

CITY OF PLYMOUTH

Subject: Internal Audit Plan 2012/13
Committee: Audit Committee
Date: 16 March 2012
Cabinet Member: Cllr Ricketts
CMT Member: Director for Corporate Services
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Ref: AUD/MG
Part: I

Executive Summary:

This report provides information on the legislative requirement for local authorities to provide an Internal Audit (IA) service in accordance with the Accounts and Audit Regulations 2006; the need for an annual risk-based IA plan to be prepared; and the methodology of identifying the audit needs for the Authority.

The report comments on the delivery of the Council's Internal Audit provision by Devon Audit Partnership (DAP) which is a shared service arrangement between Plymouth City, Torbay and Devon County Councils and which commenced on 1st April 2009.

This report comments on IA resources available to carry out the 2012/13 plan, and identifies the work to be carried out analysed between systems / procurement reviews, IT audits, school's reviews, anti-fraud work, consultancy, corporate governance, contingency and other chargeable work. The report also contains details of the specific audit reviews to be undertaken.

Corporate Plan 2010-2013 as amended by the four new priorities for the City & Council

The work of the Internal Audit assists the Authority in maintaining high standards of public accountability and probity in the use of public funds. The Service has a role in promoting high standards of service planning, internal control, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations. In addition, the delivery of the Internal Audit plan assists all directorates in meeting their Improvement Priorities and achieving the shared priorities for the City and the Council.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

None

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment etc.

The work of Internal Audit is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.

Recommendations and Reasons for recommended action:

It is recommended that:

1. The report be noted
2. The proposed Internal Audit Plan for 2012/13 at Appendices 1 and 2 be approved.

Alternative options considered and reasons for recommended action:

The Accounts and Audit Regulations 2003, 2006 and 2011 require that the Authority maintains an adequate and effective system of internal audit and the annual audit plan sets out the Authority's intentions and commitment in this respect. No alternatives have, therefore, been considered.

Background papers:

Accounts and Audit Regulations 2003 and 2006

Sign off: comment must be sought from those whose area of responsibility may be affected by the decision, as follows (insert initials of Finance and Legal reps, and of Heads of HR, Corp Prop, IT and Strat. Proc.):

Fin	MC 05/3/1 2	Leg	1423 6/DV S	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Head of Devon Audit Partnership											

INTERNAL AUDIT SERVICE – ANNUAL AUDIT PLAN 2012/13

I. INTRODUCTION

- 1.1 All principal Local Authorities, including Plymouth City Council, are subject to the Accounts and Audit Regulations 2003 (as amended), and the Accounts and Audit Regulations 2006 and 2011, which require that the Authority should make provision for Internal Audit in accordance with the CIPFA Code of Practice for Internal Audit in Local Government (the Code).
- 1.2 The Code requires, inter alia, that Internal Audit should prepare an annual risk-based plan for approval by the Audit Committee. In addition the Code requires that the Chief Internal Auditor should provide, annually, an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- 1.3 This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.

2. AUDIT NEEDS ASSESSMENT

- 2.1 The audit plan for 2012/13 plan has been identified by:
 - Adopting a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the "Audit Universe" using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines an initial schedule of priorities for audit attention;
 - Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including the introduction of new systems and corporate initiatives;
 - Taking into account results of previous internal audit reviews;
 - Taking into account Internal Audit's knowledge and experience of the risks facing the Authority, including factors and systems that are key to successful achievement of the Council's delivery plans;
 - Requirements to meet the "managed audit" approach with the external auditors;
 - Consideration of risks identified in the Authority's strategic and operational risk registers.

The resultant Internal Audit Plan for 2012/13 is set out in Appendices 1 and 2.

3. INTERNAL AUDIT PARTNERSHIP

- 3.1 Since 1st April 2009 the Internal Audit Service for Plymouth City Council has been delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Plymouth City, Devon County and Torbay Councils and is constituted under section 20 of the Local Government Act 2000.

- 3.2 Although delivery of each authority's audit requirements is resourced by DAP, each authority's audit plan for 2012/13 has been prepared individually as hitherto, although some cross partner reviews have also been undertaken.

4. INTERNAL AUDIT RESOURCES

- 4.1 Based upon our detailed risk assessment process we consider that 1,738 days of internal audit input will be required for Plymouth City Council in 2012/13.
- 4.2 In order to provide a cost-effective service and good value for money to all of our clients it is important that emphasis is given to minimising costs, particularly overheads, and maximising the efficiency and effectiveness of the audit processes. There is regular monitoring and management review of performance within the team over the year and we participate in the annual CIPFA benchmarking comparisons with other Internal Audit functions to demonstrate that Devon Audit Partnership provides a cost-effective service.

5. PLANNED AUDIT COVERAGE 2012/13

- 5.1 Appendix 1 shows a summary of planned audit coverage for 2012/13 totalling 1,738 direct days (excluding Schools). A more detailed analysis of proposed audit reviews is provided in Appendix 2. It should be borne in mind that, in accordance with CIPFA's Code of Practice for Internal Audit, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority and, to this end, it will be regularly reviewed with directorates, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in 6 months to ensure it continues to reflect the key risks and priorities of the Council given the significant changes across the public sector.
- 5.2 Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment – in this way we can ensure that the key risks to the operation or function are considered during our review. The following paragraphs give a brief overview of the focus of proposed audit coverage for the year:-

Systems / Procurement / Cross Cutting Reviews

- 5.3 A key element of the IA Plan for the year is to undertake reviews of the Authority's material systems. The International Standards for Auditing (ISA) require that an annual review is carried out of the effectiveness of controls for each of the Council's systems from which the balances and disclosures in the Authority's accounts are derived. Under the Managed Audit arrangements, the External Auditor looks to place reliance on the work undertaken by Internal Audit to assist them in determining their opinion as to whether or not the annual accounts provide a true and fair view of the Council's financial position. This framework for co-operation helps to lessen the disruption to staff in the service areas and minimises the external audit fee.

