Internal Audit Strategy and Annual Audit Plan April 2011 to March 2012
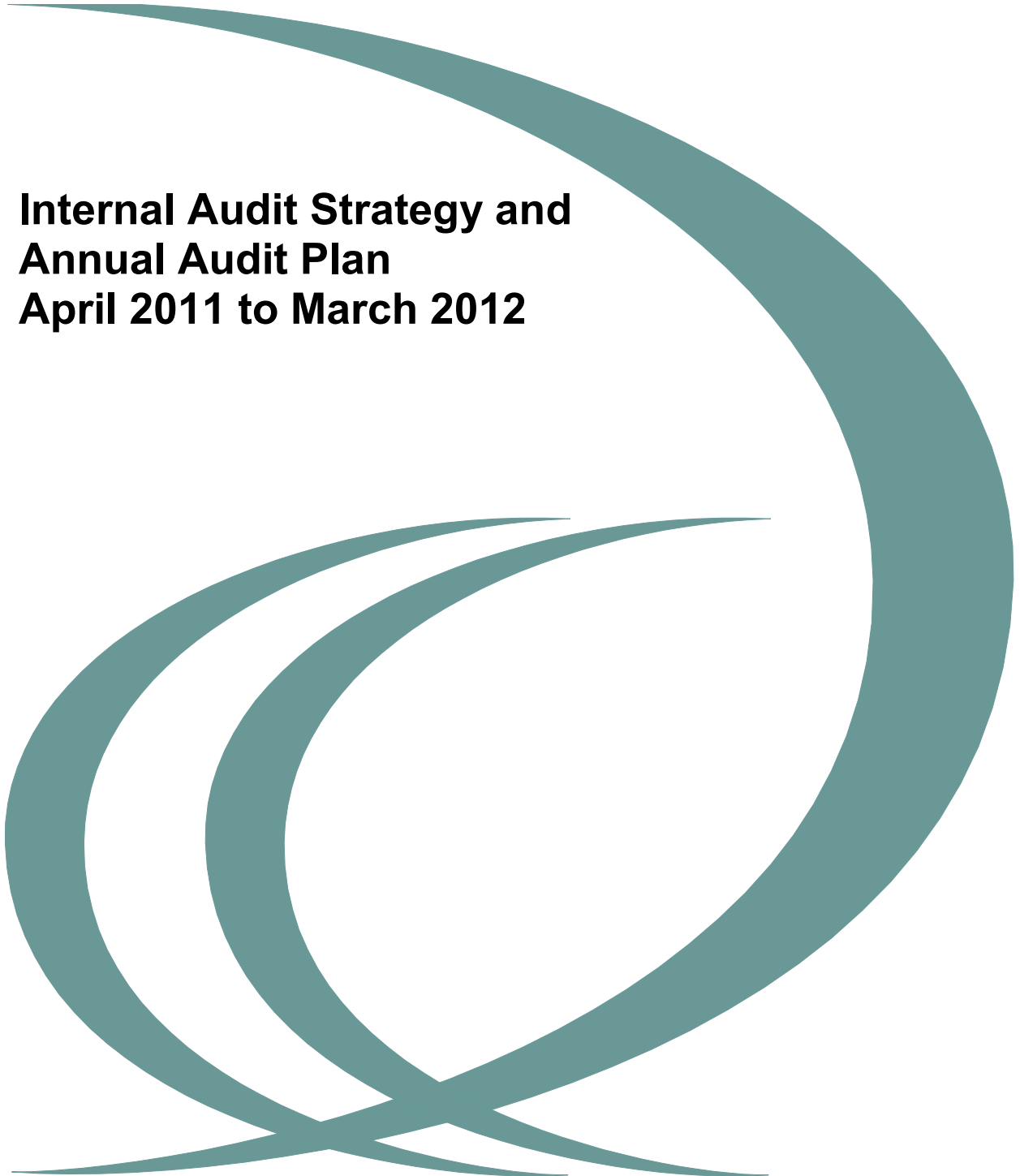
Kent audit

Internal Audit Strategy

Introduction

The CiPFA[1] Code of Practice for Internal Audit in Local Government (2006) requires the Head of Audit to produce an audit strategy. The Code defines an Internal Audit Strategy as a:

> "high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities."

