

REPORT OF THE DIRECTOR OF STRATEGIC FINANCE

**INTERNAL AUDIT ANNUAL WORK PLAN 2012/13 & STRATEGIC PLAN 2013-2016**

**1. PURPOSE OF THE REPORT**

This report informs the Committee of the work planned by the Internal Audit Service and is designed to support the City Council's Governance and Control Framework.

**2. RECOMMENDATIONS**

To comment upon and endorse the Internal Audit Plan for 2012/13 and the Internal Audit Strategic Plan for 2013/14 to 2015/16.

**3. REASONS FOR CONSIDERATION**

3.1. The Committee's terms of reference include the function of approving Internal Audit's strategy and planning. Approved Internal Audit Plans are an important part of the Council's governance and control framework, assisting in focusing audit resources to provide assurance on the Council's control and governance arrangements.

3.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit sets out professional standards for Internal Audit functions within local authorities and other relevant bodies. In order to satisfy the requirements of the Code, the Internal Audit Plans must be formally presented to and be approved by councillors.

**4. OVERVIEW**

4.1 The Internal Audit Plan is produced annually and allocates audit resources throughout the year to the review of risks to the Council's vision, values and strategic priorities. The construction of the Plan is informed by consideration of a range of factors eg the Council Plan, the Council's Risk Register, previous internal and external audit activity, emerging themes and priorities, professional networks, transformation and improvement activity, and changes to national, local and regional policy. This list is not exhaustive.

4.2 **Appendix 1** contains the Internal Audit Plan for 2012/13 (**Annex A**) and gives details of work programmed for the year. The Plan is centred on the need to make audit aligned to corporate objectives and to meet the requirements of effective Corporate Governance, including underpinning the requirements of the Annual Governance Statement (AGS). Activity is planned for a total of 1,662 days.

- 4.3 The Head of Internal Audit met with colleagues from Departmental Leadership Teams to consider the Plan and its implications, and departmental priorities have been expressed and incorporated where possible. For example, the resulting Plan is geared to reflect risk to corporate objectives and enables Corporate Directors to provide assurance for the Annual Governance Statement.
- 4.4 The Internal Audit Strategic Plan is a three year plan updated annually to reflect changes in circumstance and risk affecting the authority. The Strategic Internal Audit Plan is based on a comprehensive risk model and is used to plan the procurement and application of audit resources and is used to drive the annual operational plan for the financial year audited. By using the Plan to target the resources at its disposal, Internal Audit is able to maximise coverage of risks to the Council's objectives. The Strategic Internal Audit Plan 2013/14 to 2015/16 is shown as **Appendix 1 (Annex B)**.

5. **LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

6. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

- CIPFA Code of Practice for Internal Audit Local Government in the UK
- The Accounts and Audit Regulations 2011

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## Internal Audit Plan 2012/13 & Internal Audit Strategic Plan 2013/16

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### 1. Introduction

This document describes the operational Internal Audit Plan for 2012/13 and the Strategic Audit Plan for the three years 2013 to 2016.

### 2. Background

2.1. The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate internal audit function which should operate within codes of professional best practice.

2.2. The CIPFA Code of Practice for Internal Audit in Local Government sets out the appropriate professional standards for Internal Audit functions within local authorities. In order to satisfy the requirements of the Code, the Audit Plan must be formally presented to and approved by councillors.

### 3. The Role of Internal Audit

3.1. Internal Audit is an independent, objective assurance and consulting activity designed to promote the highest levels of financial management and probity across the Authority.

3.2. The remit of the Internal Audit service requires unrestricted coverage of the Authority's and its partners' activities and unrestricted access to all records and assets deemed necessary to fulfil this function. In addition, the Head of Internal Audit must have unrestricted access to the Chief Executive, councillors, Corporate Directors and all employees of the Council.

3.3. Internal Audit is an integral part of the Council's Corporate Governance Framework and gives assurance complementing that given by external review bodies including external audit. The Audit Commission is the Council's current external auditor but is likely to be replaced for the 2012/13 financial year. The level of assurance given is dependant on the extent of the audit coverage undertaken.

3.4. The work of Internal Audit is targeted in order to address the key risks to the Council's strategic objectives and other priorities of the Council. The specific links between the Audit Plan and the Council's strategic priorities are shown in the last column of the Plan.

