

REPORT OF THE DEPUTY CHIEF EXECUTIVE AND CORPORATE DIRECTOR FOR
RESOURCES

**INTERNAL AUDIT ANNUAL WORK PLAN 2013/14 AND THREE YEAR STRATEGIC
PLAN**

1. **PURPOSE OF THE REPORT**

This report informs the Committee of the work planned by the Internal Audit Service (IA) 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 2013/14 and Internal Audit 3 Year Strategic Plan

3. **REASONS FOR CONSIDERATION**

- 3.1. The Committee's terms of reference include the function of overseeing the work of IA. Approval of the IA Plan gives the Committee the opportunity to understand the focus of audit resources and helps inform Committee's understanding of the Council's assurance, control and governance arrangements.
- 3.2. 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.

4. **OVERVIEW**

- 4.1 The IA Plan is produced annually and allocates audit resources throughout the year to review risks to the Council's vision, values and strategic priorities. The construction of the Plan is informed by consideration of a range of factors including the Council Plan, the Council's Risk Register, previous internal and external audit activity, emerging themes and priorities, professional networks, the Council's transformation and improvement activity, and changes to national, local and regional policy. The Annual Plan contains capacity to adapt to accommodate new and unforeseen work as risks and priorities change and develop throughout the year.
- 4.2 **Appendix 1** is the IA Plan for 2013/14. The Plan is centred on the need to align audit activity to Council objectives and to meet the requirements of effective Corporate Governance, including the Annual Governance Statement (AGS).

- 4.3 The Internal Audit Strategic Plan is a three year plan updated annually to reflect changes in circumstance and risk affecting the authority. The Strategic Plan is risk based and is used to plan the longer term procurement and application of audit resources and to drive the Annual Plan. This planning mechanism helps to target resources to optimise coverage of risks to the delivery of the Council's objectives. The Strategic Internal Audit Plan 2013/14 to 2015/16 is shown as **Annex B of Appendix 1**
- 4.4 The Head of Internal Audit (HoIA) meets with colleagues from Departmental Leadership Teams to consider their plans and the implications of these. Where possible, departmental priorities are incorporated to enable Corporate Directors to provide assurance for the AGS.
- 4.5 The work of the service will be conducted in accordance with the standards set out in the Public Sector Internal Audit Standards 2012 (PSIAS) to be effective from April 2013 adopted across the public sector. These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework and are intended to promote improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

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**

- The Accounts and Audit Regulations 2011
- Public Sector Internal Audit Standards 2012

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Internal Audit Plan And Three Year Strategic Plan

1. Introduction

This document contains the operational Internal Audit Plan for 2013/14 (Annex A) and the three year Strategic Plan (Annex B)

2. Background

2.1. The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate Internal Audit (IA) service which should operate within codes of professional best practice.

2.2. CIPFA and the IIA have recently developed a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. They will apply to local government and replace the CIPFA Code from 1 April 2013.

2.3. The PSIAS definition of IA is as follows:

“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.”

2.4. Consequently IA is an integral part of the Council’s Corporate Governance Framework and gives assurance complementing that given by external review bodies including external audit

3. The Role of IA

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

3.2. A key factor in the effectiveness of IA is that it is seen to be independent. To ensure this independence, IA operates within a framework that allows:

- Unrestricted access to senior management
- Reporting in its own name
- Segregation from line operations.

3.3. Each audit or piece of work undertaken has a clear scope and objectives. Any audit undertaken within the Council and its partners is conducted under the framework of an agreed audit programme, service level agreement or a clearly

defined letter of engagement. This is of particular importance in the management of consultancy where the respective roles, inputs and outputs are clearly defined and the independence of auditors maintained.

3.4. The IA 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 (HoIA) has unrestricted access to the Chief Executive, Councillors, Corporate Directors and all colleagues of the Council.

4. The Audit Planning Process.

4.1. IA work is co-ordinated with that of external review agencies to provide maximum audit coverage and to prevent duplication of effort where practical.

4.2. The work 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.

4.3. The unique value that the professional IA function provides to the Council 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.

