INTERNAL AUDIT NEW WAYS OF WORKING
AND DRAFT INTERNAL AUDIT PLAN 2013/14

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Summary: This report sets out changes to Internal Audit ways of
                                working & the Audit Plan for 2013/14

Recommendation:	That Members note the new ways of working and approve the draft Internal Audit Plan.

Resource Implications: The proposed Audit Plan is within the agreed audit
                          budget.

Key Decision Status: None

1.0   INTRODUCTION

Public Sector Internal Audit Standards

1.1   From April 2013 new internal audit standards come into effect across the whole of the public sector. Further guidance relating to their application to local government is to be published by CIPFA in April 2013 and a full report setting out how the shared internal audit service is adopting the standards will be presented to the June 2013 Audit Committee.

1.2   Members may recall that a report was provided to the September 2012 Audit Committee which set out the draft standards which were out to consultation and the proposed response from the shared service.

1.3   As the standards are based on the Institute of Internal Auditors' International Standards, Definition of Internal Auditing and Code of Practice, there are some differences in terminology – references to the 'chief audit executive' rather than the more familiar 'head of audit'.

1.4   There is a requirement for an internal audit 'charter' which defines the purpose, authority and responsibility of the internal audit activity. The charter also covers the provision of consulting activities and the terms of the 'board' and 'senior management'. The charter covers possible conflicts of interest where internal audit carries out consulting activities.

1.5 There is no longer a requirement to produce an audit strategy. Rather, a risk based plan must be linked to a strategic statement that set out how the service will be provided and developed.

1.6 The Standards emphasise the importance of quality assurance and improvement work for the internal audit function and the need for ongoing internal assessments of quality and external reviews every five years.

New internal audit report format

1.7 It is intended that all internal audit reports produced by the Internal Audit Shared Service are in a consistent format from 2013/14. The layout and style of reports to managers will thus change. As the Audit Committee does not receive copies of full reports this change will not directly impact on this Committee, except that assurance levels will change. Future audit assurance levels will be as follows:

Substantial assurance – Reasonable assurance – Partial assurance – No/limited assurance

This assurance framework will replace the current arrangement where audit controls are assessed as good, satisfactory or weak.

1.8 The criteria for assurance levels is as follows.

Assurance Level	Criteria : A Combination Or All Of The Following
Substantial assurance	• Well designed system with good controls in place that are supervised; • Regular reporting on performance; • Regular reconciliation; • Procedures regularly reviewed; • Evidence of risk assessment, if appropriate.
Reasonable assurance	• Several recommendations but the impact overall is not significant; • Procedures are in place, but may need updating.
Partial assurance	• Overall, a large number of recommendations (but not all Grade 1 recommendations); • A sound system has been introduced, but it is not yet fully operational; • Out of date reconciliations; • Procedures are in place, but have not been updated for many years and are out of date.
No/Limited assurance	• A number of Grade 1 recommendations; • Major control weaknesses; • Fundamental controls may be missing or non compliant; • Large number of errors.

Better Governance Forum 'The Influential Audit Committee'

1.9   CIPFA's Better Governance Forum has recently held workshops on 'The Influential Audit Committee'. The workshop included a briefing on the Public Sector Internal Audit Standards, other new developments and ways to improve the impact and influence of the audit committee within public sector organisations. Key features of the workshop were:

- What the audit committee needs to know about the Public Sector Internal Audit Standards;

- CIPFA briefing on current issues of interest to audit committees;

- Improving how the audit committee plans its assurance needs and makes best use of available assurances;

- Good practice in public reporting and improving the clarity and usefulness of the organisation's reports to the public and stakeholders;

- Developing effective relationships between the audit committee and the council and supporting the improvement of accountability.

