

Audit Committee

27 June 2013



Internal Audit Plan 2013-14 (JULY 2013 TO JUNE 2014)

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1. To submit the proposed Annual Internal Audit Plan for 2013-14, as detailed in Appendix 2 attached, for approval.

Background

2. The Public Sector Internal Audit Standards (PSIAS), that came to effect from April 2013, define internal audit as,

“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
3. The agreed audit strategy and terms of reference for the internal audit service to fulfil this objective are detailed in the Internal Audit Charter approved by the Audit Committee.
4. A summary of the agreed audit strategy and the types of work carried out by the service to deliver this strategy, which have informed the development of the 2013/14 audit plan are provided in Appendix 2.
5. The Internal Audit Charter and Audit Strategy will be reviewed during 2013/14 in accordance with the requirements of the PSIAS.

Preparation of 2013-14 Audit Plan

6. In consultation with Service Groupings’ Senior Management Teams, the provisional strategic plan has been reviewed and revised to reflect changes in structures, changes in key service activities and management’s preference for the timing of reviews.
7. The proposed annual audit plan for 2013-14 attached was endorsed by the Corporate Management Team 12 June 2013 and includes provision for :
 - Work started in 2012-13 which is not expected to be finalised until after the end of June
 - Work deferred from the approved 2012-13 plan carried forward into 2013-14 previously agreed.

- Planned assurance work scheduled in year 3 of the 5 year strategic plan
 - Annual due diligence work on key financial systems and compliance with key corporate policies
 - Service requests identified through the consultation process with senior management
 - Grant certification work
 - The continuation of fraud awareness initiatives
 - Counter fraud reviews aimed to detect and prevent fraud in high risk areas
 - Corporate provision for reactive advice and consultancy work type and new emerging risks, including suspected fraud and irregularities (contingency)
 - Corporate provision for planning, quality assurance and reporting
 - Follow up of agreed audit recommendations
8. The detailed scope of audit reviews included in the plan has not yet been determined. These will be developed as part of the planning and preparation stage of each individual assignment in accordance with the agreed audit strategy. This ensures that audit resources assigned to individual reviews are focused upon operational risks, controls and the assurance environment expected to be in place at the time reviews are actually carried out. This is particularly important due to the extent of change management across the Council.
9. Operational risks are those that arise directly from the core activities of delivering services and include:
- Financial Management Risks
 - Project Risks
 - Performance Management Risks
 - Partnership Risks
 - Human Resources Risks
 - IT and Information Governance Risks
 - Procurement and Contract Risks
 - Legal Risks
 - Service Specific Risks
10. In evaluating the management of these risks, Internal Audit aims to help the achievement of corporate priorities and objectives by providing assurance on:
- The adequacy of risk identification, assessment and mitigation – including the adequacy and effectiveness of the strategic risk management process
 - The adequacy and application of controls to mitigate identified risk
 - The adequacy and extent of compliance with the Council's corporate governance framework
 - The extent of compliance with relevant legislation
 - The extent to which the Council's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
 - The quality and integrity of financial and other management information utilised within the Council
11. 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 (**CRSA**)

12. 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.

13. Given the extent of the transformation and change agenda with which the Council is faced at this time, it is particularly important that the annual audit plan is flexible and allows 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 are pre-programmed each year. The remaining 30% will be set aside as a contingency provision to respond to new and emerging risks, including reactive work to potential fraud and irregularity, and changes to the strategic audit plan to reflect changes in service priorities and /or risks.

14. 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.

15. 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.

Delivery of the 2013/14 Audit Plan

16. The audit days required to deliver the proposed audit plan, which includes provision for reactive fraud and irregularities and a contingency provision for new and emerging risks, has been estimated to be **3351** days.

17. The audit days available to deliver the Council's Internal Audit Plan for 2013/14, based on actual staff in post, has been estimated at **2990** days as illustrated in the following table:

Estimated Gross Days Available (19.6) FTE	5105	100%
Less overheads:		
Uncontrollable, e.g. annual leave, bank holiday, sickness, maternity	945	18
Controllable e.g. training, development and divisional management	654	13
Productive Days Available	3506	69%
Less days required to deliver agreed services for external clients:		
Durham Police and Crime Commissioner /Durham Constabulary	180	
Durham and Darlington Fire & Rescue Authority	70	
Pension Fund (In house element – specialist support provided by external partner (PwC)	20	
Durham Joint Crematorium	20	
Mounsett Joint Crematorium	20	
Durham City Charter	6	
Schools SLA	200	
	516	
Productive Days Available to Durham County Council	2990	58%

18. It is planned to address the shortfall in days required to the deliver the proposed plan of 361 days by:

- The creation of an additional post , funded from the additional income from the schools SLA
- The engagement of Audit North, our newly appointed IT Audit Partner, to deliver some of our IT audit work, funded from a temporary vacancy arising from secondment
- The backfilling of a temporary vacancy, arising from a secondment, on a fixed term basis
- The creation of a trainee auditor post funded from a permanent vacancy

19. 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

20. It is recommended that Members:

- Note the audit strategy previously agreed.
- Approve the proposed audit plan for 2013/14, 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

Background : Audit Strategy and types of audit of audit work carried out

Planned Assurance Reviews

21. 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 and is a key source of assurance to inform the Council's Annual Governance Statement which in turn provides assurance to the public that the Council is well managed.
22. The Council's Control Framework is defined as the key controls in place to manage key risks. Managers are responsible for identifying risks that may prevent the achievement of service and corporate objectives and ensuring that these risks are managed effectively.
23. Assurance on the adequacy and effectiveness of control framework is needed by those charged with governance. This role has been delegated by the Council to the Audit Committee who have the responsibility to ensure that the Council's corporate governance arrangements are effective and for approving the Council's AGS.
24. In considering assurance requirements it is important that there is an agreed understanding of what is meant by assurance. Assurance is therefore defined as, "a review or assessment that gives a reasonable level of confidence that something is adequate and effective".
25. Assurance on the control framework can therefore be gained from a number of sources. In summary, the council's assurance council's framework can be illustrated using a "three line " approach whereby:
 - **1st Line** – the 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.
26. 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 in 2011 in consultation with service managers to identify all key service activities on which assurance is required by the Audit Committee.
27. 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.
28. The agreed audit strategy is 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.

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

30. 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

31. 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.

32. 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

33. 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

34. 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

35. 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 and the agreement of any proposed changes to the approved plan.

Advice and consultancy work

36. To help provide proactive support to management in the identification, assessment and managing of new and emerging risks, internal audit plans also include provision for advice and consultancy work. Examples of this type of work include:

- Representation on corporate working groups
- Business process reviews
- Mystery shopping
- Support in the development and implementation of projects or new initiatives
- Value for money reviews
- Ad hoc requests for advice and guidance
- Data analytics
- Review of controls to address known weaknesses in the control environment identified through fraud and irregularity investigations or planned assurance work where additional or follow up work is required.