

AUDIT COMMITTEE – 25 April 2014

Title of paper:	INTERNAL AUDIT ANNUAL WORK PLAN 2014/15 AND THREE YEAR STRATEGIC PLAN	
Director(s)/ Corporate Director(s):	ACTING DIRECTOR OF STRATEGIC FINANCE	Wards affected: All
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Other colleagues who have provided input:		
Recommendation(s):		
1	To comment upon and endorse the Internal Audit Plan for 2014/15 and Internal Audit Three Year Strategic Plan 2015/16 to 2017/18	

1. REASONS FOR RECOMMENDATIONS

- 1.1. 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.
- 1.2. The Committee's terms of reference include the function of overseeing the work of Internal Audit (IA). Approval of the IA Plans 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.
- 1.3. This report informs the Committee of the proposed work planned by IA and is designed to support the City Council's Governance and Control Framework.

2. BACKGROUND

- 2.1 The IA Plan (**Appendix 1**) 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.

- 2.2 **Annex A to Appendix 1 of this report** is a summary the IA Plan for 2014/15. Detailed plans are available for members of the Audit Committee or by request to the Head of Internal Audit (HoIA). 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).
- 2.3 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 longer term service delivery and the application of audit resources to drive the Annual Plan. In addition the strategic plan includes strategic developments with a focus on commercialism. This planning mechanism helps to target resources to optimise coverage of risks to the delivery of the Council's objectives by focussing on the development of the IA delivery model, including the exploration of alternative methods of supply and the development of alternative markets. For example the service will constantly review its use of technology, and the use of joint or partnership working arrangements. The Strategic Internal Audit Plan 2015/16 to 2017/18 is shown as **Annex B of Appendix 1**
- 2.4 The 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.
- 2.5 The work of the service will be conducted in accordance with the standards set out in the Public Sector Internal Audit Standards 2012 (PSIAS). These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework and promote improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

3. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

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

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

Internal Audit Plan And Three Year Strategic Plan

1. Introduction

This document contains the operational Internal Audit Plan for 2014/15 (Annex A) and the three year Strategic Plan 2015/16 to 2017/18 (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. The Chartered Institute of Internal Auditors (CIPFA) and the Institute of Internal Auditors (IIA) have developed a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector.

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. 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 for the Council is interpreted to be the Audit Committee.

2.5. Consequently IA is recognised as an integral part of the Council’s Corporate Governance Framework giving assurance which complements that given by external review bodies including that given by external auditors.

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. Accordingly 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 Department Leadership Teams.
- The requests of the external auditor (KPMG)
- Meeting with partners, particularly East Midlands Shared Services
- Requirements of the Chief Finance Officer (S151 Officer)
- Review of the External Audit and other independent 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

4.7. The Council continues 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.

4.8. Substantial transformational changes are taking place in the design, commissioning and delivery of services. Delivering business as usual and achieving key priorities remains a key challenge for the Council and these are reflected in the IA Plan.

4.9. IA will continue 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.

4.10. Drawing on the available 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 East Midlands Shared Services
- 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
- The need to fulfil the assurance requirements of the Audit Committee

4.11. Nottingham City Council IA Plan 2014/15 (**Annex A** to this report) is summarised below. The detailed plan is available from the Head of Internal Audit on request

4.12. The Internal Audit Strategic Plan (**Annex B**) is a three year plan updated annually to reflect changes in circumstance and risk affecting the authority. This plan is risk based and is used to guide longer term service delivery models and the application of audit resources to drive the Annual Plan.

4.13. Accordingly the strategic plan includes strategic developments with a key focus on commercialism. This planning mechanism helps to target resources to optimise coverage of risks to the delivery of the Council's objectives by focussing on the development of the IA delivery model, including the exploration of using new technology and the use of joint or partnership working arrangements