- 5.4 We shall also review other areas that are assessed as posing a risk to the Council and these include the implementation of the new payroll system, risk management, business continuity and health integration.
- 5.5 At the end of the year there will always be part of our work that is “work in progress” – this may require testing to be completed, the working papers to be reviewed by audit management, or the draft / final report to be agreed with management. Time has been allocated to ensure that all “in progress” planned audits carried forward from 2011/12 can be completed in 2012/13 to the expected standard.
- 5.6 The Authority relies on a range of information systems to deliver its diverse and complex business needs. ICT will also be instrumental in delivering significant parts of the proposed Council wide change programme. The ICT audits included in the 2012/13 audit plan have been prioritised using the same risk analysis methodology as the rest of the audit plan and accordingly reflects areas that appear in the strategic and operational risk registers. The proposed plan of activity includes reviews of key business applications and ICT operational processes that support ongoing service delivery and service design and transition to meet future demands.

Anti Fraud

- 5.7 Counter-fraud arrangements are a high priority for the Council and Internal Audit will continue to investigate instances of potential fraud and irregularities referred to it by managers, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud. In recognition of the guidance expected in the new Fraud Strategy for Local Government and the recent Audit Commission publication “Protecting the Public Purse” greater audit resource will be allocated to this area to allow more focus on identifying and preventing fraud before it happens.
- 5.8 The Audit Commission runs a national data matching exercise (National Fraud Initiative) every two years. The next exercise is due to be undertaken in the coming year and Internal Audit will work with relevant departments to ensure that the required data sets are extracted from the appropriate Council systems as required by the Audit Commission, in accordance with their data specifications. These are due to be uploaded to the NFI web application in October 2012.

Consultancy / Advice

- 5.9 Internal Audit will continue to be consulted by all departments throughout the Authority on many and varied topics including, for example, interpretation of Financial Regulations/Standing Orders, corporate governance, internal controls, legislation (e.g. Data Protection), security, letting of contracts, PC/network access etc. The pro-active involvement of Internal Audit in risk and control issues, relating to new systems and changes, assists in protecting the Authority from loss, fraud and abuse.
- 5.10. In addition Internal Audit will continue to support major projects throughout the Council providing advice and input into key developments and initiatives such as the revised payroll system and several procurement exercises.

Corporate Governance

- 5.11 Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during 2012/13, eg Audit Committee, Annual Governance Statement, risk management etc.

External Clients - Schools Audits

- 5.12 The Financial Management Standard in Schools (FMSiS) has now been abolished and replaced by the Schools Financial Value Standard (SFVS). The revised standard was developed by Department for Education (DfE) to replace the FMSiS to help governors, in particular, in self-evaluating the quality of their financial management and to aid in improving schools financial management. The Standard is intended to cover standards and processes that should already be in place in schools, and reduce the bureaucracy of the former FMSiS.
- 5.13. The DfE announced the SFVS at the very end of the Summer Term with an implementation date of 1st September 2011 and have set 2 key deadlines for achievement. All schools that were not accredited to FMSiS will need to submit their SFVS Self-assessment to their LA by the 31st March 2012 and those schools that were accredited will need to submit their SFVS Self-assessment before the 31st March 2013. The purpose of the SFVS is to make the best use of resources in the education system, to achieve the best possible outcomes for children. DfE have made this a mandatory requirement for all schools and are changing the scheme of delegation to fit this requirement.
- 5.14. Audit of the control and governance arrangements within schools will continue to be carried out on a three year cyclical basis and all the key elements that were in FMSiS and now in SFVS, and which were formerly audited by us, will continue to be covered. We were part of the DfE consultation and pilot study on the SFVS and we have incorporated the SFVS into the school audit programme. Our Audit Programme has been tailored to fit with the SFVS standard from the 1st September 2011 in order to support schools and maintain efficiency. We have also developed support through our webpages with:
- model answers;
 - key timelines guidance;
 - training programme to be delivered through Autumn and Spring.

- 5.15 The Government's drive to encourage schools to become academies is firmly in place and, to date, 13 schools have become (or are just about to become) academies and leave the LA control. Because there is no requirement for academy schools to have internal audit this represents, potentially, lost business to DAP. We have had some success in the process of advertising and bidding for "responsible officer" work with the academies and, although we have had no success with Plymouth schools to date, we do have agreements in place with some Devon and Torbay Schools. Non-academy schools (still within LA control) are currently choosing their options for the coming years' services and we anticipate, based on previous experience, a high level of take-up from the remaining schools.
- 5.16 All the above means that there is considerable uncertainty over the amount of input that will be commissioned from Plymouth schools from the Devon Audit Partnership. Based on our current understanding we expect that we will provide in the region of 189 days – however this will be subject to ongoing change to meet individual school needs.

6. PARTNERSHIP WORKING WITH OTHER AUDITORS

- 6.1 We will continue to work towards the development of effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We will participate in a range of internal audit networks, both locally and nationally, which provide for a beneficial exchange of information and practices. This often improves the effectiveness and efficiency of the audit process, through avoidance of instances of "re-inventing the wheel" in new areas of work which have been covered in other authorities.

7. RECOMMENDATIONS

- 7.1 It is recommended that:-
- (i) The report be noted
 - (ii) The proposed Internal Audit plan for 2012/13 at Appendices 1 and 2 be approved