

Audit and Standards Committee – 25th April 2013

Report of the Treasurer

Audit Plan for the period 2013 / 2014

Purpose of the Report

1. To inform members of the work that the Audit Services Division plan to undertake during the period from 1st April 2013 to 31st March 2014.

Background

2. The Accounts and Audit Regulations 2011 require the Council to have “an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices.” The work of the Audit Services Division enables the Council to comply with this requirement of the Accounts and Audit Regulations.
3. In addition, it provides the Council’s Section 151 officer i.e. Treasurer with assurance that the financial affairs of the Council are conducted in a proper manner. It also provides assurance as part of the governance/assurance framework used in preparing the Annual Governance Statement and, Head of Audit control opinion.
4. As part of its work, Audit Services liaise closely with Grant Thornton (the Council’s external auditors) and plan to undertake a level of work on all main financial systems such that they can rely on the work carried out by Audit Services and do not have to undertake their own tests on the systems. Audit Services have consistently completed their planned work in such a manner that the external auditors have been able to rely on that work.
5. The Accounts and Audit Regulations also require that internal audit operates in accordance with proper audit practices and the Chartered Institute of Public Finance and Accountancy (CIPFA) has previously produced a Code of Practice that Audit Services follows. The scope of internal audit work includes, but is not limited to, financial control arrangements. The Code of Practice requires that the Head of Audit Services considers the results of the Council’s risk management process when determining what should be audited. Such an approach is, however, dependant upon the Head of Audit Services being satisfied with the quality of the outputs from the risk management process.

6. The Council's risk management strategy is embedded across the Authority and the Head of Audit Services has reviewed the risk register to ensure all significant risks are represented in the audit plan. The Head of Audit Services has also used an additional risk assessment methodology based on our own automated audit planning system. This is consistent with the assessments used by Audit Services in previous years (and accepted as a reasonable approach by the Council's external auditors).
7. A separate report will be sent to the Committee outlining a recent development whereby Audit Services has developed an assurance framework [including mapping] model. The results of the initial mapping exercise have been considered in the development of the audit plan.
8. The plan [see Appendix A] uses risk and judgemental assessment to determine the frequency with which the various systems should be audited and the Head of Audit Services balances the need for audit coverage against the available resources. The audit plan does not, therefore, include some of the low risk aspects of the Council's operations. The systems that are assessed as high risk are audited each year whilst others are examined every two, three or four years.
9. Audit Services has consulted with all Directors about the plan, to obtain their views and to identify new activities that should be considered for audit and any activities that are no longer taking place and can be removed from the audit plan.
10. In addition to the planned audits listed in Appendix A Audit Services also carry out honorary audits, and provides a traded service to schools for the audit of School Funds and assurance to Governors on the completion of Financial Value Standard assessments.
11. The way Audit Services works is constantly evolving as is the nature of services provided by Dudley MBC. This has enabled us to rationalise a number of audits where :-
 - a. Experience has shown the services are well controlled
 - b. Services are no longer provided or have been rationalised
12. This has reduced the number of audits we carry out each year and has enabled us to reduce the establishment by just over one full time equivalent [FTE] so that we now have an establishment of 12.8 FTE. At present we do not have any vacant posts. We have reallocated additional resources to the prevention, investigation and detection of fraud such that we now have approximately two FTE on this work. A summary of the plan is provided at Appendix B.
13. We have reviewed the Audit Charter and Audit Strategy which were approved by Audit Committee in 2012. Only minor amendments are deemed necessary at this point and they are highlighted in italics.

Finance

14. There are no direct financial implications arising from this report. The cost of internal audit is met from within the base budget of the Directorate. Audit Services budget for 2013/14 envisages an out turn of £409,000 against £434,000 for 2012/13.

Law

15. The Account and Audit Regulations 2011 require the Council to have an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices.

Equality Impact

16. This report does not raise any equal opportunities issues.
17. The work included in the audit plan will help to protect the interests of children and young people, albeit they were not consulted on, or involved, with the development of the plan.