3.5. The unique value that a professional internal audit function can provide in an organisation is objective assurance on the effectiveness of the governance, risk management and internal control processes. Management colleagues are responsible for the strategic and operational elements of these processes but need independent assurance that they are operating effectively and advice in respect of their improvement.

#### 4. The Audit Planning Process and Annual Audit Plan 2012/13

The Audit Plan has been developed to target audit resources according to the risks to the Council's strategic objectives and has been established using a detailed risk model. The plan details those areas that will be subject to planned Internal Audit coverage during 2012/13 and is shown as **Annex A**.

4.1. The Internal Audit service liaises with its external auditors to ensure that the respective audit plans do not conflict or duplicate and that adequate coverage is achieved by Internal Audit in those high risk areas which the external auditors wish to use when forming an opinion on the Council's Annual Accounts.

4.2. The net budget for 2012/13 is £344,517.

4.3. A summary of the Plan is shown in the table below.

<b>Category</b>	<b>Days Planned</b>
<b>Chief Executive</b>	<b>15</b>
<b>Children and Families</b>	<b>233</b>
<b>Communities</b>	<b>99</b>
<b>Development</b>	<b>134</b>
<b>Resources</b>	<b>327</b>
<b>Corporate Audits</b>	<b>276</b>
<b>Counter Fraud</b>	<b>228</b>
<b>Companies / ALMO etc</b>	<b>20</b>
<b>Consultancy, Advice and Support</b>	<b>180</b>
<b>Other Work</b>	<b>30</b>
<b>Total Days Planned</b>	<b>1,662</b>

#### 5. Strategic Audit Plan 2013/6

The Audit planning process targets limited resources toward the risks to the City Council's strategic objectives using a detailed risk model. The Internal Audit Strategic Plan details all areas that will be covered by Internal Audit during a rolling three year period and is based on a risk model of the Council's activities. The plan attached as **Annex B** details all areas that will be covered by Internal Audit during 2012/13 through 2015/2016. The Strategic Plan is updated on a regular basis and gives rise annually to the Operational Audit Plan for the year.

## **6. Standards**

- 6.1. Internal Audit colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. The service has internal quality procedures in place and is ISO9002 accredited. It has adopted and achieved the standards contained in the CIPFA Code of Practice 2006 and has fulfilled the requirements of the Account & Audit Regulations 2011 and associated regulations in respect of the provision of an Internal Audit service.
  
- 6.2. The City Council's Audit Committee receives regular monitoring reports of work undertaken against the Plan. The Committee scrutinises the work undertaken at both Plan and individual audit level, and monitors the actions taken by departments in respect of the recommendations made. The work of Internal Audit will also inform the opinion of the Audit Committee in respect of the assurance and corporate governance arrangements in place.

## Proposed 2012/13 Internal Audit Plan

Audit Title	Audit Outline	Days	Risk	CPSP
<b>1. Strategic Risk Register</b>				
Strategic Risks	Review of evidence in place to mitigate risks. Coverage of strategic risks will depend on the status of strategic risk in 2012	120	H	WN, SN, NN, HN, WN, FN, LN
<b>2. Resources</b>				
Single Status (SR1)	Further assistance with phase 2 implementation (schools)	6	H	LN
Treasury Management	Assessing high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	16	H	LN
Budgetary Control	Consider the budget set up process and budget monitoring arrangements. (Key System)	21	H	LN
Main Accounting System	System reconciliation and posting to General Ledger (Key System)	23	M	LN
Bank Reconciliation	Review of accounts to ensure reconciliations are both complete and accurate.	4	M	LN
Capital	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	28	M	LN
Payroll / HR	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System).	18	H	LN
Creditors	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System).	18	H	LN

Audit Title	Audit Outline	Days	Risk	CPSP
Sundry Income	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	16	M	LN
Estate Rents	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	16	M	LN
Cash Collection	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	14	M	LN
Council Tax	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	22	M	LN
Business Rates	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	21	M	LN
Benefits	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	28	H	WN
Adult Residential Services Finance	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	17	M	FN
Pensions	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment.	22	M	WN
Fairer Charging	Assessment of the role of the Fairer Charging Section, including the charging policy. Supports work undertaken by Audit Commission	22	M	HN
Right to Buy	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment Supports work undertaken by Audit Commission	15	M	NN
<b>3. Chief Executive</b>				
Partnerships	Scope to be determined	15	H	LN

