



Report No: **71/2011** Public Agenda Item: **Yes**

Title: **Internal Audit Plan 2011/12**

Wards Affected: **All Wards**

To: **Audit Committee** On: **24 March 2011**

Key Decision: **No**

Change to Budget: **No** Change to Policy Framework: **No**

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1. What we are trying to achieve

- 1.1 All local authorities and other relevant bodies subject to the Local Government Act 1972 Section 151 and the Accounts and Audit Regulations 2003 (as amended 2006) must maintain an adequate and effective system of Internal Audit of its accounting records and of its system of Internal Control in accordance with the proper practices in relation to internal control.
- 1.2. As part of Torbay's commissioning model, Internal Audit provision is commissioned from Devon Audit Partnership. The Partnership is a shared service arrangement between Torbay, Plymouth and Devon County Councils and is constituted under Section 20 of the Local Government Act 2000. The Partnership provides audit services to the three Councils under Trading Agreements agreed with each of the clients and reports to the respective Audit Committees in line with previous arrangements. The commissioned service is expected to deliver improved efficiencies, productivity and performance, economies of scale and shared best practice.
- 1.3. Audit Plans are prepared for each of the client authorities using a risk based approach and priority assessment including consultation at both strategic and operational levels to ensure the service provided is aligned to customer needs, goals and objectives and satisfies the statutory assurance requirements. The Audit Days for each customer is based on available resources and previous service levels and the Partnership will operate robust performance management and reporting systems.

- 1.4. The Partnership is governed as a Joint Committee under Section 20 of the Local Government Act 2000 with a partnership agreement commencing April 2009 for a period of three years extendable to 5 years. The Joint Committee has two Members from each of the three Councils and is supported by a Management Board comprising the three Section 151 Officers and the Head of Partnership. The internal client relationship for the commissioned service takes place via quarterly performance review meeting between DAP leads and Section 151/Deputy Chief executive-Corporate support Commissioner.
- 1.5. The Head of the Devon Audit Partnership fulfils the role of Chief Internal Auditor for all three founding client councils. The Audit Plan forms the basis for the annual report to those charged with governance.

2. Recommendation(s) for decision

2.1 The Committee consider and agree in principle the proposed Audit Plan for 2010/2011.

3. Key points and reasons for recommendations

- 3.1 To satisfy the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom and to enable full consideration of the Annual Governance Statement.
- 3.2 To inform Members of the arrangements and work plan for the Internal Audit Service for the financial year 2010/2011.
- 3.3 To ensure key issues are communicated to and actioned by the Council to ensure risks are managed and the Internal Control Framework is sound.
- 3.4 To ask Members to endorse the outline Audit Plan for 2010/11 and advise of any areas of concern they feel would benefit from Audit input.
- 3.5 The Devon Audit partnership undertake audits in accordance with auditing standards contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, which is the accepted standard to which the partnership works and against which performance is evaluated. Audits are planned and performed so as to obtain all the information and explanations considered necessary to gain assurance as to the level of control within the Authority. Audit findings and recommendations are however based on restricted samples of transactions / records and discussions with relevant officers.

For more detailed information on this proposal please refer to Appendix A.

Martin Gould
Head of the Devon Audit Partnership

INTERNAL AUDIT SERVICE – ANNUAL AUDIT PLAN 2011/12

A1. Introduction

- A1.1 All principal Local Authorities, including Torbay Council, are subject to the Accounts and Audit Regulations 2003 (as amended), and the Accounts and Audit Regulations 2006, which require that the Authority should make provision for Internal Audit in accordance with the CIPFA Code of Practice for Internal Audit in Local Government (the Code).
- A1.2 The Code requires, inter alia, that Internal Audit should prepare an annual risk-based plan for approval by the Audit Committee. In addition the Code requires that the Chief Internal Auditor should provide, annually, an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- A1.3 This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.