For the purpose of this strategy the Terms of Reference of the Kent Audit service are specified within its Audit Manual and Internal Audit Charter, which have been approved by the Governance and Audit Committee.

The Audit Manual sets out the overall objective of Internal Audit as "*supporting service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives and manage their risks*".

Annual Opinion to support the Annual Governance Statement

The dynamic external environment of the public sector, and the internal responses to this, means that the audit risk universe has become too complex to successfully provide an annual plan that can be set for a whole year ahead. For 2011/12 only the audit strategy and plan will therefore be based on ensuring that the foundations of sound internal control remain in place throughout this period of change.

The Head of Audit and Risk will still provide the accounting officer with an opinion on the overall adequacy and effectiveness of the Council's governance processes, risk management, and internal control, collectively referred to as "the system of internal control". Where any potential limitations on this opinion come to light during the year they will initially be discussed with Corporate Management Team and reported to the Governance and Audit Committee.

Governance

Each year Internal Audit normally assesses the Council's governance arrangements by comparison with the principles described in the CIPFA SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). For 2011/2012 additional work will be completed in relation to emerging governance arrangements as the Council implements the second phase of it's restructure. This will include, with the agreement of Corporate Management Team, a mid-year Annual Governance Statement exercise which will then audited. The output from this process will be added to the assurances available to the Managing Director and Leader at the year end.

Risk Management

Internal Audit will assess the Council's risk management arrangements, including the risk management strategy, documentation and guidance, risk registers, risk reports and minutes of meetings for key decisions. To avoid conflicts of interest and maintain

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[1] Chartered Institute of Public Finance and Accountancy

professional independence and objectivity, this work will not be reported via the Head of Audit and risk, but will be reported directly to the Corporate Director of Finance.

Internal Control

Our annual programme of work, undertaken to provide assurance to management and the Council on the operation of the internal control environment usually forms the significant part of the evidence for the opinion. As set out above, the adequacy and outcomes of the Council's risk management framework will be assessed annually. Previous assessments of risk management have shown that the framework can be relied upon to identify the significant local and national risks faced by the Council, and the directorate and strategic risk registers have previously been used to inform and guide the Internal Audit plan.

As set out above 2011/12 will be a year of significant change for the Council, including the restructure and proposed centralisation of support services and a further reduction in the budget. The Internal Audit plan has therefore been developed to take these changes into account. As well as the work on governance and risk management we will assess the adequacy of the core aspects of internal control, including the key authority-wide financial systems and compliance with KCC's policies. This work may be supplemented by audits and reviews commissioned in response to emerging or urgent issues, such as those set out at table 4 below) and risks that are identified by senior officers and for which assurance is required. Depending on the timing of when these issues are identified they will be added in year and we have therefore retained a contingency of our available audit days to be used to provide this work. This will also include an advisory role for new and/or developing systems and processes where appropriate.

The internal audit work and findings will also be informed by the investigations and fraud risk management work carried out under the anti - fraud element of the plan.

Following up the implementation of agreed recommendations

At the end of the fieldwork for each audit, a draft report is produced which will include recommendations (where relevant) where improvements in, or the application of controls are required. A priority rating will be applied to each recommendation as follows, high, medium or low. For high priority recommendations, immediate management action is required and we will follow up all of the high priority recommendations. For medium priority recommendations will seek assurance from the accountable manager that the required action has been implemented and may follow up a sample. We will not actively follow up low priority recommendations. Where agreed recommendations with a high priority rating have not been implemented in the agreed timescale, the accountable manager will be required to explain the reason to the Governance and Audit Committee.

Each audit is given an assurance, full, substantial, limited or none. We will follow up all audits, usually within six months of the original final report being issued, where limited or no assurance has been given

How the service will be provided

The provision of internal audit is delivered by an in house - team, supplemented by specialist IT audit and general audit assurance work contracted from Deloitte LLP. The contract for this wok is due to be retendered during 2011/12. There will be a continuing commitment to demonstrating that in-house provision represents a cost effective means of delivering a high quality and professional service. Evidence to support this will be

provided from a variety of sources, including internal key performance indicators, external benchmarking comparisons, quality reviews and satisfaction surveys from clients and feedback from the external auditors.