4.4. IA also has an important role to support the Chief Finance Officer in the statutory responsibilities, which include:

- S151 Local Government Act 1972 – to ensure the proper administration of financial affairs.
- S114 Local Government Act 1988 – to ensure the Council's expenditure is lawful.
- Accounts and Audit Regulations 2011 – to ensure that an adequate and effective IA of the Council's accounting records and of its system of internal control is undertaken in accordance with the proper practices in relation to internal control.

4.5. IA also helps the Council to achieve its key priorities. The service does this by helping to promote a secure and robust internal control environment which enables a focus to be maintained on these key priorities.

4.6. The PSIAS affirm the need for "risk based plans" to be developed for IA, stating that the "Chief Audit Executive" must "establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals" They refer to the need for the Plan to reflect the assurance framework, risk management arrangements and input from management and "the board", which in NCC is interpreted to be the Audit Committee.

4.7. In accordance with this principle the Audit Plan has been devised following a risk based approach using the following sources:

- The Corporate Risk Register and the requirements of Council objectives
- Consultations with Directors, senior officers and meetings with DLTs
- The requirements of a managed audit undertaken by KPMG
- Meeting with partners, particularly EMSS
- Requirements of the Chief Finance Officer (S151 Officer)
- Review of the External Audit and Inspections' reports
- IA Risk Model informed by cumulative audit knowledge and experience and meetings with senior colleagues
- Engagement with Core Cities Heads of Audit
- Professional judgement on the risk of fraud and error

4.8. As was the case when developing previous plans the Council is continuing to go through a period of radical change giving rise to significant changes to financial and colleague resources available. Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (threats). The reduction in the workforce for example provides opportunity for a breakdown in control as well as an opportunity to improve service delivery.

4.9. Substantial transformational changes are taking place in the design, commissioning and delivery of services with unprecedented levels of change required to continue to deliver efficiencies across all areas of the business. Delivering business as usual and achieving key priorities remains a key challenge for the Council and these are reflected in the IA Plan.

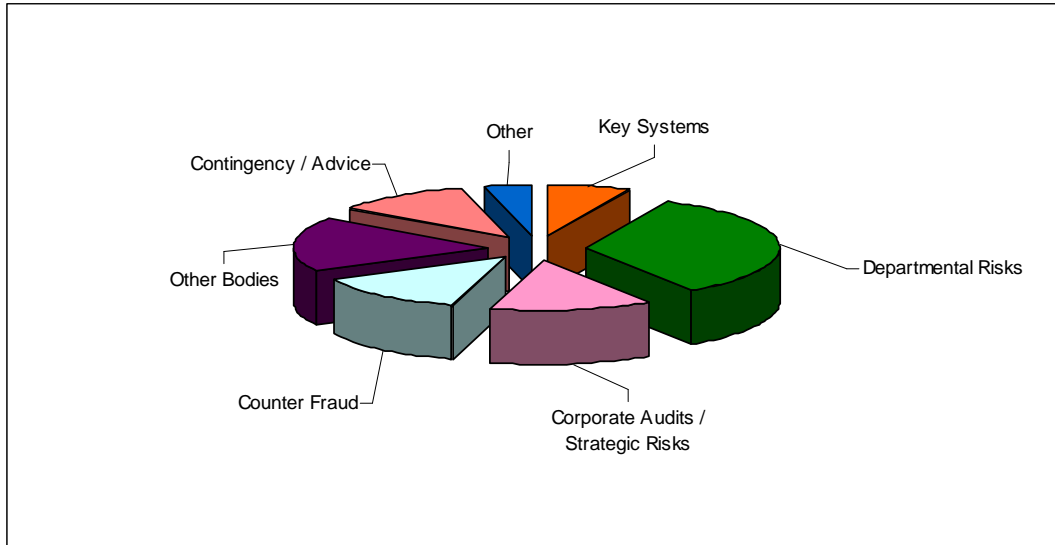
4.10. IA will also deliver work on the core financial systems and a number of proactive anti-fraud, irregularity and probity audits to provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error. However, the IA Plan incorporates some flexibility to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified.

