

# Gloucester City Council

<b>Meeting:</b>	<b>Audit &amp; Governance Committee</b>	<b>Date:</b>	<b>17<sup>th</sup> March 2014</b>
<b>Subject:</b>	<b>Internal Audit Plan 2014/15</b>		
<b>Report Of:</b>	<b>Audit, Risk &amp; Assurance Manager</b>		
<b>Wards Affected:</b>	<b>Not applicable</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
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<b>Appendices:</b>	<b>A. Internal Audit Plan 2014/15</b>		
	<b>B. Internal Audit Risk Assessment</b>		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 To present to Members, for their consideration and approval, the Internal Audit Plan 2014/15.

### 2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to **RESOLVE** that:-

(1) Members approve the Internal Audit Plan 2014/15 as detailed in **Appendix A**.

### 3.0 Background and Key Issues

- 3.1 The work of Internal Audit is carried out in accordance with, and is assessed against, the professional code of practice in Internal Audit. This Code includes a requirement for the Audit, Risk & Assurance Manager to prepare a risk-based plan that should be fixed for a period of no longer than one year.

### 4.0 Progress

- 4.1 The proposed Internal Audit Plan for 2014/15 follows risk-based principles and starts with the completion of an audit needs assessment of all the areas of the Council that could be included within an annual audit plan. The risk-based approach has taken into account the following:-

- 'Known' changes to service delivery (budget/legislation);
- Joint Working protocol with the Council's external auditor;
- Audit Commission publication 'Protecting the Public Purse';
- Internal Audit Risk Assessment

- 4.2 The proposed Internal Audit Plan is split into the following main areas:-

#### 4.2.1 Corporate Governance/Annual Governance Statement (AGS)

The production of the AGS is a requirement under the Accounts and Audit Regulations 2011. The purpose of the AGS is to provide assurance that the Council's governance framework is adequate and effective. This area of Audit & Assurance audit work is one of the key components of the internal control assessment that supports the completion of the AGS.

#### 4.2.2 Work on fundamental financial systems

This is the work on the Council's financial systems, which are significant in relation to financial control and materiality. The work supports the Corporate Director of Resources to discharge his duties as the Council's s.151 Officer. It also forms a key element of the Joint Working Protocol with the Council's External Auditors, as the External Auditor can place reliance on the internal audit work on these systems. This will help inform their judgement on the Council's financial control environment, and is also one of the factors taken into account when calculating the External Audit fee.

#### 4.2.3 Work of a service based or cross Council nature

This is all of the other service activities or cross cutting themed audit reviews that could be undertaken, which are risk scored using the risk-based approach detailed in paragraph 4.3 below.

#### 4.2.4 Follow-up reviews

The plan will include follow-up reviews, which will ensure recommendations have been adopted and successfully implemented, providing the enhanced control/reduced level of risk exposure intended. The extent of this work will again be risk based dependant upon the audit findings and the recommendations made within the original audit reports.

#### 4.2.5 Audit work brought forward

There will be a number of audit reviews, which are ongoing as at 31<sup>st</sup> March. Provision to complete this work is made in the annual plan.

#### 4.2.6 Contingency

In line with the Code, the Annual Plan includes a contingency element to accommodate assignments which could not have been reasonably foreseen, eg. investigation of alleged fraud.

#### 4.2.7 Work for Gloucester City Homes (GCH)

The Audit & Assurance team undertakes work for GCH under a service level agreement. A similar risk-based approach has been adopted to inform the annual audit plan for GCH.

4.3 The next stage is to apply the risk-based approach. The approach adopted borrows from various models and is based on allocating scores to a number of objective and subjective factors which, when multiplied together, produce a total risk score. The aim of the model is to indicate the relative risk of one activity over another based on knowledge of the assessment factors.

4.4 The various factors considered in determining the risk of an activity include the statutory requirement to undertaken the function; the internal audit review of the control environment based on previously completed audit work; the financial value

of the activity; the period since the last audit review; the complexity of system in use; and the level of inherent risk. Details of the risk assessment approach are included in **Appendix B**.

