

**Agenda Item No:** 6  
**Report To: Audit** Audit Committee  
**Date:** 6 March 2012  
**Report Title:** Internal Audit Operational Plan 2012/13  
**Report Author:** Head of Audit Partnership



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|-----------------|---|
| <b>Summary:</b> | The report sets out the one-year Internal Audit operational plan and asks that the Audit Committee note the contents of the Plan. |
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**Key Decision:** NO

**Affected Wards:** N/A

**Recommendations:** **The Audit Committee is asked to:-**

**Note the contents of the one-year operational Internal Audit plan (shown at Appendix 1)**

**Policy Overview:** Not applicable

**Financial Implications:** None directly

**Risk Assessment** Yes

**Equalities Impact Assessment** No

**Other Material Implications:** Legal: 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'.

**Background Papers:** None

**Contacts:** Brian.Parsons@ashford.gov.uk – Tel: (01233) 330442

## **Report Title:** Internal Audit Operational Plan 2012/13

### **Purpose of the Report**

1. The report sets out the one-year operational Internal Audit plan for the financial year 2012/13 and asks that the Audit Committee note the contents.
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 to 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.

### **Issue to be Decided**

3. A risk based internal audit operational plan has been produced to meet the requirements of the Accounts and Audit Regulations 2011.
4. The Audit Committee is asked to note the contents of the plan.

### **Background**

5. The Committee previously received a report on the Internal Audit Strategic Plan at its meeting on 28 September 2011. The report explained the process for the creation of the plan and the elements that were considered in deciding its content.
6. 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.
7. The approved strategic plan has been used to create the operational work programme for 2012/13 at Appendix 1.
8. 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.
9. The Code of Practice requires the Head of Internal Audit to prepare a risk-based plan to implement the audit strategy.
10. The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation.

11. 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.

## **Preparation of the operational plan**

12. 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 an extract from the strategic plan.
13. 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
14. 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**

15. The plan (Appendix 1) shows the projected internal audit work for 2012/13.
16. The plan currently shows a total of 28 audit projects. This will be amended using a risk based approach and after further discussion with Heads of Service, will be reduced to 24 projects to reflect the available auditor resources.
17. 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.
18. 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.

19. The resources available to Internal Audit consist of two full-time operational auditors, supported operationally by an Audit Manager for two days of the week, and strategically by the Head of Audit Partnership.
20. 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.
21. 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.
22. The majority of the time of the Ashford auditors is spent on Ashford 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.
23. The Internal Audit Plan for Ashford is sovereign. However, where possible it has been aligned with the Audit Plans for Maidstone, Swale and Tunbridge Wells to facilitate the sharing of audit work programmes and to allow the movement of auditors between sites.
24. 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 Payment, Debts Receivable and Payroll. The financial materiality of these systems and the expectations of the external auditors dictate that these systems are reviewed annually.
25. The plan goes on to set out the other service areas that will be subject to an internal audit; some of which have little or no financial risk but are subject to regulatory, legal, technological or reputation risk. These subjects may be reviewed annually or biennially or triennially depending on their risk profile.

### **Reporting the work**

26. 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 Deputy Chief Executive (Section 151 Officer) and the Chief Executive.
27. 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.
28. 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 Deputy Chief Executive and the Chief Executive.
29. 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.

30. The outcomes from Internal Audit reviews are reported to the Audit Committee twice a year. An Interim Report is prepared to show the results of work in the first half of the financial year; this is reported to the Committee in December. The Annual Internal Audit report shows the work for the complete financial year and is reported to the Committee in May/June to support the findings within the Annual Governance Statement. The annual report contains the opinion of the Head of Audit Partnership on the adequacy of the Council's control environment.

## **Risk Assessment**

31. The Internal Audit operational plan sets out a series of projects for 2012/13 to examine the adequacy of the controls that the individual Head of Service has put in place to manage a very broad range of risks to the delivery of strategic and operational objectives.

## **Equalities Impact Assessment**

32. None

## **Other Options Considered**

33. 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.

## **Consultation**

34. The Strategic Plan, from which the operational plan is drawn, was provided to Management Team and to the meeting of the Audit Committee in September 2011.
35. 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.
36. Before any actual audit work commences, the respective Head of Service is consulted on the timing, scope and objectives of the audit project.

## **Implications Assessment**

37. 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 manage the risks to their delivery.