4.11. Using these sources of information the Plan has been drafted to balance the following:

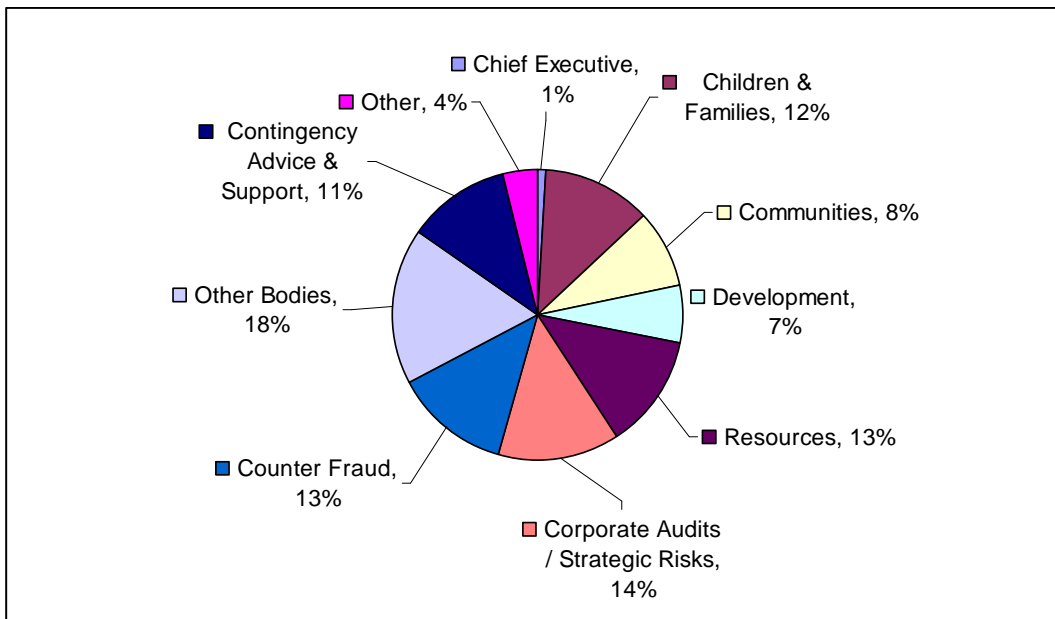
- The requirement for External Audit to place reliance on IA work in forming its opinion on the Council's financial statements
- Key financial systems including those operating within EMSS
- The requirement to give an objective and evidence based opinion on all aspects of governance, risk management and internal control
- The corporate strategic vision wherein IA seeks to add value through improving controls and streamlining processes
- The allocation of time required for responding to queries on control issues
- The allocation of time required for responding to fraud queries
- Fulfil the assurance requirements of the Audit Committee

4.12. Nottingham City Council IA Plan 2013/14 is attached as **Annex A** and can be summarised as follows:

Analysis of 2013/14 Plan by type of activity



Summary of the plan by department



5. Standards

5.1. IA 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 ISO9001:2008 accredited. It has adopted the standards contained in the PSIAS and has fulfilled the requirements of the Account & Audit Regulations 2011 and associated regulations in respect of the provision of an IA service.

5.2. 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 IA will also inform the opinion of the Audit Committee in respect of the assurance and corporate governance arrangements in place.

Proposed 2013/14 Internal Audit Plan

Audit Title	Audit Outline / Management Direction	Days	NCC Priorities
1. Strategic Risk Register			
Strategic Risks	Review of evidence in place to mitigate risks. Coverage of strategic risks will depend on the status of strategic risk in 2013	50	A - E
2. Resources			
Single Status	Further assistance with next phase	10	F
Treasury Management	Assessing high level controls supported by compliance testing to give assurance over the operation of the control environment	25	F
Capital	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) To include Additions and Disposals	25	F
Council Tax	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	22	F
Business Rates	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	21	F
Benefits	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	28	F
Pensions	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment.	22	F
Cash Collection	Assessment of new system / control environment.	15	F