1.10   The workshop included discussion of how Audit Committees might assess their effectiveness by reference to the diagram below:
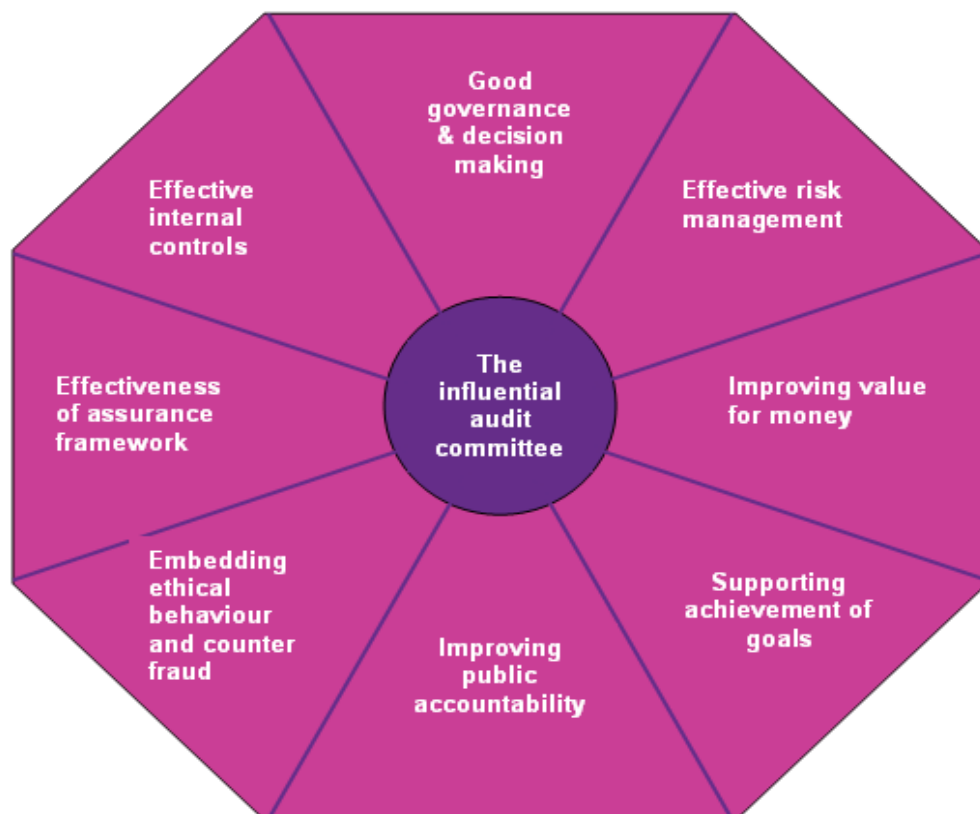
1.11   Internal Audit is developing a workshop for Audit Committee members from participating organisations within the shared service to cascade the briefing

and discuss issues. The session would also provide training for newly constituted Audit Committees post the May elections.

Audit plan 2013/14

1.12   The draft internal audit plan is attached at Appendix A. This has been based on a risk assessment of auditable areas and managers have been given the opportunity to suggest any areas (ie new systems, high risk areas etc.) that they feel might merit a review. The plan has been further discussed with the S.151 Officer and has also been considered by CLT.

1.13   The principal role of Internal Audit is to provide independent assurance to Members and management that controls are operating effectively to carry out the Council's business securely and efficiently. This also assists the statutory s.151 Officer in carrying out her duties. The audit plan is also designed to reflect the requirements of the external auditor and the plan will also be discussed with Grant Thornton. It is anticipated that the change in external auditors may have an impact on assurance work done by Internal Audit which has not yet been factored into the internal audit plan.

2.0   AUDIT RESOURCES

2.1   The shared service contract for internal audit services between Cumbria County Council, Copeland Borough Council and Carlisle City Council shows 633 days available for Copeland audits. Audit days have been reduced to 550 for 2013/14 as a contribution to corporate savings.

2.2   The audit team based in Whitehaven will carry out a range of Copeland and other work in West Cumbria so Copeland audit days will be delivered by a mix of staff, including IT audit specialists, where appropriate, who are based in Carlisle. The IT Audit Strategy is shown at Appendix C.

3.0   RISK BASED APPROACH TO AUDIT

3.1   The Audit Plan, attached as Appendix A, is revised on an annual basis following a risk assessment exercise and takes into account feedback from Copeland management.