4.14. Illustrations 1 and 2 show summaries of the 2014/15 plan by activity and main client / function respectively

Illustration 1: Analysis of 2014/15 Plan by type of activity

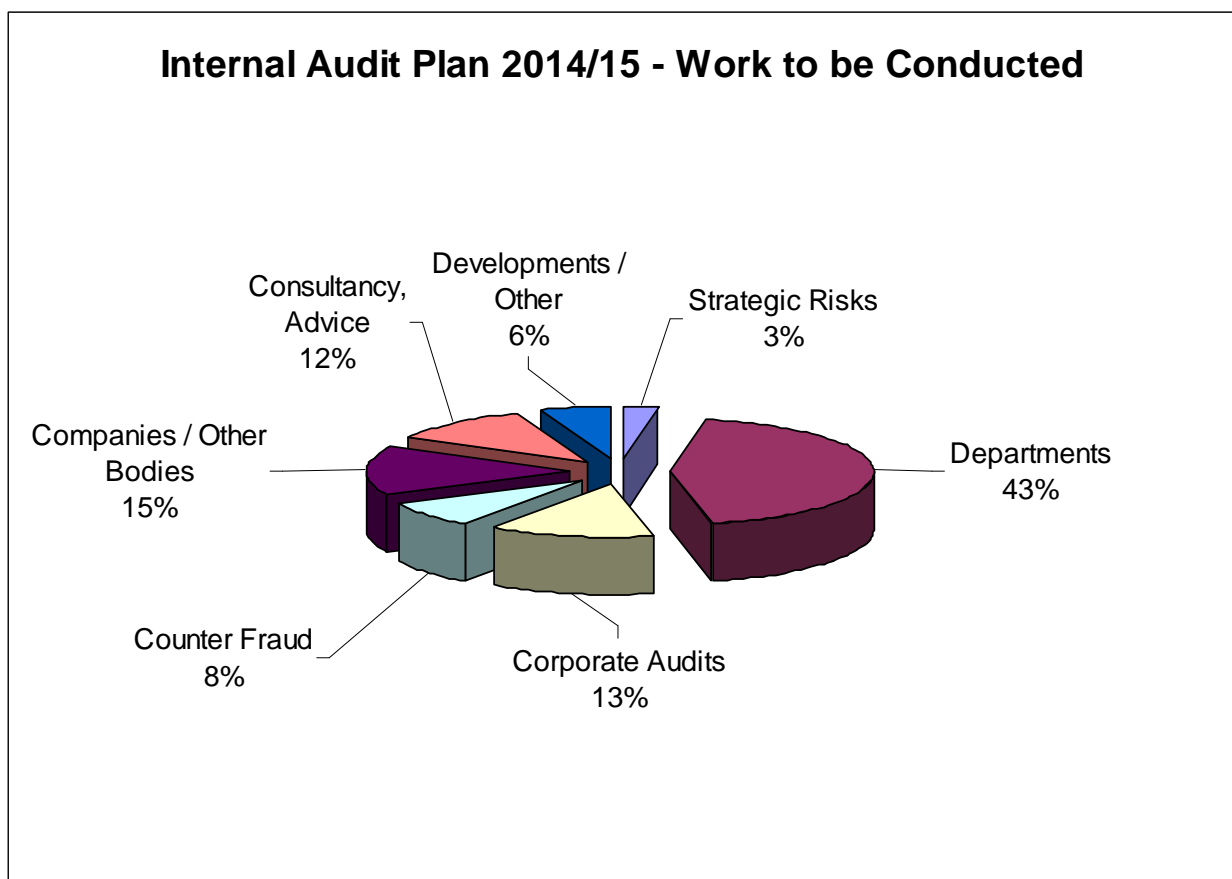
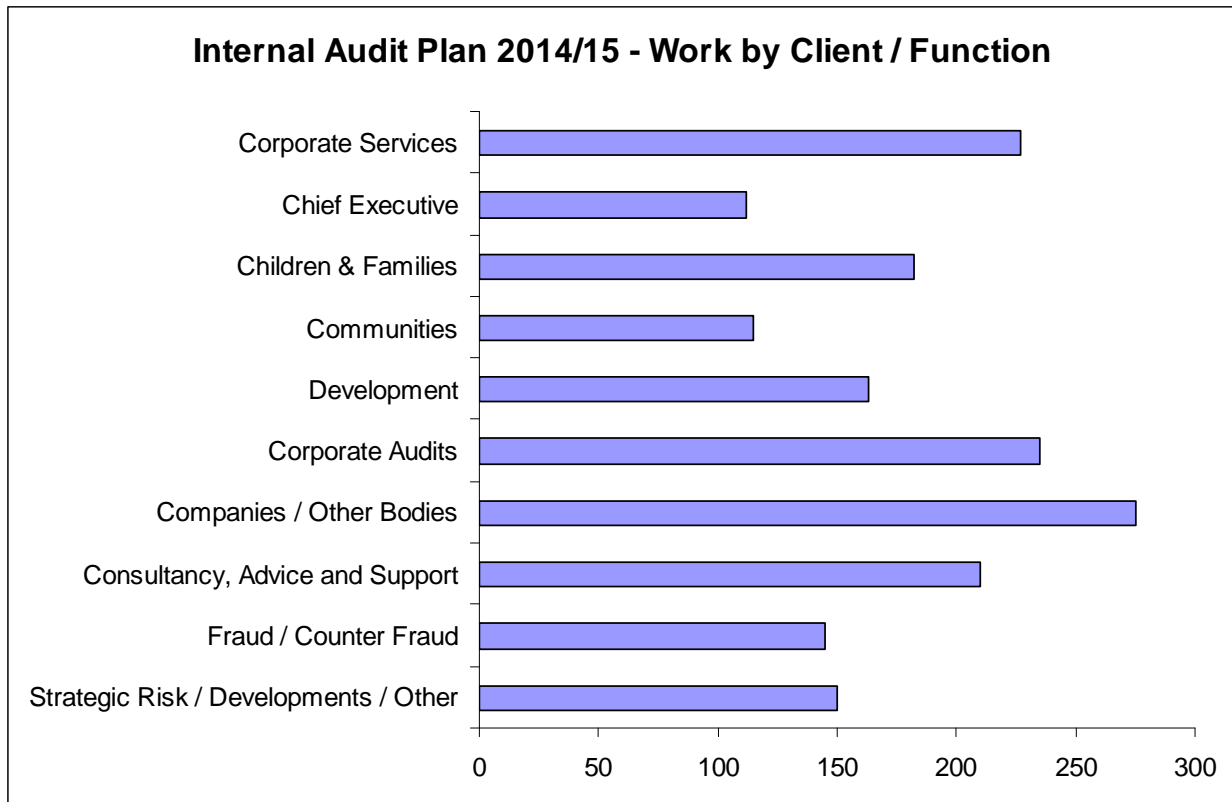