Audit Title	Audit Outline / Management Direction	Days	NCC Priorities
Bank Reconciliation	Review of accounts to ensure reconciliations are both complete and accurate. Requirement for external auditors	10	F
Fairer Charging	To ensure service users are being charged in line with corporate policy and national guidance	22	F
Social and Local Welfare Assistance (SR26)	Liaison with colleagues regarding new systems/fraud risks	10	D
3. Chief Executive			
Partnerships (SR16a)	Review of Partnership Health Checks and Framework	15	A
4. Children & Families			
Schools assessments	Rolling assessment of the financial arrangements within schools.	90	C
Commissioning (SR25)	Assessment of arrangements in place for strategic commissioning and market management. Include the role of the continuing care panel	25	F
Case Management (SR28)	Assessment of the arrangements in place to manage and report on the client review process	18	F
Public Health (SR29)	Ensure governance arrangements are in place for the transfer of contracts, staff and funding.	20	E
Children's Placements	Review of budget management arrangements	18	F
Joint Funding of Care	Assessment of processes for identifying the need for joint funding; approval arrangements and income collection	18	E.F

Audit Title	Audit Outline / Management Direction	Days	NCC Priorities
ContrOCC Project	Ongoing input and advice with the project as it develops	10	F
Care First	Review of adoption data modelling proposal	5	C
5. Communities			
Local Authority Companies	Review of governance arrangements & VFM	15	B
Enviro Energy	Follow up on governance arrangements	15	B
Parking Services	Follow up and testing on implementation of recommendations	10	B
Workplace Parking Levy (SR27)	Management Request - Review the collection arrangements	15	D
Waste Management	Management Request - Assessment of management arrangements	20	B
Catering and Cleaning	Management Request - Assessment of management arrangements	22	B
Events Management	Cyclical review to cover management arrangements including H&S risks/income collection/market testing	15	A
Neighbourhood Enforcement	Cyclical review to cover management arrangements	15	B
Environmental Health	Management Request - Assessment of management arrangements	15	B

Audit Title	Audit Outline / Management Direction	Days	NCC Priorities
6. Development			
Housing Rents / HRA	Assessment of high level controls within Rents System (Key System)	12	B
Housing Revenue Account	Management Request - Review of the commissioning role in respect of NCH	5	B
Economic Development Funding Streams	Management Request - Assessment of management arrangements in respect of significant funding streams City Deal, etc. To include further review of Nottingham Jobs Fund	25	D
Property Services	Management Request - Review of arrangements for estate management following structural changes	20	B,D
Building Compliance (SR24)	Assessment of the arrangements in place to ensure NCC complies with its statutory obligations, re corporate and investment buildings	18	B,D
Major Programmes	Management Request - Review of financial arrangements in respect of major programmes	15	B,D
Woodfield Industries	Management Request - Assessment of management arrangements / scope to be agreed	15	D
7. Corporate Audits			
Governance Statement (SR10)	AGS preparation and publication	30	F
Risk Management	Audit of arrangements in place / ongoing liaison with risk champions	20	F
IT Audit (SR8a)	Ongoing audit of key IT risks including systems access/security	45	F
Contracts Audit	Testing of a sample of final accounts	20	F
Grants Audits	Review of management arrangements over grant claims and returns as well as ongoing work on a number of specific grant claims	40	A,C,D,F
Councillors Allowances	Assessment of compliance with the councillors allowance scheme	10	F

Audit Title	Audit Outline / Management Direction	Days	NCC Priorities
Colleagues Expenses	Sample testing of claims submitted by colleagues, including new staff travel arrangements	15	F
8. Counter Fraud			
Counter Fraud Strategy / Arrangements	Review of strategy / current arrangements and compliance with best practice (FFL/PPP)	20	F
Assessment of fraud risks	Assessment of areas that may be at risk of fraud including use of recommended counter fraud toolkits	2	F
Training / awareness	Initiatives to increase awareness amongst colleagues	15	F
Recruitment Fraud / Safeguarding (SR5a)	Assess vetting procedures for new colleagues against good practice and also assess vetting of current colleagues	17	F
Counter Fraud Activities	Co-ordinate counter fraud activities and liaison with KPMG and partners regarding annual fraud reporting requirements	18	F
National Fraud Initiative (NFI)	Co-ordinate the City's response to the next NFI exercise	30	F
Departmental Activities	Programme of pro-active testing of transactions with a view to identifying non-compliance / fraud / error, including emerging risks as identified by PPP	40	A,B,C,D,E
Procurement	Assess the robustness of NCC arrangements for preventing fraud and obtaining VFM. Testing of a sample of contracts	30	F
Personal Budgets - Adults (SR28)	Assess current financial arrangements against CIPFA guidance. Contributes to the City's response to "Protecting the Public Purse"	25	F
Data Matching	Pro-active data matching to identify potential fraud including scheduled duplicate payments run (responds to NFA Report)	15	F
9. Companies etc			
East Midlands Shared Services	See separate plan (includes work on key financial systems)	140	F
Nottingham Ice Centre	Provision of Internal Audit services	20	F