3.2   The risk assessment takes into account the materiality of systems, strategic risk register, corporate objectives, fraud risk and control risk based on outcomes from previous audits and frequency of audit reviews.

3.3   Annual audits are carried out of the 12 fundamental systems as follows:

Loans & Investments	Payroll
Benefits	Capital Accounting
Sundry Debtors	Council Tax
Creditors	Cash Receipting

Main Accounting System	Business Rates (NNDR)
Budgetary Process	Final Accounts Process

3.4   Annual provision for the following is also included in the audit plan:-

- IT audit
- Compliance with the Code of Corporate Governance
- Implementation of new IT applications
- Risk Management arrangements

3.5   Counter-fraud work is detailed in the Counter-Fraud Audit Plan at Appendix B. Systems work will include a review of controls relating to the prevention and detection of fraud and corruption. Investigations will be undertaken as the need arises, in line with the Anti-Fraud and Corruption Strategy. Audit will act as National Fraud Initiative (NFI) key contact and ensure that NFI data is used to best effect, in conjunction with the Fraud Section.

3.6   30 days has been set aside for value for money reviews subject to requests from management for specific work.

3.7   A contingency of 9 days is included in the plan.

4.0   MONITORING AND REPORTING

4.1   Progress against the plan will be monitored and reported on a quarterly basis to the Audit Committee.

List of Appendices:
Appendix A -   Internal Audit Plan
Appendix B -   Counter-Fraud Audit Plan
Appendix C -   IS Audit Strategy

List of Background Documents: None

Consultees: Corporate Leadership Team,
                Leadership & Management Group

Circulated for information to: Audit Committee Chairman,
                                        External Auditor,
                                        Head of Audit Shared Service

Audit Area	Why is this important?	Brief Scope
AUDITS BROUGHT FORWARD FROM 12/13		
Partnership arrangements	Given the pressures on capacity, partnership working is becoming increasingly important to delivering key corporate objectives to our customers. Risk of financial and reputational loss.	Review of partnership register, protocols / governance arrangements for a sample of significant partnerships as identified by partnership evaluation framework, in line with best practice. Incorporate follow up of previous agreed actions, including risk management for partnerships.
Performance management	New performance management framework introduced in 2012/13. Effective performance monitoring ensures that corporate targets are achieved or highlights where remedial action might be required. Decision making must be informed by reliable & timely management information.	Review performance management arrangements to ensure that corporate targets are achieved. Sample check data quality of key performance indicators.
Health & Safety arrangements	Wellbeing and safety of staff is essential to an effective organisation. Inadequate health & safety arrangements can also lead to significant adverse publicity and potential high value claims.	Review Health & Safety arrangements in line with best practice guidance.

Audit Area	Why is this important?	Brief Scope
ICT strategic review/governance	ICT systems are critical to Council achieving its corporate objectives.	Apply an assurance framework based on the ISACA Information Technology Assurance Framework (ITAF) for carrying out IS audits. Assurance will be provided based on the Control Objectives for Information and Related Technology (COBIT).
Revenues & Benefits new document image processing (DIP) system	The DIP system underpins the administration of 3 key systems - Benefits, Council Tax and NNDR. A new DIP system (Civica Comino) was introduced in 2011/12.	IT application review to ensure that system operates efficiently and that data is secure and contingency plans in place in case of system failure.

Audit Area	Why is this important?	Brief Scope
FUNDAMENTAL SYSTEMS		
Loans & Investments	Treasury management - a high risk area - movement of funds and the need to secure the best rate of interest. Has performed well but will face increased pressure with reduced government funding available and reduced reserves available for investment. **Annual**	Review policies & procedures / staffing. Key controls re risk management, management of cash flow. Fraud prevention / detection controls. Anti-Money Laundering arrangements. Reconciliation to financial ledger. Reporting to Members.
Main Accounting System	Underpins the production of the statutory accounts. Need to ensure integrity of the data. **Annual**	Review security of system and key controls over feeder systems, journals, reconciliation of control accounts, clearance of suspense accounts.
Budget Process/ Budgetary Control	Fundamental to delivery of services with good financial control. Increasing difficulty in establishing a balanced budget. **Annual**	Review corporate process and ensure it is in line with constitutional arrangements and with the financial management guidelines. Confirm robust process, based upon realistic assumptions. Ensure approved budget reconciled to budget as per financial ledger. Confirm robust budget monitoring process in place throughout the year to deliver corporate objectives, control significant over/underspends.