Illustration 2: Summary of the 2014/15 Plan by department / client



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.

Summary* of proposed 2014/15 Internal Audit Plan

Audit Title	Planned Days	NCC Priority / Objective
Strategic Risk Register	50	NP, TP, SR
Corporate Services	227	TP
Chief Executive	112	NP, TP
Children & Families	182	NP, TP, SR
Communities	115	NP, TP, SR
Development	163	NP, TP
Corporate Audits	235	TP, SR
Fraud / Counter Fraud	145	TP
Companies / Other Bodies	275	TP
Consultancy, Advice and Support	210	TP
Developments / Other Work	100	TP
Total Days	1814	

Key to NCC Priority / Objectives

NP - NCC Priorities

TP - Transformation Portfolio

SR - Strategic Risk

* The detailed plan is available from the Head of Internal Audit on request

Internal Audit 3 Year Plan - 2015/16 to 2017/18

Heading	Description of Audit	Risk Level	2015/16	2016/7	2017/18	Key NCC Priorities / Objectives
Strategic Risks						NP, TP, SR
	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						NP, TP, SR
	Partnerships (SR16a)	High	✓		✓	
	Corporate Communications	Medium		✓		
	Pensions	High	✓	✓	✓	
Departmental Risks - Children & Families						NP, TP, SR
	Coverage of emerging departmental risks identified by annual / quarterly assessment					
Schools & Learning	Housing Related Support (Supporting People)	Medium		✓		
	Foster Care and Adoption	High		✓		
	Schools assessments	Medium	✓	✓	✓	
	Commissioning	High	✓	✓	✓	
	Direct Payments	High	✓	✓	✓	

Heading	Description of Audit	Risk Level	2015/16	2016/7	2017/18	Key NCC Priorities / Objectives
	Joint Funding of Care	High	✓			
	Case Management	High	✓		✓	
	Children's Placements	Medium	✓		✓	
	Public Health (SR29)	High	✓			
	ContrOCC system	High	✓			
	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						NP, TP, SR
	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	✓			

Heading	Description of Audit	Risk Level	2015/16	2016/7	2017/18	Key NCC Priorities / Objectives
	Environmental Health	Medium		✓		
	Events Management	Medium	✓			
Allocation for CLT High Risk Priorities	Provide days for DLT to determine	Variable	✓	✓		
Departmental Risks - Development						NP, TP, SR
	Coverage of emerging departmental risks identified by annual / quarterly assessment					
	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	✓			
Allocation for DLT High Risk Priorities	Provide days for DLT to determine	Variable	✓	✓	✓	
Departmental Risks – Corporate Services						NP, TP, SR
	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	✓	✓	✓	

Heading	Description of Audit	Risk Level	2015/16	2016/7	2017/18	Key NCC Priorities / Objectives
	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		✓		
	Pupil Benefits	Medium		✓		
	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						NP, TP, SR
	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						NP, TP, SR
	Contingency allowance to respond to ad-hoc queries and requests from management, including investigations	High	✓	✓	✓	
	Advice/liaison with colleagues	High	✓	✓	✓	
Companies						NP, TP, SR
	EMSS (separate plan)	Medium	✓	✓	✓	
	Internal Audit Service for NIC	Medium	✓	✓	✓	
	Internal Audit for other bodies	Medium	✓	✓	✓	
	Responsible Officer (Academies)	Medium	✓	✓	✓	
Developments / Other Work						NP, TP, SR
	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						TP
Response to the Audit Commission's 'Protecting the Public Purse' report	Strategy / Financial Regulations/Policy	High	✓	✓	✓	

and Fighting Fraud Locally:						
	Proactive activities, including, colleague awareness, NFI, data matching and establishment checks	High	✓	✓	✓	
Strategic Development						NP, TP, SR
Development	Develop IA function to address NCC strategic priorities and enhance the IA Delivery Model	Medium	✓	✓	✓	

Key to NCC Priority / Objectives

NP - NCC Priorities

TP - Transformation Portfolio

SR - Strategic Risk