15 APRIL 2014

<u>**Agenda Item No:**</u>

DRAFT INTERNAL AUDIT PLAN 2014/15

Report by Audit Manager

1.0 EXECUTIVE SUMMARY

1.1 The Head of Internal Audit is required under the mandatory Public Sector Internal Audit Standards to prepare an annual risk based audit plan for review and approval by CLT and Audit & Governance Committee.

1.2 The attached draft plan has been prepared following consultation with senior management, together with consideration of the council's corporate risk register and annual governance statement action plan. Where appropriate, consideration has also been given to other sources of assurance to avoid duplication and ensure the best use of Internal Audit resources. The draft plan was approved by CLT on 19 March 2014.

1.3 Agreed actions from the recent Grant Thornton review of Internal Audit have also been incorporated into the planning process, particularly around:

- The adoption of a risk-assessment for identifying internal audit reviews for inclusion in the plan. This has involved constructing an audit universe and then allocating scores against a range of factors including financial implications; political/reputational/legal risk; and system or other issues. Other factors were also included in the scoring such as management or audit priorities; inclusion on strategic risk register and/or AGS and links to corporate plan.
- A reduction in annual routine testing of main financial systems in favour of a 3 year rolling programme of financial system reviews.
- An increase in the proportion of the plan allocated to risk-based reviews designed to provide assurance over arrangements for governance, risk management and internal control.
- The rationale for inclusion in the plan is now explained.

2.0 RECOMMENDATIONS

2.1 Members are requested to review and approve the draft audit plan for 2014/15.

Peter Usher
March 2014

Copeland Borough Council Internal Audit Plan 2014/15

1. Introduction

1.1 The Chartered Institute of Internal Audit defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Internal audit helps the Council to achieve its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes."

1.2 The Accounts and Audit Regulations require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Proper Practices are now defined within the Public Sector Internal Audit Standards (PSIAS) which became mandatory for all UK public sector internal auditors from 1st April 2013.

1.3 The PSIAS affirm the need for annual risk based audit plans to be developed in order that the Head of Internal Audit can form an annual opinion on the Council's systems of risk management, governance and internal control.

1.4 This Internal Audit Plan has been prepared in line with the planning methodology approved by the Audit & Governance Committee at its meeting in November 2013 and following consultation with the Council's senior management to identify the areas where it is considered that Internal Audit can add the greatest value. The Plan is attached at Appendix A.

2. Internal Audit Service delivery

2.1 The PSIAS require that the Internal Audit plan sets out a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

2.2 Internal Audit at Copeland Borough Council is delivered through a Shared Internal Audit Service. Cumbria County Council is the host authority for the Shared Service with other participants being; Carlisle City Council, Copeland Borough Council, the Office of the Police and Crime Commissioner and Cumbria Constabulary. The Shared Internal Audit Service is governed by a Shared Services Operations Board comprising the Section 151 Officers of each participating authority. A Shared Services Agreement is in place which has been signed up to by each organisation.

2.3 Internal Audit plans for each participating authority are prepared in consultation with the respective organisations' senior management and

approved by their Audit Committees. Benefits of a Shared Internal Audit service include sharing of information on risks and good practice across the participating authorities as well as flexibility to respond to emerging issues and risks. Economies of scale are also beginning to be generated as some cross organisational audit reviews are being undertaken.

2.4   Internal audit supports the delivery of the Council Priorities as set out in the Council Plan by providing independent assurance over the arrangements in place across the Council to deliver priorities and objectives.

3. Roles of Management and of Internal Audit

3.1   It is the role of management to establish effective systems of governance, risk management and internal controls in order to:

- safeguard the Council's resources and prevent fraud;
- ensure the completeness and reliability of records;
- monitor adherence to laws, regulations, policies and procedures;
- promote operational efficiency demonstrate the achievement of value for money; and
- manage risk

3.2   It is the role of Internal Audit to provide independent assurance to senior management and the Audit and Governance Committee that the Council has implemented adequate and effective procedures in relation to these responsibilities.

3.3   In order to safeguard its independence, Internal Audit does not have any operational responsibilities and is not responsible for any of the decision making, policy setting or monitoring of compliance within the Council.

4. Internal Audit Resources

4.1   The Head of Corporate Resources has agreed with the Head of the Shared Internal Audit Service that Copeland will receive 500 direct days of Internal Audit time in 2014/15. This is a reduction of 50 days from the planned direct days in 2013/14 but it sufficient to provide an opinion on the systems of governance, risk and internal control in line with the PSIAS and in order to support the preparation of the Annual Governance Statement.

