

## Audit Committee

6<sup>th</sup> March 2009



### Provisional Internal Audit Plan 2009/10

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## Report of the Head of Internal Audit and Risk Management

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### Purpose of the Report

1. This report provides a summary of the proposed provisional Internal Audit Plan for 2009/10. The report advises Members of the estimated resource available for Internal Audit and seeks approval to the content of the audit plan for the financial year 2009/10.
2. The report also assists the Council in its statutory responsibility to ensure the proper administration of its financial affairs.

### Statutory Background to Internal Audit

3. The Accounts and Audit (Amended) (England) Regulations 2006 place a requirement upon every local authority to maintain an adequate and effective internal audit of their affairs.
4. The Director of Resources, as the Council's Chief Financial Officer, has a duty under S151 of the Local Government Act 1972 to maintain an appropriate framework of control over the Council's financial affairs. Part of the process by which the S151 officer meets that requirement is through assurances provided by Internal Audit.
5. The Council is also required to publish, as part of its Annual Statement of Accounts, an Annual Governance Statement (AGS). This statement will provide an overall assessment of the Council's Corporate Governance arrangements and an appraisal of the key controls in place to manage the Council's principal governance risks. In preparation of this requirement a Code of Corporate Governance has been prepared, which is consistent with the principles of the CIPFA/SOLACE Framework, "Delivering Good Governance", for approval by the Council.
6. The AGS will explain how the Council has complied with the Code and will also provide details of where improvements need to be made to meet the requirements of regulation 4(2) of the Accounts and Audit (Amended) (England) Regulations 2006 in relation to the publication of its Statement on Internal Control. One element in this assurance gathering process is the plan of audits carried out by Internal Audit.

## **Role of Internal Audit**

7. Internal Audit is an assurance function that provides an independent and objective opinion to the Council on governance, control, and risk management by evaluating their effectiveness in achieving the Council's objectives. It objectively examines and evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
8. The agreed aims and terms of reference for Internal Audit are included in the Internal Audit Charter. The Charter identifies the service standards our customers can expect, how the areas to be reviewed are determined, our audit approach and how we agree and report upon recommendations. This Charter is currently being revised and will be reported to the Committee for approval when finalised.

## **Relationship with External Audit**

9. Although internal and external audit have different roles and responsibilities there are areas of overlap in the work they are required to undertake. Under the Audit Commission's Code of Audit Practice for external audit and the requirements of the International Standards on Auditing, external audit is required to place reliance on the work of Internal Audit where possible to support its conclusions. It is therefore imperative that the work of internal and external audit is co-ordinated through close co-operation. The existing protocol between internal and external audit will ensure the optimum use of both resource during 2009/10.
10. In utilising this approach, the External Auditor will consider the extent to which reliance can be placed upon the work undertaken by Internal Audit and will therefore be able to determine the extent to which additional external system testing is required.

## **Responsibilities of Management**

11. Internal Audit is a review and assurance activity and should not be seen as a substitute for introducing and maintaining good internal procedures. Service managers are responsible for establishing and maintaining a proper and effective control environment and for managing risk. Control is an integral part of managing operations and as such Internal Audit independently reviews how effectively management discharges this aspect of its responsibilities by evaluating the effectiveness of systems of internal control and providing objective analysis and constructive recommendations. Management retain full ownership and responsibility for the implementation of any such recommendations.

## **Resources Available in 2009/10**

12. In estimating the overall resource available to Internal Audit for 2009/10 it has been assumed that all Internal Audit staff, who are currently in post within the County Council and the District Councils, will remain in their current posts for the full financial year. The total number of FTEs currently in post is 34.2. This is

lower than the current combined establishment as all Councils are carrying a number of vacancies. No provision has been made in the plan for vacancies at this time as it is known that the current combined audit resource will need to be reduced to achieve the expected savings in the LGR bid.