Audit Area	Why is this important?	Brief Scope
Final Accounts Process	Adherence to a clear timetable, including detailed tasks and responsibilities is essential to meeting the statutory deadline for the production of the Statement of Accounts. Robust process needed to meet IFRS requirements and to achieve an unqualified Statement of Accounts. **Annual**	High level review of timetable, how progress is monitored against timetable, adequacy of working papers, quality checks undertaken. Reporting to Audit Committee.
Capital Accounting / Fixed Asset Register	High risk area due to value of assets and to complexity of accounting requirements. Contributes to compilation of statutory Accounts. Introduction of new asset register. **Annual**	Review key controls governing maintenance of Asset Register, including verification of opening balance entries to 31st March 2012 position. Controls over introduction of new asset register. Sample check - classification of assets / asset life / depreciation / impairment/revaluation / accounting entries on financial ledger.
Creditors	High risk due to high volume and value of transactions. Need to control purchasing with pressure on budgets. Potential fraud area. **Annual**	Review key controls re corporate purchasing/payment of creditor invoices/credit notes, fraud prevention/detection controls. Reconciliation with financial ledger. Compliance with Sub-Contractors Tax Deduction Scheme.

Audit Area	Why is this important?	Brief Scope
Sundry Debtors	High risk due to high volume and value of transactions. Pressure on budgets if debts have to be written off. **Annual**	Review key controls re corporate debtors system, raising of invoices/credit notes, debt collection, recovery arrangements, write-offs, reconciliation with financial ledger, clearance of suspense accounts.
Council Tax	High risk due to high volume and value of transactions and susceptibility to fraud re discounts. Material to the Statement of Accounts. Obligation to efficiently manage customers' accounts. **Annual**	Review key controls re registration and maintenance of accounts, raising of bills, posting of payments, debt collection / recovery arrangements, transfers / write-offs, reconciliation with financial ledger, clearance of suspense accounts. Review outcome of NFI data matching on Single Person Discounts.
National Non Domestic Rates	High risk due to high volume and value of transactions and susceptibility to fraud re discounts. Material to the Statement of Accounts. Obligation to efficiently manage customers' accounts. **Annual**	Review key controls re registration and maintenance of accounts, raising of bills, posting of payments, debt collection / recovery arrangements, transfers / write-offs, reconciliation with financial ledger, clearance of suspense accounts.

Audit Area	Why is this important?	Brief Scope
Benefits	High risk due to high volume and value of transactions and susceptibility to fraud. Material to the Statement of Accounts. Obligation to efficiently manage customers' accounts. Changes to benefits regime. **Annual**	Review key controls re applications, maintenance of accounts, calculation of benefit, management of overpayments / recovery arrangements, write-offs, appeals, reconciliation with financial ledger, clearance of suspense accounts, counter-fraud arrangements. Review application of benefit changes – HB changes and introduction of local Council tax discount scheme.
Cash Receipting / Banking	High risk due to high volume and value of transactions and susceptibility of cash to fraud/theft – although limited cash now taken. Importance of customer accounts being credited promptly with correct payments, to avoid issue of reminders / recovery action. **Annual**	Review procedures re corporate cash receipting system, interface with financial ledger, clearance of suspense accounts, reconciliation to bank statements.
Payroll	High risk due to high volume and value of transactions and susceptibility to fraud. Increased risk with turnover of staff. **Annual**	Key processing controls, including system security, authorisation of changes to base data, output controls, reconciliation to HR independent records, reconciliation to financial ledger, anti - fraud controls.