4.2   The PSIAS also reflect the requirement for internal audit plans to be flexible in order to respond to new and emerging risks to the organisation. Some capacity is therefore built into the plan to allow Internal Audit to respond to such issues.   However, should this contingency be exhausted during the year, the approved plan may need to be revised. In this event, revisions would be considered and agreed by CLT and reported to the Audit &

Governance Committee, including the need for any additional audit resources if appropriate. Any request for significant consulting activity by Internal Audit would be approved by the Audit & Governance Committee in line with the requirements of the Public Sector Internal Audit Standards.

5. Categories of Internal Audit Work

5.1 **Corporate Reviews** – Reviews which are strategic in nature or which cut across the entire Council. These reviews are designed to provide assurance that the Council has effective governance and risk management arrangements to mitigate strategic risks.

5.2 **Departmental Risk-Based audit reviews** – these reviews have been identified in consultation with senior management and following reviews of the Annual Governance Statement Action Plan and Corporate Risk Register. These reviews are spread across service areas following a risk assessment to ensure that Internal Audit resources are targeted at the areas where the greatest benefit will be achieved.

5.3 **Financial System reviews** – following the Grant Thornton review of Internal Audit, a revised approach is now being taken to the reviews of the Council's main financial systems.   A three-year programme has been devised which will ensure that each main financial system is reviewed in depth at least once every three years. The programme is attached at Appendix B.

5.4 **Governance systems reviews** – A provision is included for cyclical reviews of key governance systems. These are performance management, risk management and compliance with local code of corporate governance.

5.5 **Computer Audit** – the plan includes provision for computer audit work which will provide assurance over the technical controls in place for key IT systems and processes.

5.6 **Follow Up of previous audit recommendations** – A provision for follow up work is included in the plan to ensure that any significant agreed actions from previous internal audit reports have been fully implemented.

5.7 **2013/14 work brought forward** – the 2014/15 audit plan makes provision for audit reviews that are in progress at the year-end.

5.8 **Advice, Guidance and contingency** – capacity has been built into the plan for formal advice and guidance to all services across the Council as well as contingency to respond to emerging risks.

5.9 **Anti-fraud, irregularity and probity** – the plan includes a provision for time spent acting as Key Contact for the National Fraud Initiative (NFI) and some limited capacity is also built into the plan for reactive work should irregularities occur requiring Internal Audit to advise management on their

investigations. No separate counter fraud plan is included as there is not capacity to undertake specific pro-active counter fraud reviews, however consideration of counter fraud arrangements will be included in relevant reviews.

5.10 A summary of the number of days allocated to each category of audit work is shown below.

Category	2014/15	
	Days	% of total days
Risk-based audit reviews	300	60
Main financial systems	60	12
Governance systems	20	4
Computer audit	20	4
Follow up of previous audits	10	2
NFI/counter fraud work	10	2
Advice & guidance	20	4
Audit Committees	20	4
Overhead (planning / management time)	20	4
Contingency	20	4
2014/15 agreed days	**500**	100
Work carried forward from 2013/14	20	
Total	**520**	

5.11 Key changes from the previous audit plan are:

- An increase in the percentage of the plan devoted to risk based audit reviews which is a reflection of the requirement of the Public Sector Internal Audit Standards for Internal Audit to provide assurance on the Council's arrangements for governance, risk and internal control.

- A reduction in the proportion of the plan to be spent on main financial system reviews in line with the revised approach following the Grant Thornton review of Internal Audit and the PSIAS.

- A reduction in work carried forward from the previous year's plan. Where work is underway at the year-end, this will be completed early in 2014/15 and provision is built into the plan for this. However, where work has not commenced at the year-end, the area will be risk-

assessed as part of the planning for 2014/15 and areas will not automatically be carried forward. This is to ensure that audit resources are targeted at the areas considered to be of most relevance in 2014/15.

6. Performance Standards

6.1   The performance of Internal Audit will be measured against a suite of performance measures and reported on a quarterly basis to CLT and the Audit and Governance Committee through the quarterly progress report. Regular monthly liaison meetings with the S151 Officer will continue to be held to discuss ongoing issues.

6.2   Performance measures are currently being developed in consultation with the Shared Services Operations Board and will be reported to Audit and Governance Committee alongside the first progress report for the 2014/15 audit plan.