13. When the structure of the new Internal Audit and Risk Management Division is agreed, it will be necessary to review the resource available for the year and to make adjustments to the audit plan where necessary.
14. Estimated Internal Audit resources for 2009/10 are summarised as follows:

	<b>Total Days</b>	<b>Percentage</b>
<b>Gross Days Available</b>	<b>8,919</b>	<b>100%</b>
Less overheads:		
- Uncontrollable, e.g. annual leave, bank holidays, sickness, maternity and	1,578	
- Controllable, e.g. planning, management, service development, training	1,922	
<b>Productive Days Available</b>	<b>5,419</b>	<b>61%</b>
Less chargeable days for external organisations:		
SLA Police	185	
SLA Fire	68	
Town Councils	45	
Parish Councils	4	
<b>Productive Days Available to County Council</b>	<b>5,117</b>	<b>57%</b>

### **Development of Plan**

15. The Internal Audit plan for 2009/10 has been drafted, in consultation with the Audit Managers from all of the current District Councils, using the following approach;
  - Ensuring that all core audit areas are included within the plan as these are essential in ensuring that adequate assurance can be given in relation to the key financial and non financial systems
  - Including other high risk audit areas from the audit universe based upon historical risk data
  - Including any high risk reviews from the risk registers which are not already included from the two items above
  - Accounting for the resources required to deliver the existing service level agreements
16. Consequently, unlike previous years, due to the County Council structures not being fully developed, Chief Officers have not been consulted prior to the development of the Internal Audit Plan. However, it is planned to meet with all Directorates once key staff are in post to discuss this provisional plan and the specific audits included in their service areas. Any priorities due to risk or timing issues can then be established to help us programme the plan more effectively over the year. These discussions will also allow consideration of any areas of risk or concern that management may have and would like Internal Audit to

review. Given the current extent of change across the Council and the development of new processes and procedures required to manage this change, it is anticipated that a number of new areas will be added to the plan arising from these discussions and provision has therefore been made in the plan to accommodate this.

17. It is acknowledged that this approach does not reflect a full risk based assessment of audit need. Ideally all potential audit areas identified in the audit universe would be risked assessed and the resources required to deliver those audits which are included in the plan would be developed based upon the results of this risk assessment. Whilst much work has already been carried out to revise the audit universe as a result of LGR, a considerable amount of work is still required to gather sufficient data to be able to carry out a comprehensive review of the risk associated with each entity in the audit universe. Some data will not yet be available as new services are yet to be established. Provision has therefore been included in the 2009/10 plan to undertake this risk assessment. This investment of audit resources in this way will allow future years' audit plans to be driven by a full risk based audit needs assessment.

### **Variations to the Provisional Audit Plan**

18. As the Internal Audit Plan for 2009/10 has been developed at a time of uncertainty, in terms of both the audit resources available and the audit risk assessment, the plan, presented for approval at Appendix 2, is a provisional one and will evolve and develop as these uncertainties are reduced or removed. Consequently, it is envisaged that numerous changes to this provisional plan will be necessary during the year. An assessment of risk, based on the best information available at the time, will be made each time variations are proposed and all resultant revisions to the plan will be reported to this Committee for information in the quarterly update report.
19. Subsequent quarterly reports to this Committee on the delivery of the plan will be based upon the agreed Revised Audit Plan.

### **Reporting Protocols and Performance Management Arrangements**

20. We are currently reviewing our reporting protocols and performance management arrangements as part of the review of the Internal Audit Charter referred to above. This will clarify how and where the outcomes of audits are reported and how the performance of the delivery of the 2009/10 Internal Audit Plan is to be measured, monitored and reported.

### **Recommendation**

21. It is recommended that the draft provisional Internal Audit plan for 2009/10, set out in Appendix 2, be approved.

Background Papers - **Audit Files & Working Papers**

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**Contact: Paul Monaghan, Audit Manager**  
**Tel: 0191 3833609**

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## **Appendix 1: Implications**

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### **Local Government Reorganisation**

*(Does the decision impact upon a future Unitary Council?) No*

#### ***Finance***

There are no direct financial implications arising for the Council as a result of this report, although we aim through our audit planning arrangements to review core systems in operation and ensure through our broad programme of work that the Council has made safe and efficient arrangements for the proper administration of its financial affairs.

#### ***Staffing***

The plan has been developed based on current staffing levels but will need to be revised as the internal Audit and Risk Management Division's structure is progressed