- 4.5 In addition to the risk assessment outlined in paragraph 4.3, the Council's senior managers have been consulted on the key risk areas within their areas of responsibility.
- 4.6 Due to the nature and relevance of the assurance work for the AGS (para 4.2.1), and the audit work on the fundamental financial systems (para 4.2.2), both will automatically be included in the Annual Plan and not be subject to the detailed risk assessment.
- 4.7 Having completed the risk assessment, the next stage is for the assessment to be compared to resource availability; i.e. the number of audit days available. This is calculated as the gross number of days available during the year, less an allocation for leave, training, sickness etc. The number of available days for audit for 2014/15, based on the current establishment of 2.6 FTE audit staff is 500 days (192 days per FTE).
- 4.8 Risk is key to the planning process, but risk is not static, therefore the plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation. Whilst some provision for flexibility is made through the inclusion in the plan of a contingency, this usually covers other unplanned items, which may impact on a small section, eg. additional sickness or investigation of alleged fraud. Any significant matters that may jeopardise the delivery of the Plan, or require changes to the Plan, will be identified and reported to the Audit & Governance Committee.

## **5.0 Alternative Options Considered**

- 5.1 None.

## **6.0 Reasons for Recommendations**

- 6.1 A requirement of the professional Code of Practice for Internal Audit is for the risk-based Internal Audit plan to be approved by the appropriate body. In the case of the City Council, this is the Audit & Governance Council.

## **7.0 Future Work and Conclusions**

- 7.1 Regular reports on achievement against the Plan, and any significant control issues identified, will be presented to the Audit & Governance Committee.
- 7.2 The professional code of practice for Internal Audit includes a requirement for the Audit, Risk & Assurance Manager to prepare a risk-based plan that should be fixed for a period of no longer than one year. The proposed Internal Audit Plan for 2014/15 follows risk-based principles and starts with the completion of an audit needs assessment of all the areas of the Council that could be included within an annual audit plan.

## **8.0 Financial Implications**

8.1 There are no specific financial implications.

(Financial Services have been consulted in the preparation this report.)

## **9.0 Legal Implications**

9.1 There are no specific legal implications.

(Legal Services have been consulted in the preparation this report.)

## **10.0 Risk & Opportunity Management Implications**

10.1 The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit, through the delivery of the annual audit plan, plays a vital part in advising the organisation that these arrangements are in place and operating properly.

## **11.0 People Impact Assessment (PIA):**

11.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

## **12.0 Other Corporate Implications**

### Community Safety

12.1 There are no specific Community Safety implications identified.

### Sustainability

12.2 There are no specific Sustainability implications identified.

### Staffing & Trade Union

12.3 There are no specific Staffing and Trade Union implications identified.

**Background Documents:** The Public Sector Internal Audit Standards

**APPENDIX A****PROPOSED INTERNAL AUDIT PLAN 2014-2015**

<b>Main Area</b>	<b>Audit</b>	<b>Estimated Days</b>	<b>Comment</b>
Corporate Governance/Work to support the AGS	<ul style="list-style-type: none"> <li>• Risk Management</li> <li>• Performance Management</li> </ul>	<ul style="list-style-type: none"> <li>• 15</li> <li>• 15</li> </ul>	<ul style="list-style-type: none"> <li>• Review of management of significant risks</li> <li>• Review of PI reporting and data quality arrangements</li> </ul>
Work on Fundamental Financial Systems	<ul style="list-style-type: none"> <li>• Civica – Benefits</li> <li>• Civica – NNDR</li> <li>• Civica – Council Tax</li> <li>• Payroll (including Client Monitoring)</li> <li>• Creditors</li> <li>• Civica – Debtors</li> <li>• Treasury Management (SBA)</li> <li>• Budgetary Control (SBA)</li> <li>• Cash &amp; Bank</li> <li>• Capital Accounting (SBA)</li> <li>• General Ledger</li> <li>• Financial Services Improvement Plan</li> </ul>	<ul style="list-style-type: none"> <li>• 25</li> <li>• 8</li> <li>• 8</li> <li>• 15</li> <li>• 10</li> <li>• 8</li> <li>• 8</li> <li>• 15</li> <li>• 10</li> <li>• 15</li> <li>• 10</li> <li>• 10</li> </ul>	<p>Annual compliance testing of high level key controls in fundamental financial systems, in accordance with the Joint Working Protocol the Audit Team has with the Council's External Auditor.</p> <p>3 year cyclical plan of system based audits (SBA) on fundamental financial systems to gain assurance on adequacy of control framework.</p>
Work of a Service Based or Cross Cutting Theme	<ul style="list-style-type: none"> <li>• Civica – IT</li> <li>• Client Monitoring of Contracts – Civica</li> <li>• Streetcare Contract</li> <li>• Benefit Fraud</li> </ul>	<ul style="list-style-type: none"> <li>• 20</li> <li>• 10</li> <li>• 15</li> <li>• 10</li> </ul>	<ul style="list-style-type: none"> <li>• Main areas (as per CIPFA Control Matrices) to be audited over a 3 year period</li> <li>• Review of controls relating to client monitoring of contract</li> <li>• Review of controls relating to client monitoring of contract.</li> <li>• Review of controls to prevent and detect fraud and corruption</li> </ul>