Appendix A – Internal Audit Plan 2014/15 – details of risk-based reviews & main financial systems reviews

Department	Review	Description	Reason for inclusion & links to corporate priorities	Days
Corporate Review	Change Management	A review to provide assurance that change management is being implemented in a structured way with appropriate governance and risk management. This will include controls over changes to the Council's operating model.	The Council has to change in response to unprecedented reductions in funding and management of the change process is fundamental to its future viability & success. The Strategic Risk Register includes risks on Lack of capacity, resources & capability to deliver the change programme and Inability of Council to make necessary decisions in a timely way.	25
Policy & Transformation	Customer Access	A review to ensure that the customer access strategy is implemented in a structured way with due consideration of any risks. These might include impacts of change to customer access on vulnerable sections of the community; system access/data security risks; value for money etc.)	Customer access is a key part of the Council's change programme that should improve service delivery and create savings.	25
Regeneration and	The Beacon Museum	A review of the new governance	New operating model. Link to	20

Department	Review	Description	Reason for inclusion & links to corporate priorities	Days
Community		arrangements for the operation of The Beacon following change in operating model to partnership with Sellafield.	partnership development in Corporate Plan.	
Policy & Transformation	Freedom of Information (FOI) Act compliance	Review of Council's arrangements to ensure compliance with FOI Act requirements.	This was identified as a risk by management for 2012/13 plan but it was agreed to defer audit pending changes to the arrangements.	15
Corporate Review	Accommodation strategy	A review to provide assurance that the Council's Accommodation Strategy is implemented in a structured way with due consideration of any risks. These might include ensuring PFI contract compliance; securing income from third parties and move to mobile/agile working workstyles.	Accommodation strategy is relevant to ways in which frontline & back office services are delivered. Also impacts on cost savings in buildings and adopting new workstyles.	15
Finance	Revenues and Benefits Shared Service (RBSS)	A review to provide assurance that the Council's contract with the RBSS is effectively managed and that service standards are met and value for money obtained.	The RBSS has been assessed as the Council's most important partner which deals with key services on its behalf and a large volume of data (20,000 forms). *Counter fraud arrangements for Revenues & Benefits will also be considered as part of this review.*	20

Department	Review	Description	Reason for inclusion & links to corporate priorities	Days
Neighbourhoods	Cemeteries and Crematorium	A review to provide assurance that this key service has appropriate internal controls in place to mitigate known risks in service delivery.	Review included in plan because of previous issues in this area and the introduction of a new IT system in 2014/15.	15
Policy & Transformation	Information Security/Records Management	A review to provide assurance that the Council has adequate and effective arrangements in place to manage information, safeguard personal data and store and retain information appropriately in line with legislation and business need.	Information governance is an area on the annual governance statement. Risks around breaches of information legislation include reputational damage and financial penalties.	20
Policy & Transformation	IT Strategy	A review to provide assurance that the Council's governance arrangements over IT Strategy are effective in ensuring that the IT Strategy supports the Corporate Plan and that the Strategy is embedded via detailed plans/projects that are suitably controlled.	IT plays a major role in the efficient and effective delivery of all Council services, both to the public and internal business support.	15
Corporate review	Partnership Governance	A review to provide assurance that the Council's governance arrangements over partnerships are effective. This will include financial, risk and performance management.	1 of the Council's 3 priorities is to be an effective public service partner to get the best deal for Copeland.

Partnership working is a component of new operating model and it is important that | 20 |

Department	Review	Description	Reason for inclusion & links to corporate priorities	Days
			the Council aligns its partnership working with Corporate Plan objectives.	
Corporate Review	Communications	A review to provide assurance that the Council has a cohesive communications strategy (internal and external) that is effectively implemented via appropriate channels. The review might also consider use of information communicated to the Council, for example, via customer feedback or formal consultation processes.	The Council has a range of stakeholders (Residents & customers; Staff: Councillors; and Partners) and good communication is particularly important in times of change.	20
Neighbourhoods	Refuse Collection	A review to provide assurance that this key service has appropriate internal controls in place to mitigate known risks in service delivery.	Refuse collection is a key statutory service with a material financial budget. This area has not had an Internal Audit review for some time.	20
Neighbourhoods	Parks and Open Spaces	A review to provide assurance that this key service has appropriate internal controls in place to mitigate known risks in service delivery.	Parks and Open Spaces is a key statutory service with a material financial budget. This area has not had an Internal Audit review for some time.	20
Regeneration &	Leisure – contract	An audit review to ensure that this significant contract has appropriate	This is a major investment by the Council in conjunction	15