Audit Area	Why is this important?	Brief Scope
OTHER ANNUAL AUDITS		
Corporate Governance	Underpins the delivery of the Council's key objectives – includes risk management, financial management, performance management and standards for Members and employees. Contributes to the corporate Annual Governance Statement – a statutory requirement. **Annual**	Review compliance with Local Code of Corporate Governance.
Risk Management arrangements	Link to good governance and performance. Covers strategic and operational risks. **Annual**	Review risk management framework. Appropriateness of risk registers given Corporate Improvement Plan and departmental service plans. Adequacy of monitoring / reporting arrangements. [Included in annual Corporate Governance audit, if not performed as a separate audit].

Audit Area	Why is this important?	Brief Scope
CYCLICAL AUDITS		
Housing benefit overpayments	Increasing level of housing benefit debt arising from overpayments.	Review controls in place to minimise risk of overpayment. Review arrangements for recovery of overpayments.
Procurement	New procurement arrangements with Cumbria County Council. Need to ensure maximum benefit derived from this arrangement.	Review Copeland use of CCC contracts to enable cost savings to be achieved.
Cemeteries & Crematorium	Previous control issues in this area.	Follow up of previous audit.
Chipside parking enforcement system	Public compliance with parking terms & conditions. Accountability for system as half in-house and half externally hosted.	Review issue of penalty notices for car parks and recovery of charges and interface with Total FMS.
Travel and subsistence	Travel/subsistence should be necessary and any costs adequately supported. Target to reduce travel/subsistence expenditure.	Review travel and subsistence claims processing for authorisation/supporting documentation. Review arrangements for monitoring budget.
Members allowances & expenses	Members allowances & expenses are published and need to be in line with approved Scheme.	Review allowances & expenses paid are in line with approved Scheme.
Disabled facilities grants	Significant grant income stream. Must be applied for intended purpose.	Ensure that grant is used in an appropriate way for legitimate purposes. Review process to confirm that other options

		are explored prior to awarding grant and once awarded, that work funded is all necessary.
Audit Area	**Why is this important?**	**Brief Scope**
Homelessness/Housing Options	Departmental request. New arrangements for this department. Problems with rent deposits.	TBA with manager.
Petty cash control	Petty cash is only used where appropriate. Cash purchases are only made where necessary and are adequately supported.	Review petty cash usage to ensure appropriate and supported by receipts.
Freedom of Information Act compliance	Compliance with statute. Council transparency/accountability.	Ensure compliance with requirements of FOI Act. Review process for dealing with requests efficiently. Appropriate monitoring of compliance, including meeting timescales for responses.
Efficiency plan realisation	The Council's budget strategy assumes significant efficiency savings in order for financial targets to be achieved.	Ensure robust methodology used in identifying/calculating savings and subsequent monitoring that savings are achieved/any contingent risks are managed.
Complaints system	New procedure introduced for dealing with complaints. Links to KPI on customer satisfaction.	Review operation of new complaints procedures.
ICT		
ICT work will be to carry out the 2 reviews deferred from 2012/13	See above	
VALUE FOR MONEY	Increasing pressure on financial resources.	Review areas to be agreed with CLT.

	Need to continuously deliver savings / efficiencies whilst maintaining standard of service to the customer.	

COUNTER-FRAUD AUDIT PLAN

FRAUD RISK AREA	PLANNED AUDIT ACTIVITY
Benefits	Annual audit – includes evaluation of management arrangements for fraud prevention/detection/investigation. Review of system security / access controls. Sample check of eligibility for benefit and payments made. Review of write-offs.
Cash Collection	Annual audit of cash receipting system - includes evaluation of management arrangements for fraud prevention/detection. Review of system security / access controls. Sample check of refunds, banking, correct posting to accounts. Review of overs/shorts. Review of bank reconciliation.
Credit income [where an invoice or bill is raised to demand payment] • Council Tax • National Non Domestic Rates (NNDR) • Planning/Building Control Fees • Fees/Charges	Annual audits of Council Tax and NNDR include evaluation of management arrangements for fraud prevention/detection. Review of system security / access controls. Sample check of calculation of charges, eligibility for discount, transfers of cash posted, refunds, recovery arrangements, suppression of recovery, write-offs. Cyclical audits of Fees & Charges – raised in line with approved or statutory rates.
Purchasing	Annual audit of Creditor payments includes evaluation of management arrangements for fraud prevention/ detection. Review of system security / access controls. Sample check of supporting documentation/authorisation, check that purchase is appropriate to the service area.