Audit Title	Audit Outline	Days	Risk	CPSP
<b>4. Children &amp; Families</b>				
Supporting People	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	8	M	FN
Foster Care & Adoption	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment. Supports work undertaken by external auditors.	22	H	FN
Schools assessments	Rolling assessment of the financial arrangements within schools. To include visits (if requested) to schools due to self-assess for the Schools Financial Value Standard (SFVS)	80	M	FN
Schools Themed Audit - Payroll / Recruitment	Assess recruitment practices across schools	12	M	FN
Schools Themed Audit - Procurement	Assess procurement arrangements across a sample of schools	12	M	FN
Commissioning	Assessment of arrangements in place for strategic commissioning and market management. Include the role of the continuing care panel	20	H	HN
Joint Funding of Care	Consider outcome of recent review of funding of care packages and NHS joint commissioning	15	H	HN
Case Management	Assessment of the arrangements in place to manage and report on the client review process	18	H	FN
School Bank Accounts	Review of the role of Schools Finance to support schools	13	M	FN
Children's Residential Care	Review of budget management arrangements	18	M	FN
ContrOCC Project	Ongoing input and advice with the project as it develops	15	M	FN



Audit Title	Audit Outline	Days	Risk	CPSP
<b>5. Communities</b>				
Parking Services	Review of improvements to internal controls	5	M	NN
Waste Management	Review of management arrangements	11	M	NN
Local Authority Companies	Review of governance arrangements & VFM	9	M	NN
Fleet Management	Review of current management arrangements including NFRS contract	18	M	NN
Workplace Parking Levy (SR27)	Review the collection arrangements	8	H	WN
Fines Processing System	Review of system, including treatment of bad debts	10	M	NN
Community Buildings	Review of utilisation of buildings, room hire etc	15	M	NN
Voluntary Sector Grants	Assessment of governance arrangements in place	23	M	NN
<b>6. Development</b>				
Housing Rents	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	12	M	NN
Net Phase Two	Assessment of the funding assumptions used for NET Phase Two	10	H	WN
Nottingham Jobs Fund	Assessment of the processes for administering scheme	15	M	WN
Jobs Plan Review	Monitor compliance against Audit Commission Action Plan	3	H	WN

<b>Audit Title</b>	<b>Audit Outline</b>	<b>Days</b>	<b>Risk</b>	<b>CPSP</b>
Royal Centre	Transformation Agenda / Systems upgrade / Marketing	18	M	WN
Building Compliance	Assessment of the arrangements in place to ensure NCC complies with its statutory obligations, including H&S	17	H	NN
Catering and Cleaning	Assessment of management arrangement	21	M	NN
Corporate Maintenance Framework	Assessment of the framework arrangements	20	M	NN
Public Transport	Scope to include arrangement with Notts County Council, interface with bus companies	18	M	NN
<b>7. Corporate Audits</b>				
Governance Statement (SR10)	AGS Process	39	H	LN
Risk Management	Audit of arrangements in place	14	H	LN
Organisational Restructuring	Review of the effect on risk/controls	15	H	LN
Contract Audit	Ongoing audit of final accounts	18	M	LN
IT Audit	Ongoing audit of key IT risks	45	H	LN
Grants Audits	Ongoing work on a number of grant claims including Growing Places Fund and Troubled Families	40	H	NN
Councillors Allowances	Assessment of compliance with the councillors allowance scheme	10	M	LN
Colleagues Expenses	Sample testing of claims submitted by colleagues, including new staff travel arrangements	20	M	LN
East Midlands Shared Services	See separate plan	75	H	WN

