

**Audit Committee – 7<sup>th</sup> April 2011**

**Report of the Treasurer**

**Audit Plan for the period 2011/2012**

**Purpose of the Report**

1. To inform members of the work that the Audit Services Division plan to undertake during the period from 1<sup>st</sup> April 2011 to 31<sup>st</sup> March 2012.

**Background**

2. The Accounts and Audit Regulations 2006 require that the Council maintains “an adequate and effective system of 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. In addition, it provides the Council’s Section 151 officer (the officer with the legal duty to ensure the proper administration of the Council’s financial affairs – in Dudley this is the Treasurer) with assurance that the financial affairs of the Council are conducted in a proper manner.
3. As part of its work, the Audit Services Division liaise closely with the Audit Commission (the Council’s external auditors) and plans to undertake a level of work on all main financial systems such that the Audit Commission can rely on the work carried out by Audit Services and do not have to undertake their own tests on the systems. The Audit Services Division have consistently completed their planned work in such a manner that the external auditors have been able to rely on that work.
4. 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 produced a Code of Practice that the Audit Services Division follows. The scope of internal audit work includes, but is not limited to, financial control arrangements and 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.

5. 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).
6. 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. A revised model in our audit software was used to prepare the plan for 2011/12.
7. 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. We have reconsidered the Plan based upon these consultations and amended it accordingly.
8. Audit Services has an establishment of 14.8 FTE. At present we do not have any vacant posts. Two of the posts concentrate on VFM audits on a self-funding basis. In addition they have also been given responsibility to carry out the ICT audits that were previously done by external contractors.
9. We have reviewed the Audit Charter and Audit Strategy which were approved by Audit Committee in 2008. A number of amendments are proposed (see Appendices C and D) which take account of the following:-
  - a. The Treasurer now replaces the Director of Finance
  - b. Increased role in proactive fraud work
  - c. Increased role in consultancy
  - d. Introduction of interim performance reports
  - e. Carrying out IT audits in-house

## **Finance**

10. There are no direct financial implications arising from this report. The cost of internal audit is met from within the base budget of the Finance Directorate.

## **Law**

11. The Account and Audit Regulations 2006 require the Council to have an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices.

## **Equality Impact**

12. This report does not raise any equal opportunities issues.
13. 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**

14. That members note the content of this report and approve the Audit Plan for 2010/2011.
15. That members approve the Audit Charter and Audit Strategy.



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**Iain Newman**  
**Treasurer**

Contact Officer : Les Bradshaw  
Telephone 01384 814853  
Email : [Les.Bradshaw@dudley.gov.uk](mailto:Les.Bradshaw@dudley.gov.uk)

Appendix A

**Audit Plan : April 2011 to March 2012**

DIRECTORATE	DAYS
<b>ADULTS, COMMUNITY &amp; HOUSING SERVICES</b>	<b>332</b>
Partnership Contract Review Housing Repairs Repairs and Maintenance Contract Call Centre Directorate Performance / Risk Management Information Governance Follow up Consultancy Project Management Private Sector Housing Strategy Rent Collection & Setting Review Estates Management Homelessness Flats Expenses Community Team Learning Disabilities PULSE Team CTLD Admin Central Dudley Locality Russell Court Day Care	Warden Schemes & Sheltered Housing Home Care - South Home Care - North Direct Payments START Nightsitting Transforming Social Care Telecare and Dudley Community Alarms Housing Risk Management Financial Assessments Training Policy Team Safekeeping Management Information Team Quality and Complaints Team Asset Management and Safety Business Technology Rechargeable works/Trading Account Supporting People
<b>CHILDRENS SERVICES</b>	<b>259</b>
Adoptions Fostering Community Support Independent Fostering Agencies Emergency Duty Team C.A.M.H.I.S.S. Flipside Childrens Resources Supervised Contact EMS Directorate Personnel / Payroll Performance / Risk Management Follow up Consultancy Education Improvement Advisory Team Learning Support	School Library Service Welfare Team L.A.C.E.S Team Early Education Places Childcare / Early Years Co-ordination Extended Schools and Childrens Centres Kitchens Traded Services Caretaking & Cleaning Safeguarding and Review Team Saltwells EDC Himley Hall Catering Equality and Diversity Regional Staff College Exclusions Buildings & Estates Team