## **Handling**

38. The operational plan will provide the majority of the work of the Internal Audit Team over the forthcoming financial year. The auditors will be allocated audit projects in line with the agreed plan

## **Conclusion**

39. 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'.
40. The Head of Audit Partnership is satisfied that completion of the attached operational audit plan for 2012/13 will meet the statutory duty and will allow the risks to the achievement of the Council's operational and strategic objectives to be reviewed.

## **Portfolio Holder's Views**

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**Contact:** Brian Parsons 01233 330442

**Email:** Brian.Parsons@ashford.gov.uk

**DRAFT INTERNAL AUDIT PLAN 2012/2013**

|    | <b>SUBJECT</b>  | <b>SERVICE AREA</b>         | <b>COMMENTS</b>                     |
|----|---|-----------------------------|-------------------------------------|
| 1  | <b>YOUTH &amp; LEISURE DEVELOPMENT</b>                      | CULTURAL & PROJECT SERVICES | System Review                       |
| 2  | <b>PARKS &amp; OPEN SPACES – GM CONTRACT</b>                | CULTURAL & PROJECT SERVICES | Contract System Review              |
| 3  | <b>PLANNING &amp; DEVELOPMENT FEES</b>                      | PLANNING & DEVELOPMENT      | Financial/Income System             |
| 4  | <b>SECTION 106 AGREEMENTS/COMMUNITY INFRASTRUCTURE LEVY</b> | PLANNING & DEVELOPMENT      | Financial/Income System             |
| 5  | <b>LICENCING</b>  | ENVIRONMENTAL SERVICES      | System Review                       |
| 6  | <b>CAR PARK INCOME/PERMITS/CASH</b>                         | ENVIRONMENTAL SERVICES      | Income System Review                |
| 7  | <b>ENVIRONMENTAL PROTECTION</b>                             | ENVIRONMENTAL SERVICES      | System Review                       |
| 8  | <b>CCTV MONITORING /TELECAN</b>                             | ENVIRONMENTAL SERVICES      | System/Compliance Review            |
| 9  | <b>ELECTIONS</b>  | LEGAL & DEMOCRATIC SERVICES | System/Compliance Review            |
| 10 | <b>MEMBERS ALLOWANCES &amp; EXPENSES</b>                    | LEGAL & DEMOCRATIC SERVICES | Financial/Compliance System Review. |
| 11 | <b>NNDR</b>   | FINANCE                     | Financial System Review             |
| 12 | <b>HOUSING BENEFITS</b>                                     | FINANCE                     | Financial System Review             |
| 13 | <b>COUNCIL TAX</b>  | FINANCE                     | Financial System Review             |
| 14 | <b>DEBTORS</b>  | FINANCE                     | Financial System Review             |
| 15 | <b>CREDITORS</b>  | FINANCE                     | Financial System Review             |
| 16 | <b>GENERAL LEDGER</b>                                       | FINANCE                     | Financial System Review             |
| 17 | <b>PAYROLL</b>  | FINANCE                     | Financial System Review             |
| 18 | <b>CONTRACT PROCEDURE RULES/PROCUREMENT</b>                 | CORPORATE/ FINANCIAL/ LEGAL | Compliance Review                   |
| 19 | <b>BANKING ARRANGEMENTS</b>                                 | FINANCE                     | Financial Review                    |

**DRAFT INTERNAL AUDIT PLAN 2012/2013**

|    |                                  |                           |   |
|----|----------------------------------|---------------------------|---|
| 20 | <b>MILEAGE/EXPENSE CLAIMS</b>    | PERSONNEL AND DEVELOPMENT | Financial/Compliance Review   |
| 21 | <b>NFI</b>                       | FINANCE/<br>SECTION 151   | The biennial Audit Commission data matching exercise Internal Audit required to facilitate/oversee the initiative<br>- Fraud Review |
| 22 | <b>ALLOCATIONS/WAITING LISTS</b> | CUSTOMER HOMES & PROPERTY | Systems review  |
| 23 | <b>PFI</b>                       | CUSTOMER HOMES & PROPERTY | Financial System Review   |
| 24 | <b>RENT ACCOUNTING</b>           | CUSTOMER HOMES & PROPERTY | Financial System Review   |
| 25 | <b>DEPOSIT LOANS/BONDS</b>       | CUSTOMER HOMES & PROPERTY | System review   |
| 26 | <b>ICT (topic to be agreed)</b>  | ICT & CUSTOMER SERVICES   | ICT review  |
| 27 | <b>PROJECT MANAGEMENT</b>        | CORPORATE                 | System/Compliance Review  |
| 28 | <b>GREENOV INITIATIVE</b>        | PLANNING & DEVELOPMENT    | Financial checks – Including audit and sign-off of funding claims   |