Audit Committee

28 June 2012

Durham County Council

Internal Audit Plan 2012-13
(JULY **2012** TO JUNE **2013**)

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1. To submit the proposed Annual Internal Audit Plan for 2012-13. Due to the revised audit planning year agreed last year, this covers the period July 2012 to June 2013.

Background

2. The agreed audit strategy and terms of reference for the internal audit service are detailed in the Internal Audit Charter, last reviewed by the Audit Committee in October 2011.

3. The types of audit work included in Annual Internal Audit Plans are as follows:

   Planned Assurance Reviews

4. The key responsibility of internal audit is to provide an independent annual assurance opinion on the adequacy and effectiveness of the Council's control framework and environment - including risk management, control and governance arrangements. This is a statutory requirement.

5. The Council's Control Framework is the key controls in place to manage key risks. Independent assurance is required to:

   - ensure that risks have been properly identified and assessed (strategic and inherent/operational)
   - control design is adequate to manage identified risks
   - controls are effective in practice

6. Responsibilities for ensuring an effective control framework are defined as follows:

   - **1st Line** – front line/day to day management - responsible for establishing controls to mitigate risks
   - **2nd Line** – oversight function e.g corporate risk management, corporate performance management, service based quality assurance and compliance teams
   - **3rd line** – internal audit, external audit, external inspection/review agencies and the Audit Committee - provide independent review of 1st and 2nd line of defence*.*

7. Independent assurance is provided by Internal Audit to fulfil the requirements of a number of customers/stakeholders, namely:

- Service Managers
- Corporate Management Team
- S151 Officer
- Monitoring Officer
- External Audit
- External bodies
- Audit Committee/Council
- The Public

8. The audit strategy reflects the implementation of a revised risk based approach to internal auditing to help embed operational risk management through the use of a Control Risk Assessment (CRA) methodology. Operational risks are those that arise directly from the core activities of delivering services that may not always be documented.

9. Operational risk types include:

- Financial Management Risks
- Project Risks
- Performance Management Risks
- Partnership Risks
- Human Resources Risks
- IT Risks
- Procurement and Contract Risks
- Legal Risks
- Service Specific Risks

10. To enable a systematic review of key risks and key controls across the whole Council, which is necessary to inform the annual audit opinion, an exercise was begun last year in consultation with service managers to identify all key service activities on which assurance is required by, "those charged with governance," which in this Authority is the Audit Committee.

11. This led to the development of a draft strategic audit plan that was endorsed by Corporate Management Team (CMT) and approved by the Audit Committee on 8th June and 30th June 2011 respectively.

12. The agreed audit strategy to provide independent assurance, as detailed in the Internal Audit Charter, can be summarised as follows:

- To work in consultation with senior management teams and other providers of assurance to prepare strategic and annual audit plans
- To carry out planned assurance reviews of all key service activities/systems over a rolling 5 year programme
- To focus on key risks and key controls where there is little or no assurance
- To take assurance from the work of 1st and 2nd line of defence to reduce or tailor audit reviews of the 1st Line.

13. In accordance with the agreed audit strategy, we will, in consultation with the nominated service manager or key contact, prepare a Control Risk Assessment (CRA) prior to the start of each planned assurance review included in annual audit plans to:

- Identify and agree key service/system operational objectives
- Assess and agree key risks
- Identify and agree expected/existing key controls
- Identify other key sources of assurance and what assurance they provide that risks are effectively managed
- Inform the scope and terms of reference for audit
- Identify key stakeholders/contacts and circulation list for report
- Provide a mechanism for on going **self**-assessment post audit (CR**S**A)

14. Wherever possible Internal Audit will seek to place reliance on the work of other assurance providers to avoid any unnecessary duplication.

15. In the longer term, it is intended that all key risks and key controls and the level of assurance provided by all key assurance providers are captured in assurance maps, categorised by risk type. These assurance maps will underpin the Council's assurance framework and provide clarity to CMT and the Audit Committee on how and when assurance is provided that key controls are both adequate and effective in managing identified risks. Any duplication or gaps in assurance identified through the mapping process should then provide a basis for a more co-ordinated and coherent approach to future assurance provision.

Counter Fraud Work

16. Provision is also made in annual audit plans to support service managers at an operational level to mitigate the strategic risk of fraud and corruption. Given the current economic climate and the extent of change across the Council this risk has increased.

17. Work carried out under this category includes:

- Preparing and promoting the Council's Counter Fraud and Corruption Strategy
- Helping service managers identify fraud risks and design controls to prevent and/or detect fraud occurring
- Conducting counter fraud reviews to help detect fraud and error in known high risk areas
- Supporting managers to investigate fraud
- Helping service managers prevent reoccurrences
- Monitoring and reporting upon fraud & irregularity activity

Grant Certification Work

18. Some provision is made in internal audit plans for the certification of grant claims where grant conditions of external funding providers require it.

