



GA.34 12/13
Governance & Audit Committee
21 March 2013

Subject: Draft Internal Audit Plan 2013/2014

Report by:	Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)
Contact Officer:	Russell Stone, Financial Services Manager russell.stone@west-lindsey.gov.uk
Purpose / Summary:	This report presents the planned internal audit work of the Council for the year 2013-14

RECOMMENDATION(S):	That Members approve the annual audit plan
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IMPLICATIONS

Legal: None directly arising from the report

Financial: None directly arises from the report.

Staffing: None.

Equality and Diversity including Human Rights:
None arising from this report

Risk Assessment: N/A

Climate Related Risks and Opportunities: None arising from this report

Background Papers: No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

Call in and Urgency:

Is the decision one to which Rule 14 of the Scrutiny Procedure Rules apply?

Yes

No

Key Decision:

Yes

No

Draft Internal Audit Plan – 2013/14

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Contact Details:
Lucy Pledge CMIIA
Head of Audit & Risk Management



County Offices, Newland, Lincoln, LN1 1YG
☎:01522 553692 💻 lucy.pledge@lincolnshire.gov.uk

Introduction

1. This report sets out the proposed work of Internal Audit for 2013/14.
2. Internal Audit provides independent assurance designed to add value and improve how the council operates. We help the council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes.

Internal Audit Strategy – How we choose what to look at

3. Our Internal Audit strategy has been developed to demonstrate how assurance can be given on:
 - The critical systems of the Council - Those key service activities whose failure could result in significant damage to the Council's reputation, material financial loss, significant impact on members of the public, significant impact on the successful delivery of Council priorities or failure to comply with service legal requirements.
 - Due diligence activities – Key processes that support the running of the business and ensure compliance with corporate policies and legal requirements. How often Internal Audit review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management. We also consider the requirements of External Audit.
 - Strategic Risks – Any risk recorded within the Strategic Risk Register.
 - Emerging risks - Risks that are created by a new activity or business strategy and whose failure could result in significant damage to the Council's reputation, material financial loss, significant impact on members of the public or failure to comply with service legal requirements.
 - Key transformation programmes and projects. Those supporting delivery of a corporate objective / priority.
 - ICT Assurance. Focussed on the critical IT applications and activities that support delivery of the Councils' key functions.
4. We have identified the level of assurances in place by using the 'Three lines of Assurance' Model



- 5. The combined assurance map shows us where the Council can co-ordinate assurance work across the whole Council, not just those from Internal Audit. We intend to leverage assurance from these other sources to enable the Head of Internal Audit to provide their Annual Audit Opinion on the Council's governance, risk and control framework for 2013.
- 6. Our work has been completed and the Council's Combined Assurance Status report is currently being drafted by the Assistant Chief Executive Officer. The deadline for completion is 31st March 2013.

This report will show where assurances are present and their source against the Council's critical activities, key risks and projects. Our plan for 2013/14 has therefore focused on what we believe is the current priorities - but may change as a result of this work once it is completed.

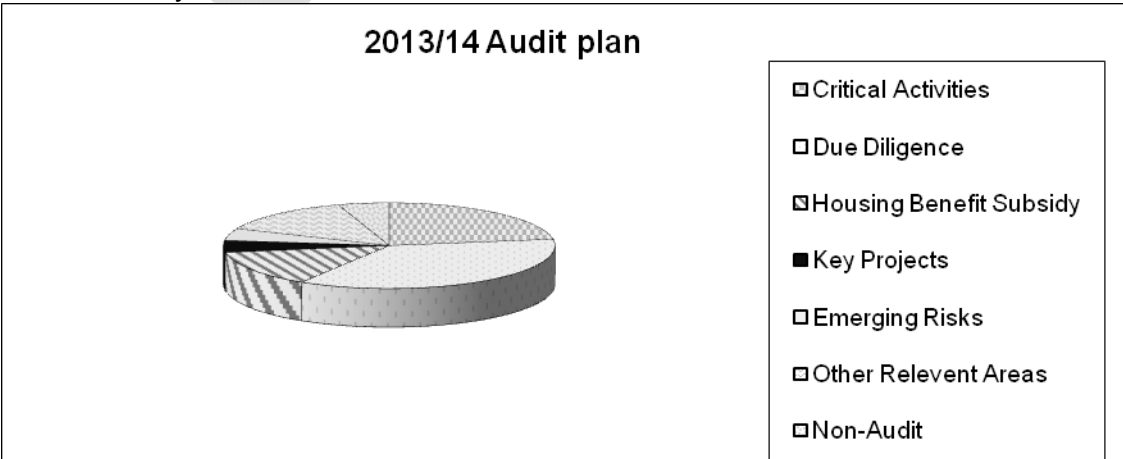
The Combined Assurance Status Report will inform the production of the Annual Governance Statement of the Council and informs the Head of Internal Audit's annual audit opinion. It is suggested that the Governance and Audit Committee request progress on this report.

