

INTERNAL AUDIT PLAN 2012/13

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Summary: This report sets out the Audit Plan for 2012/13

Recommendation:	That Members approve the draft Internal Audit Plan.
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Resource Implications: The proposed Audit Plan is within the agreed audit budget.

Key Decision Status: None

1.0 INTRODUCTION

- 1.1 The Accounts and Audit Regulations require that the Council maintains an adequate and effective system of internal audit of its accounting records and of its system of internal control, conducted in accordance with the proper internal audit practices. This audit plan will form the basis of internal audit's annual report on the system of internal control.
- 1.2 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 meet the requirements of the external auditor, as set out in the Audit Commission's Internal Audit Protocol. Internal Audit will review financial and business systems, in order to evaluate and report upon the adequacy of internal control, as a contribution to the proper, economic, efficient and effective use of resources. The Audit Strategy is outlined at Appendix A.

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. A 2% efficiency was included in the contract to apply in 2012/13 and this could be taken by participating councils as additional audit days for the same cost or the same number of days for a 2% reduced cost. Copeland has opted for the same audit days but the daily rate charged for these will be 2% less than what was charged in 2011/12.
- 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 D.

3.0 RISK BASED APPROACH TO AUDIT

- 3.1 The Audit Plan, attached as Appendix B, 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	National Non Domestic Rates
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 C. 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 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 44 days is included in the plan. Some of this time will be used to finalise work in progress at 31 March but most will be available to accommodate any additional work that may arise in year.

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 – Audit Strategy
Appendix B - Internal Audit Plan
Appendix C - Counter-Fraud Audit Plan
Appendix D - IT Audit Strategy

List of Background Documents: None

Consultees: Portfolio Holder,
Corporate Leadership Team,
Leadership & Management Group

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

AUDIT STRATEGY – KEY OBJECTIVES

GENERAL
<ul style="list-style-type: none"> • Provide an effective internal audit service consistent with the CIPFA Code of Practice for Internal Audit in Local Government and the Accounts and Audit Regulations. • Prepare an audit plan based on risk assessment. • Promote best practice through advice and guidance.
AUDIT COMMITTEE
<ul style="list-style-type: none"> • Agree an audit plan and report on progress against the plan, including highlighting the key findings and progress on key recommendations. • Produce an annual report, providing an opinion on the Council's internal control and governance systems. • Support the Audit Committee to provide an effective challenge across the Council and independent assurance on risk management arrangements and the internal control environment, through preparation of reports and learning and development activities.
CORPORATE LEVEL
<ul style="list-style-type: none"> • Ensure internal audit work takes into account the Council's corporate objectives and strategic risks. • Audit key financial systems annually and provide assurance on the level of internal controls. • Review information security arrangements. • Review risk management and business continuity arrangements. • Review procurement arrangements. • Review partnership arrangements for significant partnerships. • Carry out an annual review of compliance with the Code of Corporate Governance, identifying any actions for improvement. • Contribute to / review the process for the preparation of the Annual Governance Statement (AGS). • Lead on the anti-fraud and corruption strategy: raising awareness, providing advice and undertaking investigations where appropriate. • Carry out ad hoc reviews requested by Members / Management, as requested, including Value for money reviews.
SERVICE LEVEL
<ul style="list-style-type: none"> • Audit operational systems on a risk-based, cyclical basis to check compliance with regulations / best practice. • Review arrangements for contract management. • Review the implementation / development of new IT systems. • Provide audit guidance on an ad hoc basis.

Audit Area	Why is this important?	Brief Scope
AUDITS BROUGHT FORWARD FROM 11/12		
Web-site developments	Introduction of further customer self-service applications on the Council's web-site will contribute to transformation of services / increased efficiency.	Review change-control procedures, implementation controls, adequate testing of functionality, publicity/awareness raising, integration with back office & CRM systems. Post-implementation review.
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.
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.
Local Development Framework	Statutory duty to produce the Local Development Framework, in line with a prescribed process. Key project in 2011/12 Corporate Plan.	Review the process and evidence base, in line with statutory requirements.

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 provided by the S.151 officer. 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	<p>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.</p> <p>Robust process needed to meet IFRS requirements and to achieve an unqualified Statement of Accounts.</p> <p>Annual</p>	<p>High level review of timetable, how progress is monitored against timetable, adequacy of working papers, quality checks undertaken. Reporting to Audit Committee.</p>
Capital Accounting / Fixed Asset Register	<p>High risk area due to value of assets and to complexity of accounting requirements. Contributes to compilation of statutory Accounts. 2010/11 Accounts had material error in respect of PFI valuation.</p> <p>Potential introduction of new property register / asset register.</p> <p>Annual</p>	<p>Review key controls governing maintenance of Asset Register, including verification of opening balance entries to 31st March 2011 position. Sample check - classification of assets / asset life / depreciation / impairment/revaluation / accounting entries on financial ledger.</p> <p>Check basis of valuation for PFI has been agreed with the external auditor.</p> <p>Check implementation controls if a new fixed asset register is introduced.</p>
Creditors	<p>High risk due to high volume and value of transactions. Need to control purchasing with pressure on budgets. Potential fraud area.</p> <p>Annual</p>	<p>Review key controls re corporate purchasing/payment of creditor invoices/credit notes, fraud prevention/detection controls.</p> <p>Controls re monitoring aggregation/compliance with Contract</p>

