

AUDIT & GOVERNANCE COMMITTEE – 23 APRIL 2014

INTERNAL AUDIT STRATEGY 2014/15 AND QUARTER 1 PLAN

Report by the Chief Finance Officer

Introduction

1. This paper details the Internal Audit Strategy, including the resources available and how we will be delivering our service in 2014/15. Work plans will be prepared on a quarterly basis and will be presented to the Audit Committee for approval. The work plan for Q1 is attached as an annex to this report, with an indicative list of areas to be programmed for the rest of the year.

Internal Audit Strategy

2. The Accounts and Audit Regulations 2011 (S6) state that the Council needs to 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 internal audit practices; these are defined as the Public Sector Internal Auditing Standards 2013.
3. The Public Sector Internal Auditing Standards defines “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
4. The Chief Internal Auditor is required to provide an annual report on the System of Internal Control which is used to inform the Council’s Annual Governance Statement. In providing this opinion we are required to review annually the financial management, risk management and governance processes operating within the Council. This includes reviewing internal control systems for key processes on a risk basis. The methodology for identifying areas for audit is detailed in section 3 of this report.
5. The Internal Audit Service is delivered in collaboration with Buckinghamshire County Council, with resources shared between the two Councils.
6. In a change of strategy from 2013/14, we are seeking to increase the in-house resource, so less reliant on external resources. The exception will be for

AG06

technical support such as IT Audit and Investigations. There are currently two vacancies within the team, and we are creating an opportunity to take on an apprentice, under the Council's apprenticeship scheme.

7. As reported previously there is relationship within the Internal Audit Team which presents a potential conflict of interest. The Chief Internal Auditor is related to a Senior Auditor. The conflict is being managed; the Senior Auditor's line manager, the Audit Manager, has a direct reporting line to the Chief Finance Officer, on any performance related issues, including appraisals. There is no direct management between the CIA and the Senior Auditor.
8. In 2014 the Cabinet approved plans for the externalisation of Finance, HR and School Support functions. The new operating framework operating framework is due to go live from April 2015, but 2014/15 will see the transition to the new provision, including the development of the governance arrangements and assurance framework. To support the transition, and to develop the future governance and assurance mechanisms, an Audit Manager will be part of the project team. The Chief Internal Auditor will ensure there are periodic updates to the Audit and Governance Committee as a key stakeholder in the Governance and Assurance Framework.
9. There will remain a significant emphasis for internal audit activity reviewing key financial systems and compliance with the governance framework; however, financial management across Directorates, including local financial systems, and financial management in schools will be a key priority for audit.
10. Following on from 2013/14, contract audit will continue, as commissioning and procurement remains core to the delivery of the Council's services. The Council's main source of assurance on contract management should be from the Commercial Services Board, and the planned introduction of a Contract Management Application; Internal Audit will test that management control during 2014/15, to ensure that it is complete and providing accurate and effective management information.
11. In 2014/15 we are exploring with the Oxfordshire Districts and City Councils the potential for creating a Fraud Hub, that each council can call upon for counter-fraud and investigations work. This could be an excellent opportunity for joint working over the management of shared fraud risk, but also for this Council to benefit from expert fraud resources that we do not currently have.
12. There will be no separate Counter-Fraud plan for 2014/15, as the key work will be on the creation of the Hub; however, Internal Audit will continue to register and follow up on reported financial irregularity including suspected fraud, and will co-ordinate the response for the 2014/15 National Fraud Initiative (NFI) data matching exercise. The Chief Internal Auditor will continue to undertake fraud awareness training when necessary.

AG06

13. The Council has introduced a new "value" for all staff, "Commercial". As part of the Internal Audit improvement plan we will be seeking to increase the team's knowledge and understanding of being commercial in both awareness and thinking. We will be looking to increase the contract auditing experience within the team by giving them more exposure to the auditing of commissioning, procurement and contract management.

Audit Planning Methodology

14. A quarterly internal audit plan will be produced in consultation with the Directors and their Leadership Teams, the Chief Finance Officer and the Finance Business Partners.
15. The Chief Internal Auditor is also the Corporate Lead for Risk Management. The Internal Audit Plan will also be informed by the Strategic and Directorate Risk Registers.
16. We will continue to work with Ernst and Young on the testing strategy for key financial systems to avoid any duplication of effort and ensure that assurance requirements of both parties are met.
17. We will continue to support the Corporate Governance Assurance Group in producing the annual governance statement through undertaking annual compliance audits that will support Directors in completing their annual statements. The Chief Internal Auditor is a member of the Group.
18. There will be no separate Counter-Fraud plan for 2014/15; however, with the emphasis of audit activity being on contract audit, financial management and financial systems, fraud risks will be reviewed through those audits. Internal Audit will continue to register and follow up on reported financial irregularity including suspected fraud, and will co-ordinate the response for the 2014/15 National Fraud Initiative (NFI) data matching exercise. The Chief Internal Auditor will continue to undertake fraud awareness training when necessary.