Audit Title	Audit Outline / Management Direction	Days	NCC Priorities
Broxtowe Borough Council	Provision of Internal Audit on key systems	30	F
Responsible Officer	To assist academies with the Responsible Officer role	5	C
Other Bodies	Provision of Internal Audit services	100	F
10. Consultancy, Advice and Support			
General Contingency – ad hoc work	To allow for requests from senior management or the need to undertake ad hoc assignments as they arise	30	F
Fraud & Irregularity Contingency	Separate contingency to investigate non-Housing Benefit fraud	120	F
Advice	Liaison with departments including advice re capital projects	20	F
Audit Committee	Support and development of Audit Committee	20	F
11. Other Work			
Recommendations Monitoring	Ongoing follow up and monitoring of implementation of recommendations	50	F
Audit of Charity and other Accounts	Lord Mayor's, Hanley & Gellesthorpe, Highfields, Harvey Haddon, Staff Accounts	10	D
Public Sector Internal Audit Standards	Further work to ensure compliance with new standards	5	F
	Total Days	1,673	

Key - NCC Priorities

A	Develop Nottingham's international standing for science and innovation, sports and culture	D	Tackle poverty and deprivation by getting more local people into good jobs
B	Transform Nottingham's neighbourhoods	E	Reduce crime, the fear of crime, substance misuse and anti-social behaviour
C	Ensure that all children and young people thrive and achieve	F	Leading Nottingham

Internal Audit 3 Year Plan - 2013/14 to 2015/16

Heading	Description of Audit	Risk Level	2013/14	2014/15	2015/16
Part 1 Audits					
Strategic Risks	Review of evidence in place to mitigate risks. Coverage will vary over time depending on status of risks within the Strategic Risk Register	High	✓	✓	✓
Chief Executive's Group	Partnerships (SR16a)	High	✓		✓
	Corporate Communications	Medium		✓	
	Coverage of emerging departmental risks identified by annual / quarterly assessment				
Departmental Risks - Children & Families					
Schools & Learning	Housing Related Support (Supporting People)	Medium		✓	
	Foster Care and Adoption	High		✓	
	Schools assessments	Medium	✓	✓	✓
	Commissioning	High	✓	✓	✓
	Direct Payments	High	✓	✓	✓
	Joint Funding of Care	High	✓		
	Case Management	High	✓		✓
	Children's Placements	Medium	✓		✓
	Public Health (SR29)	High	✓		
	ContrOCC system	High	✓		

Heading	Description of Audit	Risk Level	2013/14	2014/15	2015/16
	Family Community Teams	Medium		✓	
	Safeguarding	Medium		✓	
	Care First	Medium	✓		
Allocation for CLT High Risk Priorities	Provide days for DLT to determine	Variable	✓	✓	✓
Departmental Risks - Communities	Coverage of emerging departmental risks identified by annual / quarterly assessment				
	Residential Care Payments	Medium		✓	
	Parking Services	High	✓		✓
	Crime & Drugs Partnership	Medium		✓	
	Waste Management	High	✓		✓
	Client Cash	High		✓	
	Local Authority Companies	High	✓	✓	✓
	Workplace Parking Levy (SR27)	Medium	✓		✓
	Fleet Management	Medium		✓	
	Fines Processing System	Medium			✓
	Community Buildings	Medium			✓
	Catering and Cleaning	Medium	✓		
	Neighbourhood Enforcement	Medium	✓		
	Environmental Health	Medium		✓	
	Events Management	Medium	✓		
Allocation for CLT High Risk Priorities	Provide days for DLT to determine	Variable	✓	✓	
Departmental Risks - Development	Coverage of emerging departmental risks identified by annual / quarterly assessment				