A2. Audit Needs Assessment

- A2.1 The audit plan for 2011/12 plan has been identified by:
- Adopting a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the "Audit Universe" using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines a schedule of priorities for audit attention.
 - Discussions and liaison with Commissioners and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including the introduction of new systems and corporate initiatives.
 - Taking into account results of previous internal audit reviews.
 - Taking into account Internal Audit's knowledge and experience of the risks facing the Authority
 - Requirements to meet the "managed audit" approach with the external auditors.
 - Consideration of risks identified in the Authority's strategic and operational risk registers.

The resultant Internal Audit Plan for 2011/12 is set out in Appendix 2.

A3. Internal Audit Partnership

- A3.1 Since 1st April 2009 the Internal Audit Service for Torbay Council has been delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Plymouth City, Devon County and Torbay Councils and is constituted under section 20 of the Local Government Act 2000.
- A3.2 Although delivery of each authority's audit requirements is resourced by DAP, each authority's audit plan for 2011/12 has been prepared individually as

hitherto.

A4. Internal Audit Resources

- A4.1 Based upon our detailed risk assessment process we consider that 1,693 days of internal audit input will be required for Torbay Council in 2011/12.
- A4.2 In order to provide a cost-effective service and good value for money to all of our clients it is important that emphasis is given to minimising costs, particularly overheads, and maximising the efficiency and effectiveness of the audit processes. There is regular monitoring and management review of performance within the team over the year and we participate in the annual CIPFA benchmarking comparisons with other Internal Audit functions to demonstrate that Devon Audit Partnership provides a cost-effective service.

A5. Planned Audit Coverage 2011/12

- A5.1 Appendix B shows a summary of planned audit coverage for 2011/12 totalling 1,693 direct days. It should be borne in mind that, in accordance with CIPFA's Code of Practice for Internal Audit, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority. In this respect the IA Plan includes a contingency to allow for unplanned work.
- A5.2 Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment – in this way we can ensure that the key risks to the operation or function are considered during our review. The following paragraphs give a brief overview of the focus of proposed audit coverage for the year:-

Cross organisation reviews

- A5.3 Our plan shows 70 days for Corporate initiatives. We are expecting that an element of this time will be used on "cross organisational views" that cover the three major partners of the Partnership. The aim will be to consider how, in a wider context, the three organisation are reacting to challenges facing them and to share learning, risks, opportunities etc to maximise the benefit for residents in the three areas. In 2001/12 one area for consideration along these lines is the Adult social care/health transition. A detailed brief will be agreed between the partners.

Corporate Support

- A5.4 We shall provide input into the People, Place, Productivity and Partnerships programme and the Productivity Improvement Project. We aim to provide input "upfront" to help ensure that the risks identified by the projects are suitably understood and mitigated. We will also provide guidance and assistance on managing the risks associated with the pending transfer of Adult Social care to the Council and the new requirement for Public Health.
- A5.5 A number of reviews are planned looking at how the Council discharges its requirements in respect of Data quality (for example linked to the N3 toolkit), Information Governance, and security arrangements. The focus will be to ensure

that legislation is complied with in an effective and efficient manner.

A5.6 More “operational” type reviews are planned for areas such as Disabled Facilities & Renovation Grants and Supporting People - we shall review managerial arrangements to ensure that risks are suitably identified and controlled and that objectives are achieved.

A5.7 We also aim to work with managers in controlling the risks associated with Housing issues – such as the impact on housing needs and homelessness when benefit reforms take place early in 2012.

People

A5.8 The plan for people’s services includes time to consider and review some of the more volatile spending areas such as School transport and use of agency staff. We shall work with management to ensure that systems and procedures are effective and promote value for money and efficient service delivery.

A5.9 We shall also review spending on supporting children and families by way of Section 17 payments. These payments are generally “one off” low value amounts that help to alleviate immediate problems – however there is a risk that the use of such payments becomes relied upon and that items purchased may not represent best value. We shall review controls in place to ensure spending remains appropriate.

Environment

A5.10 We shall work with the Environment commissioning team to help ensure that new ventures are operating effectively and that public funds are used to best effect. There are many developments taking place within this area, including the development of the Tor2 contract and the further development of the Tourism Development Company.