During 2011/12 there will a change to the way in which the internal audit of Kent Commercial Services (KCS) is delivered. It has been agreed that, due to the quasi-commercial nature of KCS, and the higher level of inherent risk its activity give rise to, a dedicated audit resource will be created. This team would be specifically employed to carry out audits in Commercial Services, and funded by KCS. The team will remain professionally accountable to the Head of Audit and Risk, who would retain the direction for the audit programme. The outcome of the audits carried out in Commercial services will continue to be reported to the Governance and Audit Committee through the Head of Audit and Risk.

Liaison with the Council's external auditors will continue to ensure that they can place reliance on the work of Internal Audit meaning that the overall audit for the Council is delivered as efficiently, effectively and economically as possible. The outcome of this liaison will be reported to the Governance and Audit Committee.

Resources and skills required

In order to deliver the agreed annual audit plans, the appropriate level of resources will be made available to the audit team, to include the required mix of skills and specialisms. This will include general audit skills in respect of reviews of internal control, risk and governance arrangements, and appropriate coverage in specialist areas such as computer and contract audit and the investigation of frauds and irregularities.

Where audits require specialist expertise and knowledge that is not available within the audit team, advice and input will be sought from the wide range of specialists and experts drawn from within the Council and from outside sources.

Staff developments needs are continually assessed through the appraisal scheme and feedback from clients and quality reviews. These are fed into Internal Audit's training plan to ensure that team members have appropriate skills and are able to deliver a professional service in line with current best practice.

Annual Audit Plan
1. Authority Wide

Ref	Audit	Reason for Audit	Scope/Comments	Days
AW01 2012	Corporate Governance	To support the Annual Governance Statement	A review of the Council's Corporate Governance Framework supplemented by a detailed assessment of one of the six themes of governance	30
AW02 2012	Schemes of delegation and limits on approval	To support the Annual Governance Statement and provide assurance that appropriate schemes of delegation have been put in place in line with the Council's restructure.	To provide assurance that controls are in place to ensure decisions are made in line with the Council's intended scheme of delegation.	20
AW03 2012	Annual Governance Statement	To provide assurance that actions identified in directorates' individual annual governance statements are in place and being implemented.	A review of directorates' twice yearly annual governance statements to ensure that issues identified have appropriate action plans in place and are being implemented.	30
AW04 2012	Performance Management Framework	To support the Annual Governance Statement and provide a basis for Internal Audit Planning	A review of the Council's performance management arrangements.	30
AW05 2012	Risk Management	To support the Annual Governance Statement	A review of the Council's risk management arrangements.	35
AW06 2012	Business Continuity Planning	To ensure that business continuity plans reflect the new structure of the Council.	To provide assurance that there are business continuity plans in place that are regularly tested and updated where necessary, and that the plans are disseminated to relevant and appropriate staff.	30
	Total days			**175**

2. Core Systems Work

The work in this section is programmed to provide the Council with assurance that controls are in place and operating in key financial or information systems

Ref	Audit	Days
CS01 2012	Oracle - General Ledger	50
CS02 2012	Oracle - Accounts Payable	50
CS03 2012	Oracle - Accounts Receivable	50
CS04 2012	Oracle - i Procurement	20
CS05 2012	Corporate Purchase Cards	20
CS06 2012	Oracle - payroll and HR	50
CS07 2012	Treasury Management	30
CS08 2012	Cashiering and Bank reconciliations	20
CS09 2012	Medium Term Planning	20
CS10 2012	Revenue Budget Monitoring	30
CS11 2012	Swift - Social Care System (Domiciliary & Residential)	30
CS12 2012	TDM - (Transactional Data Matching)	25
CS13 2012	Client Billing	20
CS14 2012	Capita One - Children Social Care System	30
CS15 2012	Pensions contributions	15
CS16 2012	Pensions investment income	15
CS17 2012	Enterprise and Interprise (Property info databases)	15
CS18 2012	Routewise	25
CS19 2012	WAMS	25
CS20 2012	Financial control in schools	10
CS21 2012	Oracle Modules	30
CS22 2012	Firewalls and Firewall Management	20
CS23 2012	Network Security and Infrastructure (LAN)	35
CS24 2012	Exchange Server and e-mail	25
CS 25 2012	IT Support Arrangements (ITIL)	40
CS 26 2012	IT compliance	20
	Total Days	**720**