<b>DIRECTORATE</b>	<b>DAYS</b>
<b>CHIEF EXECUTIVE</b>	<b>319</b>
Elections Electoral Registration Marketing & Communications Unit Corporate Performance Management Ethics- Staff & Members Corporate Data Quality Business Continuity	Chief Executive's Consultancy Transformation Value for money Corporate Governance Partnership Governance Annual Governance Statement Use of Resources
<b>CORPORATE RESOURCES</b>	<b>419</b>
Bank reconciliation Budget preparation/monitoring - Corporate Resources and Chief Executives Control Accounts Review Treasury Review Directorate Performance/Risk Management Mortgages Insurance Housing Benefits Dudley Council Plus Directorate Procurement Car loans CAATS National Fraud Initiative Coroners service Registrars Property & land acquisitions & disposals Corporate Risk Management Agresso all modules Directorate Payroll & Personnel Procedures Budget Preparation & Monitoring - Childrens Services Debtors system	Creditors System Review Teachers Pension Scheme LMS / Fair Funding Electronic Transactions (BACS) Configuration Management IT Governance ICT Cost Management IT Physical & Environmental Management Telecommunications IT Regulatory Issues RIPA Payroll Review CCTV HR First Council tax Business Rates Review Revenues Exchequer Team Review Crown centre Axis Application Review PSEnterprise RON Application Review ICTS Stores/Trading Accounts Information Governance (CR) Consultancy Follow Up
<b>HONORARY AUDITS</b>	<b>30</b>
Jigsaw Youth Theatre Dudley Council Voluntary Services Dudley Arts Council Stevens Trust Earls High Trust Astley Burf Trust	Windsor School Sports Coordinator Programme Coseley School Sports Coordinator Programme Ellowes Hall School Sports Coordinator Programme Coseley Competitive Manager

<b>URBAN ENVIRONMENT</b>	<b>188</b>
Dell Stadium DUE Safeguarding Red House Cone Dudley Museum Sports Development Halesowen Leisure Centre Dudley Leisure Centre Building Regulations Food Inspection Directorate Personnel & Payroll Procedures Consultancy Follow Up	Road Safety Land Drainage Economic Regeneration Public Conveniences Waste Strategy/Recycling Street Lighting Street & Other Maintenance direct operations Procurement (& disposal) of Vehicles Directorate Performance/Risk Management Graphics & Marketing Divisional Administration
<b>SCHOOLS</b>	<b>393</b>
Quarry Bank School and Childrens Centre St Marys'RC Leasowes School Bramford Crestwood Park Childrens Centres Hasbury St Edmund & St John Rosewood Special School Brierley Hill Dingle Our Lady & St Kenelm St Josephs' Dudley Woodsetton Special School Bromley Pensnett School and Childrens Centre Foxyards Blanford Mere School and Childrens Centre Maidensbridge Tenterfields School and Childrens Centre St Marys' CE Brook Church of the Ascension Hurst Hill	Straits Thorns The Ridge Halesbury Special School Colley Lane School and Childrens Centre Pedmore C of E Halesowen CE Mount Pleasant Caslon Cradley C of E Dawley Brook Fairhaven Gig Mill Hawbush Lutley Manor Way Netherton Park Children's Centre Oldswinford Rufford St Chads St Josephs' Stourbridge St Marks' C of E Wallbrook Annual Assessment - Secondary External Assessment - Primary Phase 2
<b>TOTAL</b>	<b>1940</b>

## Appendix B

### Audit Coverage 2006 to 2012 : By Directorate

<b>Audit</b>	<b>06/07 Actual</b>	<b>07/08 Actual</b>	<b>08/09 Actual</b>	<b>09/10 Actual</b>	<b>10/11 Plan</b>	<b>11/12 Plan</b>
<b>Adult, Community &amp; Housing</b>	286	198	388	310	272	332
<b>Chief Executive</b>	84	132	125	346	370	319
<b>Children's Services</b>	225	174	203	284	251	259
<b>External Contract - Connexions</b>	35	36	41	0	0	0
<b>Finance, ICT &amp; Procurement</b>	292	212	290	282	249	
<b>Law &amp; Property</b>	89	63	96	99	70	
<b>Corporate Resources</b>						419
<b>Honorary</b>	41	29	26	25	31	30
<b>Schools</b>	412	596	460	365	387	393
<b>Urban Environment</b>	202	245	150	199	240	188
<b>Total</b>	<b>1666</b>	<b>1685</b>	<b>1779</b>	<b>1913</b>	<b>1870</b>	<b>1940</b>
<b>Number of Audits</b>	<b>193</b>	<b>229</b>	<b>205</b>	<b>196</b>	<b>200</b>	<b>211</b>

## 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 2006 which require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal practices in relation to internal control.

### **Objective of Audit Service**

Audit Services is an assurance function providing an independent and objective opinion on the Council's control environment. 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 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 Committee
8. Meet the requirements of the CIPFA Code of Practice for Internal Audit in Local Government 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 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 non School activities                 |
| c. Every three years | Schools, to fit in with FMS schedules             |
| d. 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.

The planning framework will also be subject to comparison with the Corporate Risk Register and Council Plan to ensure that all significant local objectives, issues and activities are covered in the plan.

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

## **Performance & Review**

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

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 Committee. The review will consider the economics, efficiency and effectiveness of the service and will be presented to the Audit Committee.

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

- Significant external inspections of services
- Work of the Standards Committee on Codes of Conduct and Confidential Reporting Policy
- Corporate governance arrangements
- Risk management arrangements

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 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 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 the Audit Commission and we have a Protocol to ensure there is a formal basis for joint working, distribution of reports, etc. Agreement has been reached with the Audit Commission 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.