A5.11 We shall also undertake more operational reviews including work at the new Paignton library and a review of arrangements at the Harbour Authority.

Operational Support

A5.12 As in previous years, the bulk of our audit time will be concentrated in reviewing arrangements within Operational Support. This commissioning area provides most of what are referred to as “material systems” – these are the systems that generate the majority of income and expenditure appearing on the accounts of Torbay and are therefore subject to close scrutiny by our external auditors. Material systems include Payroll, Benefits, Creditors, Income Collection, CTAX & NDR, Bank Reconciliation, Debtors, General Ledger, Treasury Management.

A5.13 We shall also review other areas that are assessed as carrying risk to the Council and these include ICT issues, Data Security, Disaster Recovery arrangements, Personnel Management & Policy and Procurement arrangements.

Carry forward – completion of prior year work

A5.14 At the end of the year there will always be part of our work that is “work in progress” – this may require testing to be completed, the working papers to be reviewed by audit management, or the draft / final report to be agreed with management. 50 days has been allocated to ensure that all planned audits in 2010/11 can be completed to the expected standard.

Anti Fraud and Investigations

A5.15 Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability.

A5.16 Internal Audit will continue to investigate instances of potential fraud and irregularity referred to it by managers, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud.

A5.17 The Audit Commission runs a national data matching exercise (National Fraud Initiative) every two years. Data matches were made available to the Authority at the end of January 2011 and Internal Audit will co-ordinate the departmental investigation of potentially fraudulent matches which have been identified by the Audit Commission during the data matching exercise.

Contract Audit

A5.18 We have set aside 30 days for specific contract review work. This work will consider contracts that will be let in 2011/12, monitoring of contracts currently in operation and compliance with EU regulations.

Corporate initiatives

A5.19 An allocation of 70 days has been made to assist with corporate initiatives. The areas that we will assist with will be agreed during the year, but are likely to be the cross cutting issues affecting the Council (for example reaction to budget pressures, changes in legislation etc).

Grant Claims

A5.20 We will review interim and final grant claims before submission to the grant awarding body. Our work will ensure that claims are accurate, complete and that income opportunities to the council are maximised.

Other Chargeable work

A5.21 An element of our work is classified as “other chargeable work” – this is work that ensures that effective and efficient services are provided to the Council and that the internal audit function continues to meet statutory responsibilities. In some instances this work will result in a direct output (i.e. an audit report) but in other circumstances the output may simply be advice or guidance. Some of the topics included within this area include:-

- Preparing and monitoring the internal audit plan
- Preparing and presenting monitoring reports to senior management and committee

- Liaison with other inspection bodies (e.g. Audit Commission)
- Annual governance statement
- FMSiS coordination (to be adjusted to reflect changes in the summer)
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during 2011/12
- Technical and process developments within the Partnership. Investment in these developments is expected to deliver greater efficiencies in the future.

Advice and consultancy

A5.22 Internal Audit will provide advice and guidance to all departments throughout the Authority on many and varied topics including, for example, interpretation of Financial Regulations/Standing Orders, corporate governance, internal controls, legislation (e.g. Data Protection), security, letting of contracts, setting up of new delivery vehicles, PC/network access etc.

External Clients

A5.23 The Devon Audit Partnership is “externally-funded” to undertake audits for Schools in Torbay.

Schools Audits

A5.24 The Financial Management Standard in Schools has now been abolished by the new Government and will be replaced by a simpler less evidentially burdensome scheme in the Summer 2011. Audit of the control and governance arrangements within schools will continue to be carried out on a three year cyclical basis. All of the key elements that were in the FMSiS were formerly audited by us, and will continue to be so, where we give our assurance on matters of governance, school development, budget management and the core financial systems. Our work programmes for 2010-11 were re-written to incorporate elements of FMSiS not formerly reviewed, notably, benchmarking and governor competencies. The DfE consider that benchmarking should still be undertaken as a matter of best practice, and good governance supported through a competency framework is still an area schools require support on, hence we have made only minor amendment to our audit programme dropping non mandatory elements also not required by the LA. When the new standard is issued in the Summer term we will incorporate this into the audit programme for all schools.