Recommendation

18. That members note the content of this report and approve the Audit Plan for 2013/2014.
19. That members approve the Audit Charter and Audit Strategy.



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Iain Newman
Treasurer

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Appendix A

Audit Plan : April 2013 to March 2014

Audits with an * are annual audits carried out on behalf of External Audit and are considered major systems.

DIRECTORATE	DAYS
ADULTS, COMMUNITY & HOUSING SERVICES	225
Adult Care & Support Team - Falcon	SWIFT (Social Services) Application review
Adult Care & Support Team - Wollescote Hall	Information Governance
Access Team	Repair Service
Commissioning	Stores
Shared Lives	Property Sales
Unicorn Centre	Rent Collection and Setting Review
Woodside Day Centre	Voids
Transport - Internal	Adult Education inc Neighbourhood Learning Centres
Adult Protection	Race Equality and Communication Service
New Swinford Hall	Home Assistance Scheme
Tiled House	Making it Real
Consultancy	Follow up
CHILDRENS SERVICES	184
Dudley District Office	Transport Team
Halesowen District Office	Children with Disabilities
Brierley Hill District Office	Kitchens
Referral and Assessment Services	Catering - Finance
Care Management Services	Dudley Grid for Learning Team
Family & Adolescent Support Team	Centris ICT application review
Multicultural Support Service	Dudley Performing Arts
Place Planning Team	Special Education Needs Team
Stourbridge Area Youth	Sycamore Centre
Brierley Hill Area Youth	Admissions
Teenage Pregnancy Team	Consultancy
Follow up	
SCHOOLS	347
Ashwood Park	Alder Coppice
Hurst Green	Newfield Park
Sledmere	Ham Dingle
Withymoor	Huntingtree
Netherton CE	Peter's Hill
Wollescote	St James' C of E
Cotwall End	Roberts

DIRECTORATE	DAYS
Dudley Wood	Woodside
Brockmoor	Northfield Road
Bromley Hills	Cradley C of E
St Josephs' Dudley	Queen Victoria
St Josephs' Stour	Tenterfields
Rufford	St Marks' C of E
Gig Mill	Sutton Special School
Halesbury Special School	Health and Safety
Schools Financial Value Standard	Follow up
CHIEF EXECUTIVE	94
Information Governance	Anti-Social Behaviour
Emergency Planning	Community Cohesion
Section 17 Crime & Disorder Act Review	Public Health
Safeguarding	Corporate Governance
Annual Governance Statement	Partnership Governance
Consultancy	
CORPORATE RESOURCES	370
Bank Reconciliation *	Housing Benefits *
Control Accounts Review *	Dudley Council Plus
Treasury Review *	Debtors System *
VAT	Radius Icon Application Review
Budget Preparation and Monitoring	Business Rates Review *
Creditors System Review *	Council Tax *
Print Services	Revenues Exchequer Team Review *
Corporate Risk Management	Social Fund
ICT Third Party Management	PSE Enterprise Application Review
ICT Infrastructure	Corporate Personnel *
Information Security Management	Payroll Review *
ICT Service Level Agreement Management	Teachers Pension Scheme
Electronic Transactions (BACS) Application Review	Legal Services Review
EDRMS Document Management System Application Review	Business Continuity
Agresso Application Review (all modules)	Projects
Carbon Reduction Commitment Annual Report	Safeguarding
Directorate Procurement	Security
RIPA	Consultancy
Follow up	
URBAN ENVIRONMENT	194
Central Arts and Activities Management	Operation of Stores
Town Halls	Consultancy
Cemeteries and Crematoriums	Dangerous Structures
Himley Hall	Structures (all contract stages)

DIRECTORATE	DAYS
Section 106 Agreements	Castle Hill Development
Planning Enforcement	Business First
Planning Policy	Local Transport Grant
Contaminated Land Strategy	Crossing Patrol
Environmental Protection	Assessment of Safety Schemes
MVM Application Review	Business Continuity
Divisional Administration	Security
Follow up	Markets
TOTAL	1564

