

**Audit Committee – 19<sup>th</sup> April 2012**

**Report of the Treasurer**

**Audit Plan for the period 2012 / 2013**

**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 2012 to 31<sup>st</sup> March 2013.

**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 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 the Audit Commission (the Council’s external auditors) and plan 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. 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 produced a Code of Practice that Audit Services 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.

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. 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 summary of the plan is provided at Appendix B.
8. 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.
9. 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
  - c. Services have been rationalised themselves

Whilst this has reduced the number of audits we carry out each year it has enabled us to reduce the establishment by just over one full time equivalent [FTE] so that we now have an establishment of 13.6 FTE. At present we do not have any vacant posts. We have looked to reallocate resources towards specific areas and :-

- a. Two Auditors concentrate on VFM audits on a self-funding basis
  - b. We now carry out ICT audits that were previously done by external contractors
  - c. We are developing income generating work via Schools and the Third Sector.
  - d. Creating more viable Corporate Fraud presence
10. We have reviewed the Audit Charter and Audit Strategy which were approved by Audit Committee in 2011. A number of amendments are proposed (see Appendices C and D, changes in italics) which take account of the following:-
    - a. Audit Charter :-
      - i. Accounts & Audit Regulations 2011 replace 2006 version
      - ii. Use wording for "Objective" as per the Audit Strategy wording

- b. Audit Strategy – includes reference to :-
  - i. Follow up audits
  - ii. Assurance map and fraud risk register
  - iii. Reporting
  - iv. Divisional operations manual for quality control

### **Finance**

11. 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 out turn for 2011/12 is estimated at £433,000 as against £500,000 in 2010/11.

### **Law**

12. 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**

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

14. 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**

15. That members note the content of this report and approve the Audit Plan for 2012/2013.

16. 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 2012 to March 2013

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

DIRECTORATE	DAYS
<b>ADULTS, COMMUNITY &amp; HOUSING SERVICES</b>	<b>220</b>
Asset Management Strategy *	Business Support
Consultancy	Debt Collection
Directorate HR & Payroll Procedures	Directorate Performance /Risk Management
Directorate Procurement	Follow up
Grant Income	Homecare Debt Collection
Housing Rent Arrears	Housing Repairs Service
Housing Strategy Programme Management	Income Collection
I World Application Review	Keystone Asset Management Application Review
Lettings policies/procedures	Making it Real
New Bridge House	Rent Collection & setting *
Russell Court	Security
Tenant Empowerment	
<b>CHILDRENS SERVICES</b>	<b>222</b>
Astley Burf	Autism Outreach Team
Business Continuity	Care Management North Team 2 (Dudley)
Central Area Youth	Commissioning
Connexions	Consultancy
Directorate Personnel / Payroll	Directorate Procurement
Follow up	Halesowen Area Youth
Hearing Impairment Service	Information Governance
Kitchens	Language Units
Physical Impairment Medical Inclusion Service	Project Management
Psychology	School Purchasing Procurement and General Management
School Governance Team	Security
Sixteen Plus & Leaving Care Team	Specialist Early Years Service
Visually Impairment Service	Youth Services - Central Office
16-19 Provision	

<b>DIRECTORATE</b>	<b>DAYS</b>
<b>SCHOOLS</b>	<b>384</b>
Amblecote	Belle Vue School
Bishop Milner R.C. School	Castle High School
Coseley School and Sports College	Crestwood School
Dormston School	Ellowes Hall Foundation School
Hillcrest School	Lapal
Leasowes School	Oldswinford Hospital School
Pedmore Technology College and Community School	Redhill School
Ridgewood School	The Wordsley School
Summerhill School	Schools Financial Value Standard
Schools follow up	Procurement
<b>CHIEF EXECUTIVE</b>	<b>440</b>
Annual Governance Statement *	Chief Executive's Consultancy
Community Engagement Strategy	Community Safety
Corporate Data Quality	Corporate Governance *
Corporate Grants	Directorate Partnerships
Directorate Payroll & HR	Transformation
Directorate Performance/Risk Management	Directorate Procurement
Partnership Governance	Public Health
Value for money *	
<b>CORPORATE RESOURCES</b>	<b>433</b>
Administrative Systems	Asset Management Plan
Bank Reconciliation Review *	Business Rates *
Capital Accounting *	Carbon Reduction Annual Report
Construction Industry Tax Scheme	Consultancy
Control Accounts *	Corporate Fraud
Council Tax Review *	Creditors System *
Crown Centre	Debtors System Review *
Follow Up	Housing Benefits Review *
HR First	HSBCnet Application Review *
IT Business Continuity Planning *	IT CAATS
IT Network Perimeter Defence - Security Defence Review 2012 *	IT Operations/Facilities Management *
IT Physical & Environmental Management *	IT Project Management *
Land Charges	Logotech Application Review
National Fraud Initiative *	Northgate Revenues & Benefits Application Review
Payroll System *	Procurement Team *
Project Management	PSEnterprise Application Review
Radius Icon Application Review	Revenues Exchequer Team *
RIPA	Teachers Pension Scheme *

<b>DIRECTORATE</b>	<b>DAYS</b>
<b>HONORARY AUDITS</b>	<b>18</b>
Astley Burf Trust	Dudley Arts Council
Earls High Trust	Homestart
Jigsaw Youth Theatre	Stevens Trust
<b>URBAN ENVIRONMENT</b>	<b>179</b>
Collection Management	Consultancy
Crystal Leisure Centre	Directorate Personnel & Payroll Procedures
Directorate Procurement	
Electrical and Mechanical Team	Follow Up
Grounds Maintenance	Highways Minor Schemes
Landscapes (all contract stages)	Local Transport Grant
New Heritage Regeneration	Trading Standards
Parks Management	Project Management
Refuse Collection	Safeguarding
Street Cleansing	
<b>TOTAL</b>	<b>1,896</b>

## Appendix B

### Audit Coverage 2006 to 2013 : By Directorate

Audit	07/08 Actual	08/09 Actual	09/10 Actual	10/11 Actual	11/12 Plan	12/13 Plan
Adult, Community & Housing	198	388	310	276	295	220
Chief Executive	132	125	346	411	419	440
Children's Services	174	203	284	297	269	222
External Contract - Connexions	36	41	0	0	0	0
Finance, ICT & Procurement	212	290	282	268	-	-
Law & Property	63	96	99	61	-	-
Corporate Resources	-	-	-	-	430	433
Honorary	29	26	25	26	30	18
Schools	596	460	365	321	318	384
Urban Environment	245	150	199	196	188	179
<b>Total</b>	<b>1685</b>	<b>1779</b>	<b>1913</b>	<b>1870</b>	<b>1949</b>	<b>1896</b>
<b>Number of Audits</b>	<b>229</b>	<b>205</b>	<b>196</b>	<b>178</b>	<b>211</b>	<b>147</b>

#### NOTES

1. Whilst there has been a reduction in staffing we have been able to mitigate the effect by reducing non productive time on administration
2. We would expect the number of audits to reduce in 2012/13 as we are not dealing with a high number of Primary Schools and two Senior Schools have converted to Academy status.
3. The number of audits is also reducing as a result of rationalisation of the number and type of audits we carry out. The scope and depth of some audits has also been increased.

## 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 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   |
| 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.

*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 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 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 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 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 :-

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