A5.25 The Government’s drive to encourage schools to become academies is firmly in place. The opportunities for becoming an academy are clearly appealing to many however, there are significant risks involved in the decisions to be made and in establishing a sound framework of internal control. As we provide internal audit services as a “sold service”, and because there is no requirement for academy schools to have internal audit, this will represent a risk to our business. We are in the process of advertising and bidding for “responsible officer” work with the academies, and already have agreements with two Devon Schools. It is early days in the process and we hope to be successful with more schools across all the Partnership LA’s, and continue to provide assurance services that they have come to respect over many years. Our resources will be re-scheduled to address the changing work commitment.

A5.26 At the time of writing schools are choosing their options for the coming years services and we anticipate, based on previous experience, a high level of take-up from the remaining schools. There has been a change in buy-back of schools during the year where 50% of primaries and all secondary and special schools now take an annual audit review where they feel this is beneficial to maintain improvements in financial control. Formerly, most primaries were on a biennial review.

A5.27 All the above means that there is considerable uncertainty over the amount of input that will be commissioned from Torbay schools from the Devon Audit Partnership. Based on our current understanding we expect that we will provide in the region of 85 days – however this will be subject to ongoing change to meet individual school needs.

A6. Partnership Working With Other Auditors

A6.1 We will continue to work towards the development of effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We will participate in a range of internal audit networks, both locally and nationally, which provide for a beneficial exchange of information and practices, and often improve the effectiveness and efficiency of the audit process, through avoidance of instances of “re-inventing the wheel” in new areas of work which have been covered in other authorities.

A6.2 The most significant partnership working arrangement with other auditors will continue to be that with the Audit Commission, the Council’s external auditors. This is well established over many years and is formalised in the annual Joint Audit Protocol with Internal Audit issued by the Audit Commission.

A6.3 As well as carrying out work which the external auditors rely on in respect of the Material Systems described earlier, Devon Audit Partnership carries out further work on their behalf in the audits of grant claims. We are committed to continuing to improve the effectiveness of these arrangements, which aim to avoid duplication and minimise the overall cost of audit to the Council.

A7. Risk assessment of preferred option

A7.1 Outline of significant key risks

The report is predominantly for information and therefore there are no risks associated with the recommendations.

A7.2 Remaining risks

Although the plan has been matched to available resources within DAP, there remains a risk that a large fraud or irregularity, or significant levels of sickness or staff turnover could result in audit reviews slipping thereby increasing the future risk to the Council. Such situations will be managed within the overall audit resources available to the partnership with audit resources being moved between client Councils to better manage this risk and to address the issue identified. Conversely the impact of such an event on the other client Councils could necessitate resources being moved away from Torbay but it is hoped that allowing a contingency will help to manage this.

It should be recognised that ultimately it is the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner. It does not matter how good the systems of internal control are, it is not possible to guarantee that a fraud will not occur, although it is hoped any irregularity would be quickly identified and resolved. However the work undertaken by Internal Audit should give both the service manager, and the Council, assurance that with the testing undertaken, no fraud was found and that all systems were operating effectively within the limitations reported at the time. Only by constant appliance of the Council's Standing Orders, Financial Regulations and operating instructions can this risk be fully minimised.

A8. Other Options

- A8.1 The issues raised in this report are predominantly for information and as such there is no requirement to consider alternative options.
- A8.2 There is a statutory requirement for a continual internal audit of the Council's processes and internal controls. Whilst there are options surrounding the risk assessments, those being used are the accepted approaches for this style of risk assessment and may vary from those which are applied to the Council's services generally but in certain cases there are no alternative options if the Council is to meet external requirements.
- A8.3 Internal Audit provides one element of the assurance required to enable the Mayor and Chief Executive to sign the Annual Governance Statement required under the Accounts and Audit Regulations 2003 and updated by the 2006 Regulations. Directorate Management provide another source of assurance and should provide evidence to support their view that Internal Controls and wider corporate governance are adequate. External reviews provide another source of assurance. A reduction in Internal Audit coverage will therefore necessitate increased reliance on these other forms of assurance.