Audit Title	Audit Outline	Days	Risk	CPSP
<b>8. Counter Fraud</b>				
Counter Fraud Strategy / Arrangements	Review of strategy / current arrangements	5	H	LN
Assessment of fraud risks	Assessment of areas that may be at risk of fraud, including maintaining a corporate fraud risk register	6	H	LN
Training / awareness	Initiatives to increase awareness including money laundering & bribery act	39	H	LN
Recruitment Fraud / Safeguarding	Assess vetting procedures for new employees against good practice and also assess vetting of current staff.	17	H	LN
Counter Fraud Activities	Co-ordinate counter fraud activities, liaise with Audit Commission	18	H	LN
National Fraud Initiative (NFI)	Co-ordinate the City's response to the next NFI exercise	22	H	LN
Departmental Activities	Programme of pro-active testing of transactions with a view to identifying non-compliance / fraud / error	36	H	LN
Money Laundering	Review of current arrangements and awareness	5	H	LN
Whistle blowing	Development of current arrangements	7	H	LN
Procurement	Assess the robustness of NCC arrangements for preventing fraud and obtaining VFM. Measure against recommended good practice	22	H	LN
Personal Budgets - Adults	Assess current financial arrangements against CIPFA guidance. Contributes to the City's response to "Protecting the public purse"	22	H	HN
Responding to the Audit Commission's 'Protecting the Public Purse' publication	Response and Improvement Action Plan	5	H	LN
Data Matching	Pro-active data matching to identify potential fraud including scheduled duplicate payments run (responds to NFA Report)	24	M	LN

Audit Title	Audit Outline		Days	Risk	CPSP
<b>9. Companies / ALMO etc</b>					
Nottingham Ice Centre	Provision Internal Audit for the NIC		20	M	WN
<b>10. Consultancy, Advice and Support</b>					
General Contingency – ad hoc work	To allow for requests from senior management or the need to undertake ad hoc assignments as they arise		30	H	LN
Fraud & Irregularity Contingency	Separate contingency to investigate non-Housing Benefit fraud		120	H	LN
Advice	Liaison with departments including general/contract advice including advice re capital projects		20	H	LN
Audit Committee	Support and development of Audit Committee		10	M	LN
<b>11. Other Work</b>					
Recommendations Monitoring	Ongoing follow up and monitoring of implementation of recommendations		10	H	LN
Audit of Charity and other Accounts	Lord Mayor's, Hanley & Gellesthrope, Highfields, Harvey Haddon, Staff Accounts		20	L	NN
<b>Total Days</b>			<b>1662</b>		

**Key**

**Risk** - High, Medium, Low

**Council Plan Strategic Priorities** - World Class Nottingham, Safer Nottingham, Neighbourhood Nottingham, Healthy Nottingham, Working Nottingham, Family Nottingham, Leading Nottingham

Internal Audit Strategic Plan 2013/14 to 2015/16

Heading	Description of Audit	Risk Level	2013/14	2014/15	2015/16
<b>Strategic Risks</b>	Review of evidence in place to mitigate risks. Coverage will vary over time depending on status of risks within the Strategic Register. These currently include audits in respect of Commissioning Programme, Funding for Decent Homes Programme, MTFP, Economic Hardship, Safeguarding and Putting People First	High	✓	✓	✓
<b>Chief Executive's Group</b>	Partnerships	High	✓	✓	✓
	Corporate Communications	Medium		✓	
	Coverage of emerging departmental risks identified by annual / quarterly assessment				
	Supporting People: Key System	Medium	✓	✓	✓
	Foster Care and Adoption	High	✓	✓	✓
	Schools assessments	Medium	✓	✓	✓
	Schools themed audits including expenditure, collection of Income and recruitment	Medium	✓	✓	✓
<b>Departmental Risks - Children &amp; Families</b>	Commissioning	High	✓	✓	✓
	Joint Funding of Care	High	✓		
	Case Management	High	✓		
	School Bank Accounts	Medium	✓		
	Children's Residential Care	Medium	✓		
	ContrOCC	High	✓	✓	✓
	Family Community Teams	Medium		✓	
Allocation for High Risk	Provide days for DLT		✓	✓	✓