Audit Area	Why is this important?	Brief Scope
		Standing Orders. Reconciliation with financial ledger. Compliance with Sub-Contractors Tax Deduction Scheme.
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.
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	<p>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.</p> <p>Annual</p>	<p>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.</p>
Cash Receipting / Banking	<p>High risk due to high volume and value of transactions and susceptibility of cash to fraud/theft – although limited cash now taken.</p> <p>Importance of customer accounts being credited promptly with correct payments, to avoid issue of reminders / recovery action.</p> <p>Annual</p>	<p>Review procedures re corporate cash receipting system, interface with financial ledger, clearance of suspense accounts, reconciliation to bank statements.</p>
Payroll	<p>High risk due to high volume and value of transactions and susceptibility to fraud. Increased risk with turnover of staff.</p> <p>Potential redundancy payments in 2011.</p> <p>Annual</p>	<p>Key processing controls, including system security, authorisation of changes to base data, output controls, reconciliation to HR independent records, reconciliation to financial ledger, fraud prevention/detection controls.</p>

Audit Area	Why is this important?	Brief Scope
OTHER ANNUAL AUDITS		
Corporate Governance	<p>Underpins the delivery of the Council's key objectives – includes risk management, financial management, performance management and standards for Members and employees.</p> <p>Contributes to the corporate Annual Governance Statement – a statutory requirement.</p> <p>Annual</p>	<p>Review compliance with Local Code of Corporate Governance.</p>
Risk Management arrangements	<p>Link to good governance and performance.</p> <p>Covers strategic and operational risks.</p> <p>Annual</p>	<p>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].</p>

Audit Area	Why is this important?	Brief Scope
CYCLICAL AUDITS		
Partnership arrangements	<p>Given the pressures on capacity, partnership working is becoming increasingly important to delivering key corporate objectives to our customers.</p> <p>Risk of financial and reputational loss.</p> <p>Cyclical – dependent upon risk</p>	<p>Review of partnership register, protocols / governance arrangements for a sample of significant partnerships as identified by partnership evaluation framework, in line with best practice.</p> <p>Incorporate follow up of previous agreed actions.</p>
Cemeteries & Crematorium	<p>New income system in place</p> <p>Cyclical – dependent upon risk</p>	<p>Review operation of new income system.</p> <p>Analytical review to identify any unusual variances.</p> <p>Adequacy of counter fraud controls in place</p>
Car parks income	<p>Significant income stream.</p> <p>Potential fraud risk.</p> <p>Collection arrangements.</p>	<p>Review arrangements for collection & banking of income.</p> <p>Analytical review to identify any unusual variances.</p> <p>Adequacy of counter fraud controls in place, including reconciliation of income to tickets issued.</p>

Audit Area	Why is this important?	Brief Scope
Commercial/bulky waste collection income	Significant income stream. Potential fraud risk.	Review arrangements for charging, collection & banking of income. Analytical review to identify any unusual variances. Adequacy of counter fraud controls in place.
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. Check that work is carried out as intended and that correct costs are reimbursed.
Building Control	Key Council service. Significant income stream.	Review operation of MIS Headway system ensuring that Building Regulations are administered effectively and correct fees are charged and recovered.
On street parking enforcement	New arrangements with County Council from April 2012.	Review contract arrangements and ensure costs are recovered in full.
Development Control	Key service. Significant income stream.	Review operation of MIS Headway system ensuring that Planning Regulations are administered effectively and correct fees are charged and recovered.
Efficiency plan realisation	The Council's budget strategy assumes significant efficiency savings in order for financial targets to be achieved.	Review methodology for setting savings targets to ensure realistic and set against potential reduction in service standards/other risks. Check mechanism for monitoring achievement of planned savings and any

Audit Area	Why is this important?	Brief Scope
		learning from targets not achieved/unforeseen impacts on standards.
Performance management	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.
ICT		
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).
VALUE FOR MONEY	Increasing pressure on financial resources. Need to continuously deliver savings / efficiencies whilst maintaining standard of service to the customer. Annual	Review areas to be agreed with CLT.

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. <i>2012/13 income audits to include car parks, commercial waste, development control.</i>
Credit income [where an invoice or bill is raised to demand payment] <ul style="list-style-type: none"> • 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. <i>2012/13 audits include commercial waste, development control and building regulations.</i>
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

FRAUD RISK AREA	PLANNED AUDIT ACTIVITY
	documentation/authorisation, check that purchase is appropriate to the service area.
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

FRAUD RISK AREA	PLANNED AUDIT ACTIVITY
	controls. Sample check of new starters for proof of ID/qualifications/eligibility 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. <i>2012/13 - Cemeteries & Crematorium</i>
IT Network	Periodic reviews of network security.
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.

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 – 2012/13 and Beyond

During 2012/13, 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.