#### ***Equality and Diversity***

None

#### ***Accommodation***

None

#### ***Crime and disorder***

None

#### ***Sustainability***

None

#### ***Human rights***

None

#### ***Localities and Rurality***

None

#### ***Young people***

None

#### ***Consultation***

None

***Health***

None

## Appendix 2: Provisional Internal Audit Plan 2009/10

Audit Area	Planned Audit Days	Outline Scope
<b>Core Financial Systems</b>		
Council Tax	105	Key Controls
NNDR	105	Key Controls
Grants	50	LAA Assurance work Stretch targets
Housing and Council Tax Benefits	175	Key Controls
Housing Rents	105	Key Controls
Housing Management	70	Governance arrangements
Capital Accounting	20	System Review
Procure to Pay (Creditors)	100	Key Controls Data Quality Review Compliance with controls for large payments
Payroll	115	Key Controls Data Quality Review Review of access levels Service reviews Overtime Car mileages
Pension Fund	50	Fund Management Pension Administration (processes and systems) Investments
Customer to Cash (Income & Debtors)	100	Key Controls Cash Collection Service Income Direct Debiting Internal Debts
Treasury Management	35	Governance & Strategy Short Term Investments Long term borrowing
General Ledger	230	Oracle Configuration District Feeder Systems/Reconciliations Replacement of Legacy systems Budgetary Control Bank Reconciliation Banking arrangements Financial Reporting
Other	40	National Fraud Initiative
<b>Core Non Financial Systems</b>		
Corporate Governance	150	Assurance work on governance arrangements
LGR Transition arrangements	50	Review of transitional arrangements
Partnerships (incl. AAPs)	40	Review of partnership framework and compliance with the framework for key partnerships
Business Continuity Planning	10	Appropriateness of BC arrangements
Performance Management	50	Review of performance management arrangements
Risk Management	20	Review of risk management arrangements
RIPA	10	Compliance with RIPA 2000.
Corporate Procurement	50	Corporate procurement arrangements, including Contracts and Final Accounts sign off.
Comprehensive Area Assessment	20	Review of CAA framework
Key Decisions	10	Compliance reviews of Council's policies and procedures
Delegated Powers	20	Compliance reviews of Council's policies and procedures
Records Management	10	Compliance reviews of Council's policies and procedures
Building Schools for the Future	20	Review of project management arrangements
Waste Management	10	Review of project management arrangements
<b>IT Audits</b>		
Change controls	10	Review of controls in place on making code changes to systems
Unix security	10	Security of key operating system
Network management	10	Review of network controls
Windows security	10	Review of Windows controls, including access, and file settings
Internet security	20	Review of firewall settings and compliance with policies
Backup arrangements	10	Appropriateness of IT backup arrangements
Homeworking	10	Security of technology used in facilitating homeworking (and policies and procedures in place)

<b>IT Audits (Contd.)</b>		
Mobile computing	10	Wireless security for local networks, data security on mobile equipment
E Tendering	10	System security
E sales	10	System security
Electronic Data Interchange	5	System security
SQL Server	10	Security of database
Other operating systems	20	Security of any other operating system in use
Information Security Policy	10	Compliance with Information Security standards
Software Licenses	5	Management control of software licenses
WiMax	10	Wireless security over wide network
<b>Other Audits</b>		
Schools	600	External assessment of FMSiS
CYPS	152	School Sports Coordinator Programmes Every Child Matters agenda School Meals Data Quality School Access/Admin policy ITSS SIMS/Oracle reconciliations Dedicated School Grant
Adults: Establishment reviews	70	Homes for the Elderly Day Centres AYPC
Adults: System reviews	75	Homes for Elderly Day Care Home Care Mental Health Physical Disability
Other System Reviews	40	Spennymoor Leisure Centre County Hall Catering Integrated Transport Street Lighting
Learning Disability Partnership	10	Review of governance arrangements
Caldicott	10	Compliance with Caldicott guidelines
Energy Management	10	Environmental audit, including measures to reduce carbon emissions
<b>Additional audits identified from risk registers (and not already included above)</b>		
Highways Planning/Maintenance	10	Scope to be defined
External Funding	10	Scope to be defined
Workforce Wellbeing	20	Scope to be defined
Potential Loss of Service Direct Business	10	Scope to be defined
Recruitment & Selection (CYPS)	10	Scope to be defined
Civil Parking Enforcement	10	Scope to be defined
Use of consultants	20	Scope to be defined
Cost of child placements	10	Scope to be defined
Youth Justice Board	10	Scope to be defined
Safe swimming pools	10	Scope to be defined
<b>Additional allocation to Directorates</b>		
Assistant Chief Executive	150	
Adults, Wellbeing & Health	200	
CYPS	200	
Resources	150	
Regeneration & Economic Development	300	
Neighbourhood Services	300	
<b>Other chargeable days to fulfil professional standards</b>		
Service Audit Planning	100	
Audit Committee	20	
Completion of Previous Year Audits	50	
Follow up	50	
Contingency	200	
Advice & Guidance	200	
Fraud & Investigation	150	
Reminders and Surveys	20	
<b>TOTAL DAYS FOR DCC</b>	<b>5,117</b>	