A9. Summary of resource implications

- A9.1 The Audit & Efficiency net Budget for 2011/12 in respect of Torbay Council's contribution to the Partnership has been set at £366,000, which is predominantly staff salaries. The audit plan is matched to available resources and delivered within the budget available.
- A9.2 Resource implications are therefore related to staff time both within the service and departments who may be required to make officers available to answer audit queries and provide information in respect of any audit review or investigation.

A10. What impact will there be on equalities, environmental sustainability and crime and disorder?

- A10.1 Members and employees, in their roles and responsibilities, are asked to be vigilant in preventing and detecting fraud, corruption and irregularity. In addition, Members and employees have a responsibility to lead by example in ensuring adherence to legal requirements, Standing Orders, Financial Regulations and all

procedures and policies including both Members and Officers Codes of Conduct.

A10.2. Internal Audit has due regard for section 17 of the Crime and Disorder Act 1998, ensuring that we consider crime and disorder reduction and community safety in the exercise of all of our duties and activities. Part of our role includes being one of the major contacts within the Council's Fraud & Corruption and Whistle-blowing Policies that detail how potential irregularities and frauds will be investigated and reported. Also, as part of the Audit Planning process, we discuss potential audit areas with all departments and undertake work on a cyclical basis in areas such as Community Safety Team, Youth Offending Team, Environmental protection/Street Wardens and Highways.

A10.3 The Internal Audit service will support equality and diversity ensuring inclusion, fairness and equality of access. The key actions for the Partnership in relation to equality and diversity are as follows: -

- Equality Impact assessments of all audit related policies and procedures
- All correspondence etc can be made available in different languages and formats as required – Audit subscribe to the National Interpreting Service
- Equalities is included as a standing agenda item in management team meetings and is included in job descriptions.

A11. Consultation and Customer Focus

A11.1 The draft plan has been subject to consultation with Commissioning Officer Management Teams and External Auditors.

A11.2 Customers are a key area for the service. We have a range of internal and external customers who rely on our service to provide the assurance they require as part of their statutory function and to assist in maintaining the economy, efficiency and effectiveness of their service to their customers. This includes the Fraud & Corruption and Whistle-blowing policies that provide a framework for the investigation and management of Whistle-blowing referrals which will safeguard employees who make a protected disclosure and demonstrates clear standards and guidelines for maintaining probity, accountability and trust within Torbay Council.

A12. Are there any implications for other Business Units?

A12.1 Internal Audit covers all services of the Council and will therefore have linkages and implications for all business units and for Torbay schools.

Appendices

Appendix B Summary Audit Plan 2011/12

Documents available in members' rooms

None

Background Papers:

The following documents/files were used to compile this report:

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Accounts and Audit Regulations 2003
Accounts and Audit (Amendment) (England) Regulations 2006
Internal Audit Partnership Plan Spreadsheet 2010/11
Internal Audit Partnership Agreement
Devon Audit Partnership Business Plan
Internal Audit Code of Practice for Schools
Internal Audit SPAR Reports
Fraud & Corruption Policy December 2008
Whistle-blowing Policy December 2008
Devon Audit Partnership Procedure Manual

Appendix B

Summary of Audit input – by Commissioner and delivery area

	2011/12	2010/11
Corporate Support	175	65
People	160	185
Environment	200	71
Operational Support	425	535
Carry forward – completion of prior year work	50	50
Anti Fraud and Investigations	140	140
Contract Audit	30	30
Corporate Initiatives	70	50
Grants	15	15
Contingency (5%)	85	96
Other Chargeable Activities	168	175
ICT Audits (now within Operational Support)	0	150
Advice & Consultancy	65	50
Follow ups	25	20
Total Input for Torbay Council	1608	1667
Schools	85	115
Total Input for Torbay	1693	1782