Resources

19. The Internal Audit Service is resourced as follows as at 1 April 2014:

In House Team	2013/14 FTE	Chargeable Days available	Planned OCC days 2013/14	Planned External days 2013/14
Chief Internal Auditor	1.0	184	90 Including 20 days Risk Management and 20 days Insurance	94

AG06

Audit Managers	1.6	300	215	85
Principal Auditor (maternity leave from May 2014)	0.8	24	24	0
Principal Auditor (Contracts)	1.0	200	100	100
Senior Auditor	2.8	554	294	260
Vacancy	2.0	400	290	110
Apprentice	0.8	154	154	0
Audit Assistant	0.8	139	139	0
External				
IT Audit		130	100	30
Total	10.8	2084	1406	678

Analysis of auditor days

	2013/14	Comments	2012/13	Diff.	Reason for change
Gross days – In house team	2820	This represents 10.8 FTE	1882	+938	Increase in the in house team. 1 appointment in 13/14, plus 2 vacancies and an apprentice vacancy
Contract days	130	This is made up of: 100 days IT Audit plus 30 days IT Audit for TVPA	505	-375	The reduction in days outsourced reflects the strategy to increase the in house resource.
Other		To be sourced through recruitment or Call off	170	-170	This is presentational. This year we are

AG06

					showing the vacancy as part of the in house team above.
Total Gross days	2950		2557	393	
Overheads	690	This time is for bank holidays, annual leave, special leave, training, contingency for sick absence, and recruitment. It also includes for expected paternity leave in quarter 2.	370	320	The increase reflects 4 new posts since 2013/14 Strategy report.
Non Chargeable Days	176	The non chargeable days are for non audit related activity, including administration time, the Senior Manager role of the Chief Internal Audit, staff appraisals, 1:1's and departmental work.	144	32	Small increase in days due to staffing changes
Total Chargeable days available	2084	This is the number of days that contribute directly to internal audit activity.	2043	41	
Chargeable Days – non assignment	203	These are days not attributed to planned audit activity, such as the Chief Internal Auditors management days, admin support for actual audit work, preparation of the audit plan, operational planning, reports for the AWG and Audit Committee, and corporate assurance groups. These days	219	-16	

AG06

		also includes the CIA's management time for Risk Management and Insurance functions			
Chargeable days – External Clients (BCC and TVPA)	679		682	- 3 days	
Chargeable days – OCC assignment based	1202	This is the number of days available for delivering the audit plan.	1142	59	

20. It is planned that Internal Audit Services will deliver a minimum of 1202 days on Audit Assignments that will be designed to provide reasonable assurance on the system of internal control. As outlined above the quarterly plans will be presented to the Audit & Governance Committee, with Q1 attached as annex 2. The type of audit activity will be:

Key Financial Systems	We will test any changes to the existing systems, and will undertake walkthrough test to confirm the system. We will agree with External Audit the key controls to be tested, and undertake the compliance/substantive testing.
Governance	We will undertake testing across Directorates of compliance against the governance and regulatory framework, including the key control processes covering HR, ICT, Financial Management, Risk Management, Project Management, Performance, and Procurement. This will provide evidence to the Directors for completion of their annual assurance statement.
Schools	We will seek assurance through analytical review and with targeted visits and thematic reviews as required.
IT Audit	We will undertake a programme of IT audits to provide assurance that the network and IT infrastructure is secure and managing our data and information needs effectively.
Contract Audit	Contract Management will continue to be the key focus of our audit activity. This area will include a review of the anticipated new Contract Management Application.
Operational Risk	Performance systems for key operational risks

AG06

	ascertained through the risk management process and in consultation Directors and Deputy Directors will be reviewed and tested.
Strategic Risk	Performance systems for the management of strategic risk, for example major procurement and projects will be reviewed and tested.
Counter Fraud	Fraud risks will be reviewed as part of the financial management and financial systems audits. In 2014/15 the biennial NFI data matching exercise will be undertaken
Follow Up	We will continue to monitor and report on the implementation of agreed management action.

Performance Monitoring / Reporting

21. The proposed performance indicators for 2014/15 are attached as annex 1 to this report.
22. The Audit Committee will receive a quarterly report, including the next quarters plan for approval, a status update on the approved work plans, and a summary of the outcomes of completed audits. As a matter of course any audits with an “unacceptable” overall opinion will be reported to the AWG, who should call in the responsible Manager for assurance on what action is being taken. It is also proposed that the AWG receive monitoring reports on outstanding management actions as a matter of course from Internal Audit.

Recommendation

23. The Committee are **RECOMMENDED** to approve the Internal Audit Strategy and the Q1 Work Plan.

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Background papers: None.

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