Priorities							
<b>Departmental Risks - Communities</b>	Coverage of emerging departmental risks identified by annual / quarterly assessment						
	Residential Care Payments	Medium					✓
	Parking Services	High	✓		✓		✓
	Crime & Drugs Partnership	Medium			✓		
	Waste Management	High	✓				
	Deputyship Role	Medium					✓
	Client Cash	High			✓		
	Local Authority Companies	Medium	✓				✓
	Workplace Parking Levy	High	✓		✓		✓
	Fleet Management	Medium					✓
	Fines Processing System	Medium	✓				
	Community Buildings	Medium	✓				
	Voluntary Grants	Medium	✓				
	Neighbourhood Enforcement	Medium				✓	
	Licensing, Permits & Regulations	Medium				✓	
	Environmental Health	Medium					✓
Allocation for High Risk Priorities		✓			✓	✓	
Provide days for DLT							

<b>Departmental Risks - Development</b>	Coverage of emerging departmental risks identified by annual / quarterly assessment					
	Housing Rents (Key System)	Medium	✓	✓	✓	✓
	NET Phase 2	High	✓	✓	✓	✓
	Nottingham Jobs Fund / Jobs Plan Review	Medium	✓			
	Section 106 Obligations	Medium				✓
	Corporate Maintenance	Medium	✓			✓
	Royal Centre	Medium				✓
	Building Compliance	High	✓			✓
	Building Control	Medium				✓
	Catering and Cleaning	Medium	✓			
	Public Transport	Medium	✓			
	Provide days for DLT		✓	✓	✓	✓
	<b>Departmental Risks - Resources</b> Internal Control	Coverage of emerging departmental risks identified by annual / quarterly assessment				
Work to support the preparation of the Annual Governance Statement		High	✓	✓	✓	✓
Key Financial Systems:						
o Adult Residential Services Finance		Medium	✓	✓	✓	✓
o Budgetary Control		High	✓	✓	✓	✓
o Business Rates		Medium	✓	✓	✓	✓
o Benefits		High	✓	✓	✓	✓
o Cash Collection		Medium	✓	✓	✓	✓
o Capital		Medium	✓	✓	✓	✓
o Council Tax		Medium	✓	✓	✓	✓
o Creditors		High	✓	✓	✓	✓
o Estate Rents		Medium	✓	✓	✓	✓
o Main Accounting		Medium	✓	✓	✓	✓
o Bank Reconciliation	Medium	✓	✓	✓	✓	

	<ul style="list-style-type: none"> <li>o Payroll / HR</li> <li>o Sundry Income</li> <li>o Treasury Management</li> </ul>	High	✓	✓	✓	✓
	Payroll Establishment	High	✓	✓	✓	✓
	Pensions	Medium	✓	✓	✓	✓
	Fairer Charging	Medium	✓	✓		
	Right to Buy	Medium	✓	✓		
	Pupil Benefits	Medium			✓	
Allocation for RLTHigh Risk Priorities	Provide days for RLTHigh		✓	✓	✓	✓
<b>Corporate</b>	Corporate Governance	High	✓	✓	✓	✓
	Risk Management	High	✓	✓	✓	✓
	Organisational Restructuring	High	✓	✓	✓	✓
	IT systems reviews	High	✓	✓	✓	✓
	Contract Audit	Medium	✓	✓	✓	✓
	Grants Audit	Medium	✓	✓	✓	✓
	Councillors Allowances	Medium	✓	✓	✓	✓
<b>Consultancy, Advice and Support</b>	Contingency allowance to respond to ad-hoc queries and requests from management, including investigations	High	✓	✓	✓	✓
	Advice/liaison with colleagues	High	✓	✓	✓	✓
<b>Companies / ALMO</b>	Internal Audit Service for NIC	Medium	✓	✓	✓	✓
	EMSS	High	✓	✓	✓	✓
<b>Other Work</b>	Follow up of recommendations and reporting to Audit Committee	High	✓	✓	✓	✓
	Audit of charities and other accounts	Low	✓	✓	✓	✓
<b>Counter Fraud</b>						
	Response to the Audit Commission's 'Protecting the Public Purse' report:	High	✓	✓	✓	✓



	Proactive activities, including, colleague awareness, NFI, data matching and establishment checks	High	✓	✓	✓
Operational Development	Develop Planning Process	Medium	✓	✓	✓
	Change Operational Practice	Medium	✓	✓	✓
	Develop External Work	Medium	✓	✓	✓
	Appraise new methods of service delivery	Medium	✓	✓	✓
Enhance Partnership Working	Develop partnership arrangements	High	✓	✓	✓