- 7. We co-ordinate our work on key financial systems with the Council's External Auditors, KPMG. We have a joint working protocol which sets out where the External Auditor seeks to place reliance on our work. This ensures that the Council gets the most out of its combined audit resource – keeping audit fees low.

Draft Internal Audit Plan 2013/14

- 8. The type of areas included in the plan for 2013/14 is shown in figure 1 with the detailed projects in Appendix A. A schedule of audits will be developed with management once the plan has been approved.

Figure 1 – Analysis of Internal Audit Resource



This is an increase on the 2013/14 plan of 30 days at an increased cost of £8,460.

Our Performance

9. Our effectiveness and performance is monitored through the Corporate Strategy and Governance Board, which includes the Chief Executive, Section 151 and Monitoring Officers of the Council and the Governance and Audit Committee. Our performance measures are set out below in Figure 2 for information.

Figure 2 – Our performance measures

Performance Indicator	Target
Percentage of plan completed.	100% (revised plan)
Percentage of key financial systems completed.	100%
Percentage of recommendations agreed.*	100%
Percentage of recommendations implemented.*	100%
Timescales	<ul style="list-style-type: none"> ■ Draft report issued within 10 working days of completing audit. ■ Final report issued within 5 working days of closure meeting / receipt of management responses. ■ Period taken to complete audit – by exception
Client Feedback on Audit (average)	Good to excellent

* Achievement of the performance measures on recommendations agreed and implemented are not within our control. These are reported so the Governance and Audit Committee can see what actions management have taken. The details of any recommendations not agreed will be included in the executive summary and report to Committee.

Appendix A – Draft Internal Audit Plan 2013/14

Area	Indicative Scope	Planned Days
Critical Service Areas - Those areas identified by senior management as having the most impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss, impact on people (risks)		
Communities and Localism		
Partnership Management	To provide assurance on the structures and governance arrangements in place to manage key partnerships.	
Resources		
Progress and delivery of the corporate plan	To provide assurance on the progress made against the delivery of key priorities in the corporate plan and reporting through progress and delivery reports. To also include the role and effectiveness of the programme boards – incorporating how well risk, performance, partnership working and projects associated with the priority are being managed.	
Welfare Reform	To provide assurance that welfare reform has been implemented effectively, including <ul style="list-style-type: none"> • Delivery plan • Sustainability • Assessment of the impact on communities / vulnerable people • Impact on collection rates 	
National Non-Domestic Rates and the New Homes Bonus	To provide assurance on how the council is proactively managing NNDR income, including: <ul style="list-style-type: none"> • Supporting business growth • Maintaining collection rates • Sustainability 	
Sub Total		50
Due Diligence - Those systems that support the running of the Council and ensure compliance with key policies		
Resources		
Finance Systems	To review systems and test transactions for finance systems feeding into the Council's accounts in liaison with external	

	audit.	
Risk Management	To provide assurance on the risk management strategy, structure and operations within the organisation.	
Project Management	Review of the project management process, its fit in the organisation and its application to the management of projects. Audit to include gateway reviews of key projects to be agreed with the Assistant chief executive.	
Elswitha Quarter	To review processes and decisions made in the Elswitha Development, to include governance arrangements.	
Sub Total		80
Housing Benefits and Subsidy claim Review		
	Review of the housing benefit systems in conjunction with testing to support the external audit of the subsidy claim.	
Sub Total		30
Key Projects		
Asset Mgt, utilisation and disposal	Review of the asset management project to provide assurance that: <ul style="list-style-type: none"> • There is a comprehensive understanding of assets held; • Process for acquisition, utilisation and disposal; • Assets are used for maximum benefit of communities and the authority. 	
Sub Total		10
Emerging Risks		
Emerging risk contingency	To audit any significant emerging risks arising in the year.	
Sub Total		10
Other relevant Areas		
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the annual status report.	
Counter fraud	To assess the effectiveness of the Council's arrangements for 'Fighting Fraud Locally' as outlined in the National Fraud Authority good practice guide.	
ICT Audit	Identifying the assurances available on the Councils ICT Management arrangements – Infrastructure – applications. Based on this	

	information undertaken an ICT audit eg critical application or IT security	
Sub Total		30
Non-Audit		
Advice & Liaison		5
Annual Report		1
Audit Committee		5
Sub Total		11
Grand Total		221

Draft

Appendix B – Audit Committee Update

Audit Committee Update

Helping audit committees to be effective

Better Governance Forum www.cipfanetworks.net/governance_2

Introduction

Dear Audit Committee Member,

This is a new briefing paper for audit committee members in public sector bodies. It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role. This first issue includes an article to help you review your internal audit plan and pointers to other information and guidance relevant to your role.