	<ul style="list-style-type: none"> <li>• NDR Rate Relief claims</li> <li>• Council Tax Discounts</li> <li>• S106 Agreements</li> <li>• Contract Audit</li> <li>• Glos Supports Business Programme</li> <li>• Guildhall/Blackfriars</li> <li>• Members Expenses</li> <li>• Elections</li> </ul>	<ul style="list-style-type: none"> <li>• 10</li> <li>• 10</li> <li>• 10</li> <li>• 25</li> <li>• 10</li> <li>• 15</li> <li>• 10</li> <li>• 10</li> </ul>	<ul style="list-style-type: none"> <li>• Review of controls to prevent and detect fraud and corruption</li> <li>• Review of controls to prevent and detect fraud and corruption</li> <li>• Review of controls to ensure all Agreements identified and requirements complied with.</li> <li>• Contract Management arrangements/Final Account auditing</li> <li>• Review of compliance with conditions of grant</li> <li>• Income and expenditure audit</li> <li>• Review to ensure payments made in accordance with approved scheme</li> <li>• Review of claims</li> </ul>
Glos City Homes		<ul style="list-style-type: none"> <li>• 50</li> </ul>	Audits as per agreed plan with GCH
Follow – Up Reviews	26 audits at 2 days per follow-up	<ul style="list-style-type: none"> <li>• 52</li> </ul>	Allocation of days to carry out Follow-Up audits to ensure agreed audit recommendations have been implemented.
Contingency		<ul style="list-style-type: none"> <li>• 46</li> </ul>	Allocation of days for unplanned tasks.
Audit Work Brought Forward		<ul style="list-style-type: none"> <li>• 25</li> </ul>	Allocation of days to complete previous year audit work outstanding as at 31 <sup>st</sup> March.
<b>TOTAL DAYS</b>		<b>500</b>	

**INTERNAL AUDIT RISK ASSESSMENT**

<b>ASSESSMENT</b>	<b>SCORE</b>	<b>DESCRIPTION</b>
<b>Monetary Value – Sum of income and expenditure</b>	8	>£3.0M
	6	>£1.0M <£3.0M
	4	>£0.5M <£1.0M
	2	>£100K <£0.5M
	1	<£100k
<b>Inherent Risk</b>	5	High exposure to public scrutiny, complex legal framework, high volume of transactions, statutory function, outsources/partnership arrangement for service delivery
	4	High volume of 'cash' transactions, and/or exposure to public scrutiny, and/or statutory function
	3	High volume of 'cash' transactions, and/ or statutory function
	2	Low volume of 'cash' transactions, non-statutory function
	1	Low volume of transaction, non-statutory function.
<b>Internal Audit Control Perception</b>	4	Poor control system, and/or high opportunity for fraud and corruption/Unsatisfactory level of assurance
	3	Control weakness that needed rectification last audit/Limited level of assurance
	2	Control environment proved adequate last audit/Satisfactory level of assurance
	1	Control environment has proved adequate for a number of years/good level of assurance
<b>Complexity of Systems</b>	5	Very complex systems and processes used in generating significant service related results
	4	Complex data inputs, or strategically/operationally important outputs
	3	Moderate systems but accuracy of process has significant impact, systems stability issues
	2	Complex or moderate systems with stable performance and processing history
	1	Simple or no ICT system used
<b>Period since last audit</b>	4	3+ years – pre 2011
	3	3 years – 2011/12
	2	2 years – 2012/13
	1	Last financial year - 2013/14