Appendix B

Audit Coverage [Days] 2009/10 to 2013/14 : By Directorate

Audit	09/10 Actual	10/11 Actual	11/12 Actual	12/13 Plan	13/14 Plan
Adult, Community & Housing	310	276	256	220	225
Chief Executive	87	70	102	100	94
Children's Services	284	297	292	222	184
Finance, ICT & Procurement	282	268	-	-	-
Law & Property	99	61	-	-	-
Corporate Resources	-	-	385	383	370
Schools	365	321	382	384	347
Urban Environment	199	196	210	179	194
Sub Total	1626	1489	1627	1488	1414
Fraud & Investigations	134	124	145	150	235
Value for Money	259	341	343	340	150
Advice & Support [NB1]	241	263	251	181	170
Administration [NB2]	341	298	324	273	271
Total	2601	2515	2690	2432	2240
Number of Audits	196	178	218	147	132

NB1 : Includes time spent on assisting Directorates with system development, process queries, Constitution questions, etc.

NB2 : Includes time spent on IT development, team and divisional meetings, methodology reviews, etc

Appendix C

Audit Services Charter

The Charter describes the purpose, authority, and principal responsibilities of the Council's Audit Services Division.

Statutory Basis of Audit Services

By virtue of Section 151 of the Local Government Act 1972, the Treasurer has responsibility for the administration of the financial affairs of the Council. The Treasurer is also responsible for implementing the requirements of the Accounts and Audit Regulations 2011 which require the Council to maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit.

Objective of Audit Service

The objective of Audit Services is to provide an assurance function that provides an independent and objective opinion to the organisation concerning the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's goals. It impartially examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Independence

To be effective Audit Services must be, and be seen to be, independent. To ensure this, Audit Services will operate within a framework that allows :-

- a. Unrestricted access to senior management, Chief Executive and Chair of the Audit and Standards Committee
- b. Reporting in its own name
- c. No involvement in line operations.

Scope of Audit Services

The scope of Audit Services allows for unrestricted coverage of the Council's activities and unrestricted access to all records, employees and assets deemed necessary by Auditors in the course of their work.

Responsibilities of Audit Services

Service Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services. Accountability for the response to the advice and recommendations made by Audit Services rests with management.

Audit Services responsibilities are to : -

1. Review, appraise and report on the :-
 - a. Soundness, adequacy and application of internal controls, both financial and non financial controls
 - b. Suitability and reliability of financial and other management data including aspects of performance measurement, risk management and corporate governance
 - c. Extent to which the assets, resources, and interests are accounted for and safeguarded from loss and poor value for money
 - d. Compliance with legislation, Council policy and procedures
 - e. Adequacy of governance arrangements
2. Support and encourage improvements in the efficiency, economy and effectiveness of services via all types of audit, including consultancy.
3. Develop proactive fraud initiatives and investigate frauds and irregularities, where necessary
4. Advise on internal control and risk implications of enhancements to any existing or new systems
5. Liaise with External Auditors in relation to audit planning and assisting with the External Audit when required
6. Work in partnership with other bodies to secure robust internal control
7. Produce a Strategic Audit Plan in accordance with the Council's Strategic Objectives and key risks. This will be fully discussed with Senior Management and the Audit and Standards Committee
8. *Meet the requirements of the Chartered Institute of Public Finance & Accountancy [CIPFA] Code of Practice for Internal Audit in Local Government, CIPFA and Chartered Institute of Internal Audit Standards for Internal Audit in the Public Sector and, comply with the Code of Ethics for Internal Audit in Local Government and, as directed by professional bodies of which Auditors are members*
9. The Head of Audit Services to prepare an annual report to the Audit and Standards Committee on the performance of the Division and also to give an overall opinion on internal control.

Appendix D

Audit Services Strategy

Objective

The objective of Audit Services is to provide an assurance function that provides an independent and objective opinion to the organisation concerning the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's goals. It impartially examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Planning

Audit Services will prepare a four year strategic planning framework to ensure overall coverage of all activities.

The list of all Authority activities will be maintained by Audit Services and will be subject to annual consultation with all Directorates to ensure the list is kept up to date.