The CIPFA Better Governance Forum is part of the Chartered Institute of Public Finance and Accountancy which is the leading body for setting standards of governance and recommended practice for audit committees in local government and other parts of the public sector. The Forum is a subscription network covering all aspects of governance providing guidance, briefings and workshops.

I hope you will find this first issue helpful. It is our intention to produce this briefing three times a year. It will be emailed to the key contact in your organisation who will be able to email it to you or print it if you prefer. If you want to make sure you receive your copy directly please

provide us with your details using the link on page 3.

We welcome feedback on this issue and suggestions for future topics. Please let us know if we have got this right.

Best wishes

Diana Melville

Governance Advisor

CIPFA Better Governance Forum

Diana.Melville@cipfa.org.uk

Future editions of this briefing:

The next edition is planned for May and will focus on the audit committee's role in reviewing the

Annual Governance Statement or Statement on Internal Control.

In the autumn we are planning a briefing on risk management and how the audit committee can

help make the management of risk more effective in the organisation.

Better Governance Forum www.cipfanetworks.net/governance_3

Receive our briefings directly:

This briefing will be sent to all key contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be forwarded to all audit committee members. If you are an audit committee member who has been forwarded a copy of this report and would

like to receive it directly in future, please email Diana Melville Diana.melville@cipfa.org.uk
Better Governance Forum www.cipfanetworks.net/governance_4

Reviewing the Audit Plan

At least once a year, but possibly more frequently, both your internal and external audit teams will

ask you to review their audit plans and approve them. If you aren't familiar with audit plans, you

may well be asking yourself how to do this and how you can add value. In this article, I will discuss:

Why draw up an audit plan?

Who is involved?

How is the audit plan produced?

What does the audit plan cover?

When is the audit plan written?

Your role in relation to the audit plan

I will finish with a "dashboard" of key questions for you to ask to satisfy yourself that the plan has

been drawn up appropriately and will deliver the assurance that you need as an audit committee

member. While I concentrate on your role in relation to internal audit, many of these points also

relate to external audit.

Why draw up an audit plan?

An audit plan is needed to ensure that your auditors address all the main areas of risk within your

organisation and can provide assurance to support your Annual Governance Statement or Statement on Internal Control. At the end of each year the head of internal audit provides an opinion on the effectiveness of the control environment so it is vital that the plan is sufficient to

support that opinion. It is also needed to ensure auditors use their limited resources (budget, time,

people and expertise) to best effect. Almost inevitably audit needs outstrip audit resources and the

plan will help your audit team set its priorities, in discussion with you.

Who is involved?

The audit plan is normally drawn up by the head of internal audit, in consultation with directors and

members of the audit team. As the internal audit plans and external audit plans should be aligned,

each should consult the other as part of this process.

How is the audit plan produced?

The audit plan is 'risk-based' to address the financial and non-financial risks faced by your organisation and your key priorities. Your organisation's risk register and the effectiveness of risk

management will be reviewed to help develop the plan. The plan may also include work to be undertaken on behalf of your external auditor. The identified audits will be balanced against the

resources available and the plan drawn up accordingly.

What does the audit plan cover?

The audit plan should show how your internal audit strategy is going to be achieved in accordance

with the section's terms of reference. Plans include a combination of planned work and allowances

for reactive work. They are always flexible so that they can reflect the changing risks and priorities within your organisation. Plans will also include allowances for "non-chargeable" time. Planned audit work consists of a series of reviews of different aspects of your organisation's operations. The plan will include some high risk areas, for example areas of significant financial risk or high profile projects or programmes. Or they could be areas where there are concerns about poor performance, fraud or emerging risks. Some higher risk audits may feature annually in audit plans. Other areas, particularly financial systems, may be audited regularly even if they are well controlled because of their significance to the financial statements. The frequency will usually be agreed with the external auditor. Other parts of the plan will reflect the risks and priorities of the organisation and the judgement of the head of internal audit.

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Reactive audit work may include investigations, giving advice, supporting working groups and other such matters. Non-chargeable time includes annual leave, training, administration, team meetings etc. A working year is approximately 260 days. A typical auditor (not a trainee or a manager) will carry out about 200 audit days/year.

When is the audit plan written?

Detailed audit plans normally cover the organisation's financial year, although this is not mandatory. The audit plan is, therefore, generally written a few months before the start of the audit year for approval by the audit committee at the meeting before the start of that year. As the plan has to be flexible, you should be kept informed of minor changes and receive a revised plan for approval if there are any significant changes during the year.

There may also be a strategic plan that outlines the main direction for the audit team over a longer period than a year (perhaps three years). This is particularly useful to understand the wider coverage of risks and controls.