Department	Review	Description	Reason for inclusion & links to corporate priorities	Days
Community	management	governance arrangements in terms of compliance with Council procedures and meeting the requirements of external funders (CCF/HLF).	with a strategic partner so it is important.	
Corporate review	External funding	A review to provide assurance that there is sufficient governance over the acceptance of external funding; that controls are in place to ensure that this is used as intended by the funding body; and that activity is in line with Council objectives. External funding includes for example, income from Planning and Performance Agreements (PPA's) and from various agencies related to the nuclear industry.	Governance over external funding has been identified by senior management as a potential area of risk both from a financial and reputational point of view.	20
Regeneration & Community	Leisure – contract management	A review to provide assurance that the Council's contract with North Country Leisure is effectively managed and that service standards are met and value for money obtained. As the Council's new operating model envisages an increase in contracted/commissioned services lessons learned from NCL may be useful in other areas.	The Council's contract with NCL provides a key service to residents of Copeland and it is important that contracted services meet agreed standards of provision at the agreed price.	15
Main Financial System Reviews	Three year rolling programme of financial system	Nine main financial systems have been identified and 3 of these will be reviewed	Need for regular review of material financial systems.	60

Department	Review	Description	Reason for inclusion & links to corporate priorities	Days
	reviews	each year. *See detail at Appendix B*		
Key governance systems reviews	Three year rolling programme of governance system reviews	Three main governance systems identified and 1 of these will be reviewed each year. *See detail at Appendix B*	These systems are fundamental to good governance within the Council.	20
Computer audit	Either specific IT reviews or IT input to overall reviews.	It is envisaged that IT audit input will be required on some reviews including Information Security/records Management; IT Strategy; Customer access strategy.	IT aspects are integral parts of a number of systems and strategies at Copeland and specialist input is required.	20
Follow up	Follow ups as required	Provision to follow up implementation of audit recommendations arising from the 2013/14 audit plan and support in maintaining Covalent records of progress in implementation.	Internal Audit follow ups are a key requirement of the Public Sector Internal Audit Standards to provide assurance on the implementation of agreed audit recommendations	10
Corporate	Counter fraud support	An allocation of time for co-ordination of the submission of information and review of data matches under the NFI exercise. Internal Audit role as key contact for NFI. Input to counter fraud strategy etc.	Mandatory requirement of the Audit Commission	10

Department	Review	Description	Reason for inclusion & links to corporate priorities	Days
Contingency	Advice and guidance	Provision is included within the plan for Internal Audit to provide ad-hoc advice to management on matters relating to risk, internal control and governance	As well as undertaking specific reviews Internal Audit also contribute to the Council by providing relevant advice.	20
Governance	Audit & Governance Committee	Provision for compilation of Committee reports, attendance at Committees and training for Committee as appropriate.	Internal Audit requirement to report independently to those charged with governance.	20
Corporate	Management, planning and reporting	Provision for management, planning and reporting. Also to allow attendance at Copeland CLT and LMG as appropriate.	Effective engagement with management enhances Internal Audit service.	20
Corporate	Contingency	A contingency is included in the plan for any unplanned work, commissioned VfM reviews or hot assurance requests.	Some flexibility is required in plan.	20

Appendix B – Three Year Cyclical reviews of Financial and other key governance systems

2014/15		2015/16		2016/17	
Review	**Days**	**Review**	**Days**	**Review**	**Days**
Payroll	20	Main accounting system (TOTAL)	20	Treasury Management	20
Sundry debtors	20	Creditors	20	Cash receipting	20
Benefits*	20	NNDR/Business Rates*	20	Council tax*	20
Performance management	20	Corporate governance – compliance with Local Code	20	Risk management	20
Total planned days	*80*		*80*		*80*

The cyclical reviews of financial systems will incorporate an evaluation of management controls to prevent and detect fraud.

* - it is intended that the cyclical reviews of Revenues and Benefits services will be done in conjunction with Carlisle City Council audits with a single report on the system to both authorities.

Appendix C – Proposed timing of audits

Qtr 1	Comments
Change management	
Freedom of Information Act compliance	Identified as risk for IA review in 13/14 but deferred
Refuse Collection*	Not recently audited
Parks & Open Spaces*	Not recently audited
External funding	
Qtr 2	
Customer Services/Access Strategy	
Contract mngt - RBSS	
Information Security / Records management	Action plan was agreed some time ago.
IT Strategy support to service plan	Identified as risk for IA review in 13/14 but deferred
Communications	
NCL contract management	
Performance management	
Qtr 3 or 4	
Beacon - New operating arrangements	Arrangements to be agreed
Accommodation strategy	Strategy to be drafted
Cemeteries & Crematorium	New system won't be implemented until summer
Partnership governance	
NCL Pool extension	
Payroll	Cyclical audit but was previously done annually
Sundry debtors	Cyclical audit but was previously done annually
Benefits	Cyclical audit but was previously done annually

* CLT requested that these audits were not done in Q1 because of management changes in these areas. It was agreed that other audits would need to be brought forward to Q1 to ensure that work is reasonably spread across the year.