3. Key Policies

To provide assurance on the application and compliance with the Council's key policies

Ref	Policy area	Days
POL01 2012	Data Protection Act	15
POL02 2012	Freedom of information Act	15
POL03 2012	Equalities Act	15
POL04 2012	Complaints, Comments and Compliments Policy	25
POL05 2012	Blue Book – Job Evaluation	20
POL06 2012	Blue Book – Recruitment & selection	30
POL07 2012	Blue Book – TCP	20
POL08 2012	Blue Book – Employment Contracts	15
POL09 2012	Blue Book – Equality Act / Fairness at Work	20
POL10 2012	Blue Book – Health and Safety at Work	25
POL11 2012	Blue Book – Performance and Conduct	30
POL12 2012	Communications Toolkit	20
POL13 2012	Procurement	40
POL14 2012	Information Security	30
	Total Days	**320**

4. Emerging Issues
The following list shows examples of emerging issues

Title	Reason for potential audit/advice & information
East Kent Waste collection partnership	Renegotiation of waste collection contract, may need Internal audit input.
Power of Central Competence	Legal power to give Councils a free hand to pursue the best interests of their local areas. Wide ranging power may be inappropriately applied, and therefore may be compliance failure.
Local Enterprise Partnerships	Joint local authority-business bodies brought forward by local authorities to promote local economic development- to replace the Regional Development Agencies (RDAs). Governance issues will need to be addressed.
Recruitment process	Inconsistency in approach to recruitment including responsibility for employment checks. Identified in the Audit Commission's publication 'Protecting the Public Purse'.
Academies Bill	There will be implications for KCC as academies are established.
Information Governance	The Information Commissioner's Office has been given new powers to enforce good information governance including the power to levy fines up to £500k. Responsibility for information governance devolved in KCC increasing the inherent risk of control failure.
Bribery and Corruption Act	Review how this may affect KCC.
Young People's Learning Agency (YPLA)	Transfer of funding for 16 – 19 year olds education to local authorities may be requirement for audits to be carried by Internal Audit.
Publications of all payments of £500 and above.	Central Government requires public bodies to publish details of £500 and above, implication of data protection issues, increased FOI requests and media interest.
Publication of salaries of staff earning £58k and above	Data protection issues.
Renegotiation of KHS contract	My require Internal Audit input.
Upgrades to systems including Oracle, Swift and i proc.	Changes to the control environment may require Internal Audit input.
NHS White Paper	PCT responsibilities for local health improvement will transfer to local authorities.

5. Work to minimise potential Fraud and Corruption

Description	Reason/Scope/Comments	Days
Planning & scoping future pro active fraud work	To identify any areas of potential fraud	10
Procurement fraud (part of the programme for next 3 years)	Identified as a potential area for fraud	35
Assessment against best practice frameworks	Continued development of the Council's anti fraud and corruption arrangements against those recommended by CiPFA (Red Book) and the Audit Commission (Protecting the Public Purse**).**	15
Training / awareness raising includes publication of Risky Business the joint Internal Audit & Risk newsletter	To help raise fraud awareness in KCC, provide:- fraud awareness training, publication of 'Risky Business' joint Audit & Risk publication.	35
National Fraud Initiative	Participation in the Audit Commission's National Fraud Initiative (NFI) to identify and investigate any 'matches' in data sets.	30
Policy review (Whistle blowing etc)	A review of the anti fraud strategy for KCC	10
Irregularities and other investigations	Based on previous experience dealing with investigations of irregularities.	200
Total days		**335**

Summary

Audit	Days
Authority Wide	175
Core Systems Work	720
Key Policies	320
Pro Active and re-active fraud Work	335
Follow ups of audits with minimal assurance; and recommendations with high priority rating	125
Liaison, Advice & Information and potential emerging issues (Contingency)	180
Grant Claims	70
Total 2010/11 totals	**1925**