

AUDIT COMMITTEE

25 June 2014

Subject Heading:

**REVISED INTERNAL AUDIT PLAN FOR
2014/15**

Report Author and contact details:

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Policy context:

To propose a revised 2014/15 Internal
Audit Plan

Financial summary:

N/A

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	X
Excellence in education and learning	X
Opportunities for all through economic, social and cultural activity	X
Value and enhance the life of every individual	X
High customer satisfaction and a stable council tax	X

SUMMARY

The Internal Audit Service reports annually to the Audit Committee on its proposed Audit Plan in accordance with the Internal Audit Charter and the Audit Committee's Terms of Reference.

Appendix A details the draft risk based audit plan for the next financial year, which shows what audit work will be undertaken for the period together with the estimated number of audit days required.

The individual audits shown in the plan and the assurance gained by completing them, along with other audit assurances obtained via work from the Corporate Fraud Resources, will inform the Head of Internal Audit Opinion which is a key source of assurance for the Annual Governance Statement.

The Audit Plan was presented prior to the commencement of the financial year however it has been necessary to make some revisions due to: the carry forward of some 2013/14 audits into the new year; the fact the plan was based on the structure not the actual resource available for 2014/15 and the implementation of oneSource.

RECOMMENDATIONS

- 1 To review the proposed revised plan and provide comments in order that these may be considered as part of the compilation of the final plan.
- 2 To approve the plan on the basis of any agreed amendments arising during the meeting.

REPORT DETAIL

1. The Role and Objectives of Internal Audit

- 1.1 The Internal Audit Charter and Terms of Reference defines Internal Audit as,

“An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.”

- 1.2 The objectives for the Audit Service are:

- To understand the whole organisation, its needs and objectives.
- To add value and assist the organisation in achieving its objectives.
- To be forward looking, innovative and challenging.
- To help to shape the ethics and standards of the organisation.
- To ensure value for money is achieved in the use of public funds.
- To ensure the right resources are available to deliver the audit plan, recognising changes in capacity, experience, qualifications and specialisms.
- To share opportunities for joint working and seek to share best practice with auditors and examiners from other authorities and organisations, in particular the Council’s External Auditor.
- To maintain strong and effective relationships with management.

- To report significant issues to the Audit Committee, in a timely fashion, to enable and support the effective completion of their responsibilities.

1.3 The purpose of the Internal Audit Plan is to:

- Provide independent and objective overall assurance to Members and senior management on the effectiveness of the London Borough of Havering's control environment.
- Identify the key risks facing the London Borough of Havering in the achievement of its objectives and determine the corresponding level of audit resources.
- Add value and support to senior management in providing effective control and identifying opportunities for improving value for money.
- Support the Director of Resources in fulfilling obligations as the London Borough of Havering's nominated Section 151 Officer.
- Deliver an internal audit service that meets the requirements of the Accounts and Audit Regulations.

2. Developing the Internal Audit Plan 2014/15

- 2.1 The methodology used for developing the Annual Internal Audit Plan will be focused on the quantification of the risks associated with the London Borough of Havering's objectives in consultation with key officers. The draft plan has been circulated to Senior Management for comment.
- 2.2 Audit work covering governance will contribute towards our advice and assistance on the preparation of the Annual Governance Statement.
- 2.3 The Annual Internal Audit Plan is indicative and it may be that changes will be made during the year as the risk profile of the London Borough of Havering changes. This will be achieved through on-going review and amendment, in consultation with relevant officers.
- 2.4 The Audit Committee will be kept informed of progress against the Annual Audit Plan and give final approval to any significant changes during the year.
- 2.5 The Audit Plan has been developed to provide maximum assurance using the internal audit resource available. Considering the resources that will be available during 2014/15 and expected utilisation rates the plan needs to be @ 750 days. Due to risk and commitments made to management in developing the previously approved version a larger plan is being submitted for approval and decisions around resource priority will be made during the year in order to maximise the completion of the audit plan.
- 2.6 It should be noted that some audit assurances come from the Corporate Fraud Team who have the skills and expertise to undertake compliance and risk based audit work within the reactive investigations and pro-active audits they conduct. Audit work therefore moves between plans so it is delivered in the most efficient and effective manner. Outputs of the Fraud Teams work are also presented to Committee.

- 2.7 Appendix A attached to this report contains the proposed revised audit plan for 2014/15. Comments are included within the plan to explain the rationale for the changes.

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs of both directly employed and externally provided services to carry out the agreed plan will be met from within the 2014/15 budget for the Audit Service. The 915 days of resource available are sufficient to review all the high risk areas identified in the planning process as well as allowing the team to undertake a small percentage of probity type audits.

The risks relating to the audit plan are set out below.

Risk	Mitigation factors
That the plan will not address the key risk areas within the council	<p>The plan has been prepared taking into account the council's risk registers. The auditable areas have been identified and subjected to a risk evaluation to determine if and when they should be reviewed.</p> <p>The plan has been formulated and assessed by the Internal Audit & Corporate Risk Manager using prescribed methodologies, including discussion with Heads of Service.</p> <p>The plan has been circulated to Senior Management for comment and will be reviewed periodically throughout the year with any required changes being reported to Audit Committee. Any changes necessitated by new legislation or changing financial circumstances will be reflected in the plan and advised to the Committee.</p>
That the plan does not provide assurance for the external auditor	<p>The plan ensures that key areas of the financial procedures which feed the financial statements are reviewed annually.</p> <p>There is regular liaison between the internal and external auditors during the year to ensure adequate assurance is provided.</p>
That the plan is not flexible enough to meet the needs of the council during the year	<p>There is a contingency within the year to allow for unforeseen systems based audit work and if necessary decisions may need to be made to replace one audit with another.</p> <p>As the level of fraud investigation work cannot be determined with any certainty the same practice will operate as in previous years in that should there be</p>

	<p>more fraud investigation work than was planned then the pro-active audits would be reduced and if there is not as much as anticipated than further pro-active audits would be undertaken.</p> <p>Should additional work be required above these two factors then resources may be seconded from the systems team or additional funding may need to be identified before work could commence.</p> <p>As indicated, there is a higher risk than normal of changing circumstances for the coming year, and this will therefore need to be managed accordingly.</p>
That there are not sufficient staffing resources both in number and to the required skill level to carry out the work identified	<p>The structure of the team is appropriate to deliver the draft audit plan. Training needs are assessed at least annually via the PDR process.</p> <p>If additional or specialised resources were required to deliver the plan these could be engaged within the allocated budget.</p> <p>Continuous training is provided to ensure that staff have sufficient skills to carry out their duties and deliver the audit plan and strategy.</p>
That there is insufficient understanding and coverage of other risks (not purely operational and strategic)	<p>Involvement with projects systems development and change.</p> <p>Reliability and integrity of management databases and information.</p> <p>Stewardship of financial and non financial assets.</p> <p>Reviews to ensure that the authority complies with new legislation.</p>
Not addressing risks in areas where there control deficiencies and weaknesses have been identified	<p>The audit planning process will review the significant issues on the Annual Governance Statement and ensure that relevant audits are included within the plan.</p> <p>Recommendations to address significant control weaknesses are reviewed in the following financial year to ensure that they have been fully implemented by agreed dates.</p>

Legal implications and risks:

Under Section 151 of the Local Government Act 1972 the Council is required to make arrangements for the proper administration of its financial affairs. More specific requirements are detailed in the Accounts and Audit (England) Regulations 2011 which state at Regulation 6 that a local authority shall undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practice.

The Recommended actions appear to comply with these general duties

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

Previously presented and approved 14/15 audit plan.