix B</i>	Need for regular review of material financial systems. <i>These reviews support the effective delivery of all council priorities.</i>	60
Key governance systems reviews	Three year rolling programme of governance system reviews	Three main governance systems identified and 1 of these will be reviewed each year. <i>See detail at Appendix B</i>	These systems are fundamental to good governance within the Council and support the effective delivery of all council priorities. <i>These reviews support the effective delivery of all council priorities.</i>	20
Computer audit	Either specific IT reviews or IT input to	Specialist IT audit input will be delivered through the Internal Audit Shared	IT aspects are integral parts of a number of systems and	20

	overall reviews.	Service. The area(s) for review will be agreed with the S151 and the head of service with a view to mitigating known ICT delivery risks.	strategies at Carlisle City and specialist input is required.	
Follow up	Follow ups as required	Provision to follow up implementation of audit recommendations arising from the 2013/14 Audit Plan and support in maintaining records of progress in implementation.	Internal Audit follow ups are a key requirement of the Public Sector Internal Audit Standards to provide assurance on the implementation of agreed audit recommendations	20
Corporate	Counter fraud support	An allocation of time for co-ordination of the submission of information and review of data matches under the NFI exercise. Also, provision is allocated within the Plan for Internal Audit to support management in investigating matters arising under the Confidential Reporting Policy or the Counter-Fraud and Corruption Policy.	Mandatory requirement of the Audit Commission.	15
Governance	Audit Committee	Provision for compilation of Committee reports, attendance at Committees and training for Committee as appropriate.	Internal Audit requirement to report independently to those charged with governance.	15
Corporate	Audit management, planning and reporting	Provision for management, planning and reporting; this includes ad-hoc management advice and support relating to risk, internal control and governance and attendance at Corporate Risk Management Group, SMT (when	Effective engagement with management enhances Internal Audit service.	35

		required) and other applicable groups and forums as appropriate.		
Corporate	Contingency	A contingency is included in the Plan for any unplanned work, commissioned VfM reviews or hot assurance requests. An element of time is also included for 2013-14 work in progress.	Some flexibility is required in the Plan.	30

APPENDIX B

THREE YEAR CYCLICAL REVIEWS OF FINANCIAL AND OTHER KEY GOVERNANCE SYSTEMS

2014/15		2015/16		2016/17	
Review	Days	Review	Days	Review	Days
Payroll	20	Main accounting system & Budgetary Control	20	Treasury Management	15
Debtors	20	Fixed Assets	20	Income Management	20
		Creditors	20	Car Parking Income	20
Housing Benefits	20	Council Tax	20	NNDR	20
Corporate Governance – compliance with Local Code	20	Performance Management	20	Risk Management	20
Total planned days	80		100		95