FRAUD RISK AREA	PLANNED AUDIT ACTIVITY
Issuing of Cheques	Annual audit of Creditor payments and Benefits payments include evaluation of management arrangements for fraud prevention/ detection. Review of system security / access controls. Sample check of supporting documentation/authorisation, reason for return of cheque to officer initiating the transaction, security of cheques (including security features of cheques, custody of returned/cancelled cheques), reconciliation of cheques issued.
Contracts – letting of contracts and management of contracts	Periodic audit of sample of let contracts for compliance with Contract Standing Orders. Periodic audit of a sample of capital contracts to review management arrangements for contract management and the fraud prevention/detection controls. Sample of capital contract payments checked for supporting documentation / authorisation as part of the annual Creditors audit. Cyclical audits of revenue contract management.
Loans & Investments	Annual audit – includes evaluation of management arrangements for fraud prevention/detection. Review of system security / access controls. Sample check of transfers of funds for supporting documentation / authorisation / compliance with the Treasury Management Strategy. Check reconciliation of treasury management records to bank statements and the financial ledger.
Payroll	Annual audit – includes evaluation of management arrangements for fraud prevention/detection. Review of system security / access controls. Sample check of new starters for proof of ID/qualifications/eligibility

FRAUD RISK AREA	PLANNED AUDIT ACTIVITY
	to work in UK/ references re previous employment. Sample check of employee payments for supporting documentation / authorisation / check to HR independent records.
Establishment audits –	Cyclical check on devolved arrangements for purchasing, payments, collection & banking of income, stock control etc. *2013/14 plan includes further follow up of Bereavement Services given issues in 2012/13.*
IT Network	Periodic reviews of network security to be incorporated into strategic IS plan.
Grant Claims	Ad hoc audit of grant claims, in line with grant claim deadlines.
Travel & Subsistence Claims	Cyclical review of claims to ensure these are in line with the Regulations & Guidelines, are appropriate and properly authorised. *2013/14 plan includes both employee travel & subsistence and Members allowances, travel and subsistence.*

IS AUDIT STRATEGY

Background – Defining IS Audit

There is no single universal definition of Information Systems (IS) auditing. Information systems are fundamental to any business and drive the key business processes.

The purpose of IS audit is to review and provide feedback, assurances and recommendations to management. The three main areas of concern with any information system are:
- Availability;
- Confidentiality;
- Integrity.

Elements of IS Audit

An information system is not just a computer. They are complex and have many components, pieced together to make a business solution. Assurances about an information system can only be obtained if all the components are evaluated and secured.

IS Audit Strategy – 2013/14 and Beyond

During 2013/14, the shared internal audit service will implement an assurance framework based on the ISACA Information Technology Assurance Framework (ITAF) for carrying out IS audits. Assurance will be provided based on the Control Objectives for Information and Related Technology (COBIT).

The IT Audit Universe (likely areas for audit involvement) consists of the following headings. Recognised standards to measure assurances are included in brackets:
- IT Governance (ISO/IEC 38500; COBIT);
- IT Strategy and business alignment;
- Management of projects and programmes (PRINCE; PMBoK);
- Management of systems and applications;
- Management of services and service delivery (ITIL; ISO/IEC 20000);
- Management of information security (ISO/IEC 27000);
- Management of disaster recovery (ISO/IEC 24762);
- Management of infrastructure and applications.

In addition, the shared internal audit service provides 'hot assurance' reviews / consultancy for system implementations where there is audit involvement and participation on the project team, with audit representation on both the Project Board and Operations Board.