Heading	Description of Audit	Risk Level	2013/14	2014/15	2015/16
	Housing Rents (Key System)	Medium	✓	✓	✓
	Housing Revenue Account	Medium	✓		✓
	Property Services	High	✓		✓
	Economic Development Funding Streams	High	✓	✓	✓
	Section 106 Obligations	Medium		✓	
	Corporate Maintenance	Medium		✓	
	Royal Centre	Medium		✓	
	Building Compliance	High	✓		✓
	Building Control	Medium		✓	
	Major Programmes	Medium	✓		✓
	Woodfield Industries	Medium	✓		
		Medium	✓		
Allocation for DLT High Risk Priorities	Provide days for DLT to determine	Variable	✓	✓	✓
Departmental Risks - Resources	Coverage of emerging departmental risks identified by annual / quarterly assessment				
Internal Control	Work to support the preparation of the Annual Governance Statement	High	✓	✓	✓
	Key Financial Systems:				
	o Business Rates	Medium	✓	✓	✓
	o Council Tax	Medium	✓	✓	✓
	o Benefits	High	✓	✓	✓
	o Capital	Medium	✓	✓	✓
	o Bank Reconciliation	Medium	✓	✓	✓
	o Treasury Management	High	✓	✓	✓
	Significant Financial Systems:				
	o Adult Residential Services Finance	Medium		✓	
	o Cash Collection	Medium		✓	
	o Estate Rents	Medium		✓	

Heading	Description of Audit	Risk Level	2013/14	2014/15	2015/16
	Pupil Benefits	Medium		✓	
	Pensions	High	✓	✓	✓
	Fairer Charging	Medium	✓		
	Right to Buy	Medium			✓
	Social and Local Welfare Assistance (SR26)	Medium	✓		
Allocation for RLT High Risk Priorities	Provide days for DLT to determine	Variable	✓	✓	✓
Corporate					
	Corporate Governance	High	✓	✓	✓
	Risk Management	High	✓	✓	✓
	IT Audit (SR8a)	High	✓	✓	✓
	Contract Audit	Medium	✓	✓	✓
	Grants Audit	Medium	✓	✓	✓
	Councillors Allowances	Medium	✓	✓	✓
	Colleagues Expenses	Medium	✓	✓	✓
	East Midlands Shared Services (EMSS)	High	✓	✓	✓
Consultancy, Advice and Support					
	Contingency allowance to respond to ad-hoc queries and requests from management, including investigations	High	✓	✓	✓
	Advice/liaison with colleagues	High	✓	✓	✓
Companies / ALMO					
	EMSS (separate plan)	Medium	✓	✓	✓
	Internal Audit Service for NIC	Medium	✓	✓	✓
	Internal Audit for other bodies	Medium	✓	✓	✓
	Responsible Officer (Academies)	Medium	✓	✓	✓

Heading	Description of Audit	Risk Level	2013/14	2014/15	2015/16
Other Work	Follow up of recommendations and reporting to Audit Committee	High	✓	✓	✓
	Audit of charities and other accounts	Low	✓	✓	✓
Response to Review of Internal Audit	Develop a modern fit for purpose Internal Audit Service. Improve focus of activity and efficiency of delivery with reduced net cost of service. Including greater emphasis on RBA with training & development required, participation in Internal Audit Shared Service	High	✓	✓	✓
Public Sector IA Standards	Work to ensure compliance	Medium	✓		
Counter Fraud					
Response to the Audit Commission's 'Protecting the Public Purse' report and Fighting Fraud Locally:	Strategy / Financial Regulations/Policy	High	✓	✓	✓
	Proactive activities, including, colleague awareness, NFI, data matching and establishment checks	High	✓	✓	✓
Part 2 Strategic Development					
Operational Development	Develop Planning Process	Medium	✓	✓	✓
	Change Operational Practice	Medium	✓	✓	✓
	Develop External Work	Medium	✓	✓	✓
	Appraise new methods of service delivery	Medium	✓	✓	✓
	Develop partnership arrangements for external and external work	High	✓	✓	✓
	Explore greater audit self-service / automation / real-time	Medium	✓	✓	✓