The audit committee's role

The audit committee should be both challenging of the plan and supportive in its delivery. You need to be sure that the organisation's risks and priorities are considered, that the plan is aligned with the audit strategy and terms of reference, that internal and external audit have liaised in drawing up their plans and that your auditors have exercised their independence and have not been unduly influenced by others in deciding what they will or (even more importantly) will not examine. You could review the audit strategy and terms of reference at the same time to ensure that they are still relevant and appropriate.

You also need to consider how the plan relates to other sources of assurance to support the Annual Governance Statement or Statement on Internal Control, for example assurance from the risk management process or management assurances. Taken as a whole, will you get the assurance you need?

Once the plan has been approved, your role is then to monitor activity and outcomes against that plan. Is it being delivered? Is the audit work delivering the expected outcome? You may also need

to support your auditors, if they are struggling to get auditee engagement or experience a shortfall in resources. Above all, you are there to get action as a result of audit work.

Key questions to ask:

1. Who did the head of internal audit liaise with in drawing up this plan? Did this include external audit?
2. How does this audit plan link to our risk register and our strategic plans?
3. What audits have you left off this plan and why? When do you plan to carry out this work?
4. How does the audit plan fit with other assurance work? Are there any gaps or is there duplication?

Elizabeth Humphrey

Senior Associate, CIPFA Better Governance Forum

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Recent developments you may need to know about:

Scrutiny of Treasury Management

CIPFA Treasury Management Code of Practice 2009 has recommended that a nominated committee

(for example an audit committee) should be responsible for effective scrutiny of treasury management strategy and policies.

What do Audit Committee members want from their Head of Internal Audit?

Audit committee members are one of the most important stakeholder groups of the internal audit

profession. Over the next few months CIPFA will be developing a statement on the role of the head

of internal audit. This is being overseen by a steering group. The draft statement will be launched

at CIPFA's audit conference in May and formal consultation sought. Before then CIPFA is already

seeking views and opinion on the role and is keen to hear from audit committee members. If you

would like to read more about the proposed statement or would like to send in your views.

Follow

this link <http://www.cipfa.org.uk/panels/audit/index.cfm> .

Protecting the Public Purse

This report from the Audit Commission highlights the risks of fraud to local government and identifies good practice in fighting fraud. It includes a short checklist for those responsible for governance so it is an ideal resource for audit committee members. The report focuses on local

government but many of the issues apply equally to other public sectors organisations. The report

is available from the Audit Commission website <http://www.auditcommission.gov.uk/nationalstudies/localgov/Pages/20090915protectingthepublicpurse.aspx>

The Audit Committee Cycle

Each year the audit committee will be responsible for a number of core actions. Here are some

snippets on how you might prepare for some of these.

Reviewing the Annual Governance Statement (AGS) or Statement on Internal Control (SIC):

What assurance on partnerships are you expecting to receive to support the AGS or SIC? Look back

at what has been on your agenda on partnerships so far this year and consider what you know

about governance risks to your organisation's partnerships.

Reviewing the final accounts:

The 2009/10 accounts will still need to be prepared under UK GAAP and the local authority SORP.

However, local authorities should be well on their way to prepare for the introduction of International Finance Reporting Standards (IFRS) in 2010/11, including transitional arrangements.

You may have had a briefing already from your finance team about the implications of IFRS, but if

not it may be worth asking about the planned changes and its implications for producing the accounts in 2011. With 2010/2011 being the first financial year of IFRS, ask your finance team about the impacts on your organisation.

Central Government and the NHS are ahead of local government in terms of the introduction of

IFRS. For these sectors the 2009/10 accounts will be produced under IFRS. So as in local government it may be worth asking your finance team about the implications and impacts for producing the 2010 accounts.

External Audit reports (Local Authorities):

You will have seen your own organisation's results but did you know the Audit Commission published all the Comprehensive Area Assessment results on the 'oneplace' website

<http://www.direct.gov.uk/oneplace>

Use of resources scores for all local government bodies can be found using this link

[http://www.auditcommission.](http://www.auditcommission.gov.uk/localgov/audit/uor/use-of-resouces-200809/pages/auditingtheaccounts.aspx)

[gov.uk/localgov/audit/uor/use-of-resouces-200809/pages/auditingtheaccounts.aspx](http://www.auditcommission.gov.uk/localgov/audit/uor/use-of-resouces-200809/pages/auditingtheaccounts.aspx)

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Diana Melville
Governance Advisor
Better Governance Forum
No 1 Croydon
12-16 Addiscombe Rd
Croydon
CR0 0XT
Tel: 01722 349398
Diana.Melville@cipfa.org.uk
www.cipfanetworks.net/governance
Certificate No.