In preparing the framework, Audit Services will audit each activity on one of the following frequencies :-

- | | |
|---------------------|---|
| a. Annual | Major financial and governance systems |
| b. Every four years | Majority of other activities |
| c. Every two years | Any activity deemed to warrant increased coverage |

The use of a frequency of every two years is determined by the judgement of the Head of Audit Services. The number of days required for each audit is also based on the judgement of the Head of Audit Services and the record of previous input to each activity.

Audit also carries out follow up audits on any audit report which was given an overall assurance rating of "minimal" or "nil" and these will be carried out six months after the final report was issued. In the event of the follow up identifying no real improvement then a further follow up would be carried out.

The planning framework will also consider all significant activities, objectives and risks of the Council i.e. :-

- a. Corporate Risk Register
- b. Council Plan
- c. Assurance map
- d. Fraud Risk Register

The strategic planning framework and annual audit plan will be subject to approval by the Audit and Standards Committee.

Reporting

Audit reports will be issued in draft to give Managers the chance to discuss findings and recommendations. We aim to get the draft report out within seven weeks of the audit starting.

Management will be allowed a maximum of six weeks to produce a management response to the audit report.

Performance monitoring will be reported to the Treasurer monthly and to the Audit and Standards Committee at least once a year.

An annual Management Letter will be produced for each Directorate to summarise the results of audit activity and highlight appropriate issues.

An annual report summarising significant findings on each Directorate will be presented to the Audit and Standards Committee.

Performance & Review

The Head of Audit Services will ensure that the Division operates in accordance with best practice advocated by CIPFA.

A Divisional Operations Manual will be maintained to ensure consistency of working practice, methodology, etc, across the Division.

The Head of Audit Services will carry out an annual review of the effectiveness of the system of internal audit. The review will follow the model set out by CIPFA and will include input from the Treasurer, Corporate Governance Group and Audit and Standards Committee. The review will consider the economics, efficiency and effectiveness of the service and will be presented to the Audit and Standards Committee.

The performance of the Division in terms of plan coverage and customer satisfaction will be reported to Audit and Standards Committee each year. Interim performance targets will also be presented to Audit and Standards Committee twice a year.

The Head of Audit Services will operate suitable quality control processes to ensure the work of audit is subject to management review.

Benchmarking will be carried out via the CIPFA National Benchmarking service to assess the cost of service and plan coverage against comparable Authorities nationally and locally.

Head of Audit Services Opinion on the Control Environment

The results of the audits carried out each year will be the major factor in formulating an opinion on the control environment. The Head of Audit Services will also review :-

- a. Significant external inspections of services
- b. Work of the other Committees
- c. Corporate governance arrangements

- d. Risk management arrangements
- e. *Assurance mapping*

The results of these reviews will also assist in the preparation of the Annual Governance Statement.

The Audit Management Team are members of professional bodies and the Division subscribes to various networks, all of which to provide information on important national control and governance issues.

Resources

The resource base for audit has been reduced over time to the current levels which have proved adequate to carry out the strategic audit plans approved by Audit and Standards Committee in the last few years.

In preparing the strategic planning framework the aim is to balance the resources required for a balanced audit plan against available resources. If any significant shortfall in resource is identified this would be reported to the Audit and Standards Committee.

Skills

We utilise comprehensive job and person specifications to ensure that all staff are aware of the full range of their duties. The documents also ensure that prospective employees are aware of what is expected of them and the qualities, qualifications and experience necessary.

We also use the Corporate Performance Review and Development process coupled with regular progress meetings to ensure that the performance of staff is monitored. This is in addition to the comprehensive quality control system operated on each audit.

A competency matrix for all Audit positions has also been implemented. This was developed by CIPFA and assists in reviewing the development needs of audit staff. Minimum levels of training for each post have also been developed.

External Audit

The external audit of the Authority is currently provided by Grant Thornton and we will have a Protocol to ensure there is a formal basis for joint working, distribution of reports, etc. Agreement will be reached on the specific audits that they will place reliance on our work to ensure that there is no duplication of effort. These audits are predominantly major financial and governance systems related.