Follow Up

19. Provision is made in annual plans to provide assurance that management responds appropriately to address agreed weaknesses in controls, identified through the audit process, which may increase the impact or the likelihood of risk occurring above an acceptable level.

Monitoring and Reporting

20. Provision is made in the plan for monitoring the delivery of the agreed plans to the required professional standards and for reporting progress to Corporate Directors and the Audit Committee on a quarterly basis. This reporting mechanism will also allow a regular forum for consideration of new or emerging risks.

Advice and consultancy role and contingency provision

21. Given the extent of the transformation and change agenda with which the Council is faced at this time, it is important that audit plans are flexible and allow for the service to be pro active in supporting management in the consideration of control issues relating to new or emerging risks. Consequently it is proposed that only approximately 70% of estimated audit resources available to allocate to service based reviews are allocated each year. The remaining 30% will be set aside as a contingency provision to respond to:

- New and emerging risks including fraud and irregularity investigations
- Support in the development and implementation of projects, processes or new initiatives
- Ad hoc requests for advice and guidance
- Known weaknesses in the control environment identified through fraud and irregularity investigations or planned assurance work where additional or follow up work is required.

22. Service requests are encouraged at any time and will be considered in relation to the risk and the type of audit work required e.g. control design and/or compliance assurance, grant certification work, advice and consultancy etc, and whether or not the service has the necessary skills and resources to undertaken the work requested.

23. Any proposals to amend approved plans will be discussed with Corporate Directors and any significant changes will be reported to the Audit Committee for approval.

Preparation of 2012-13 Audit Plan

24. Year 1 of the strategic audit plan agreed last year formed the basis of the 2011-12 annual audit plan. Yrs 2-5 were only provisional and subject to consultation and agreement as part of the annual planning process.

25. In consultation with Service Groupings Senior Management Teams, the provisional strategic plan has been reviewed and revised to reflect changes in structures and service activities and preference for the timing of reviews initially scheduled for Yr 2 of the strategic plan.

26. The draft proposed annual audit plan for 2012-13 is attached as Appendix 2. This incorporates:

- Corporate Provisions
- Work started in 2011-12 where provision will be needed beyond 30th June
- Work deferred from the approved 2011-12 plan carried forward into 2012-13 as previously agreed.

- Work scheduled for Yr 2 from the draft strategic plan - revised following consultation
- Service Requests

27. Given the audit strategy outlined above it is particularly important that we engage with the most appropriate officer(s) at the planning and preparation stage to discuss and develop the CRA. This stage of the audit process is therefore key to the effectiveness of the audit and inevitably requires access to the right people and information at the right time to allow us to complete planned reviews effectively and within agreed timescales. The nominated key contact(s) should therefore be the officer best placed to identify and agree service objectives, key risks, key controls, other assurance sources and the resultant draft audit report.

28. We will endeavour to schedule agreed work within the timing preference expressed by services, but inevitably this may not always be possible due to the practicalities of scheduling work across all service groupings to match estimated audit resources available. It should also be noted that given the importance of the planning and preparation stage of the audit process, planning meetings will normally be scheduled with identified key contacts well in advance of the proposed timescale for completing the audit fieldwork. It is not until the CRA is complete and the scope and TOR is agreed that we have a better understanding of what reliance can be placed on the work of other assurance providers and the audit resources required to complete the fieldwork. Consequently, planning meetings for an audit review scheduled to be undertaken at an agreed time may commence several weeks or months in advance. The wider the scope, eg a cross cutting corporate review the longer the lead in time is expected to be as it may be necessary to consult with a number of people.

29. The estimated gross audit days available to deliver the Council's Internal Audit Plan for 2012/13 have been determined as follows:

Estimated Gross Days Available (20.5 FTE)	**5333**	**100%**
Less overheads:		
Uncontrollable, e.g. annual leave, bank holidays, sickness, maternity		18
Controllable, e.g. training, divisional/ departmental duties		14
Productive Days Available	**3626**	**68%**
Less days to external organisations:		
Durham Police Authority	180	
Durham and Darlington Fire & Rescue Authority	75	
Pension Fund	20	
Durham Joint Crematorium	22	
Mounsett Joint Crematorium	20	
Durham City Charter	6	
	323	
Productive Days Available to Durham County Council	**3303**	**62%**

30. Monitoring of the plan will continue during the year through quarterly progress reporting to provide feedback on delivery and to discuss any new or emerging risks.

Recommendations

31. It is recommended that Members :

- Note the audit strategy previously agreed.
- Approve the proposed audit plan, as detailed in the attached Appendix 2.

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Appendix 1: Implications

Finance

No direct financial implications

Risk

None

Staffing

None

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Discrimination

None

Legal Implications

Compliance with the Accounts and Audit Regulations 2011