

Agenda item:

Decision maker: Governance & Audit Committee

Subject: Audit Performance Status Report to 9th December 2011 for
Audit Plan 2011/12

Date of decision: 27th January 2012

Report by: Chief Internal Auditor

Wards affected All

**Key decision (over
£250k)** No

1. Summary

- 1.1 There is one new critical exception highlighted in this report and an update is provided on a previously raised critical exception.
- 1.2 57% of the annual audit plan has been completed or is in progress at 9th December 2011. This represents 54 audits (31%) where the report is finalised, 15 audits (8%) where the report is in draft form and 31 audits (18%) currently in progress, out of the 175 planned audits.
- 1.3 Areas of Assurance are shown on Appendix A.
- 1.4 281 days of reactive work has been undertaken to 9th December 2011, with 350 days set aside in the 2011/12 Audit Plan.
- 1.5 The Audit Strategy for 2012/13 is attached as Appendix B

2. Purpose of report

- 2.1 This report is to update the Governance and Audit Committee on the Internal Audit Performance for 2011/12 to 9th December 2011 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.
- 2.2 To advise Members of the proposed Audit Strategy to ensure that there is sufficient coverage of PCC's internal control framework, so that an adequate level of assurance can be given.

3. Background

- 3.1 The Annual Audit Plan for 2011/12 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 28 January 2011 and following consultation with Heads of Services and the Strategic Directors Board.

- 3.2 The Accounts and Audit Regulations 2003 (amended 2006 and 2011) require Internal Audit to be current and effective. The Guidance relating to these Regulations refers to the CIPFA Code of Practice for Internal Audit in the UK as being the applicable standard to comply with.
- 3.3 The Chief Internal Auditor is required to review the systems of internal control and give an annual audit opinion on its effectiveness. This opinion is included in the Annual Governance Statement which forms part of the statutory accounts of the Authority.
- 3.4 The CIPFA Code of practice states that in order to ensure effective coverage of the systems of internal control to enable a proper opinion to be given there should be an Audit Strategy which covers the following:
- Internal Audit objectives and outcomes,
 - how the Head of Internal Audit will form and evidence his or her opinion on the control environment,
 - how Internal Audit's work will identify and address local and national issues and risks,
 - how the service will be provided, i.e. internally, externally, or a mix of the two,
 - the resources and skills required to deliver the strategy.

4. Recommendations

- 4.1 That Members note the Audit Performance for 2010/11 to 9th December 2011.
- 4.2 That the highlighted areas of control weakness for the 2011/12 Audit Plan are noted by Members.
- 4.3 That Members approve the proposed Audit Strategy for 2012/13 Audit Plan.

5. Audit Plan Status 2010/11 to 9th December 2011

Percentage of approved plan completed

- 5.1 57% of the annual audit plan has been completed or is in progress at 9th December 2011. This represents 54 audits (31%) where the report is finalised, 15 audits (8%) where the report is in draft form and 31 audits (18%) currently in progress, out of the 175 planned audits. Appendix A shows the completed audits for 2011/12.
- 5.2 As requested by Members of the Committee a breakdown of the assurance levels on completed audits is contained in Appendix A.
- 5.3 Two audits have been removed from the 2011/12 Audit Plan as followed

Reactive Work

- 5.4 350 days have been allowed for reactive work and investigations in 2011/12. 281 days have been used to 9th December 2011.
- 5.5 The 281 reactive days were used for completion of 12 carried forward audits, 1 carried forward special investigation, 12 new special investigations, 4 unplanned items and 18 items of advice.

5.6 Special Investigations work undertaken in 2011/12 can be categorised as follows: One carried forward and 12 new special investigations including:

- 4 Whistleblowing investigations
- 8 Financial investigations
- 1 Forensic PC Examination

5.6 Items of reactive work due to changes in priorities, involving an Audit Review or Internal Audit acting in a consultancy role included, amongst other things:

- Southsea Town Council – Annual Accounts
- St Edmunds – Audit requested by Acting Head Teacher
- Mutual & Compromise Agreements – Requested by Director of Children’s Services.
- Vanguard Centre for Independence – Requested by Assistant Head of Adult Social Care

Exceptions

5.7 Of the programmed reviews completed so far this year the number of exceptions in each category have been:

- 1 Critical
- 88 High Risk
- 18 Medium Risk
- 8 Low Risk (Improvements)

5.8 Overall, the area of the control framework referred to as compliance with laws, regulations, rules, procedures and contract conditions is showing as being the weakest areas of assurance.

5.9 The table below is a comparison of the audit status figures, to the end of August for this financial year and the previous two years.

	2009/10	2010/11	2011/12
% of the audit plan progressed	52%	57%	57%
No. of Critical exceptions	10	0	1
No. of High risk exceptions	94	97	88
No. of reactive days	342	336	281

6. Areas of Concern

Concerns identified since the last meeting

6.1 There is one new area of concern (critical exception):

- 6.2 **Home Workers (Portsmouth Rehabilitation and Reablement Team)** The issue was first raised in 2009/10 as a high risk as due to the reactive nature of the service there is currently a problem with staff not working their contracted hours as a result of client care needs varying after rotas have been drawn up.
- 6.3 Initial actions were agreed with the Senior Manager and the development of an IT system to assist with the rostering of staff was being developed. The issue was first followed up in November 2010 and subsequently in November 2011
- 6.4 In November 2011 Conversations with the Senior Manager of PRRT confirmed that the rostering software has not been procured. The figures for the period September 2010 - September 2011 showed that 8714 hours, the equivalent of 1177 workings days were under worked. It is estimated, using average salaries for the team that the cost of these hours was £110,000.
- 6.5 Responsibilities for the team have now changed and the Assistant Head of Social Care, and the Head of Adult Social Care have devised and started to implement an action plan to address this issue.
- 6.6 The agreed Action Plan is:
1. Introduce daily rostering to reduce unused hours - Immediately
 2. Introduce a single senior manager to improve clarity of roles, tasks and decisions - November 2011
 3. Appoint project lead and project assistant to analyse unused hours/demand, processes and employment contracts to determine best option to meet goals and best value. Report to be written on the best options in December 2011 and actions to be implemented in January - March 2012.
 4. Procure rostering/monitoring system – To be tendered for in December 2011 and software to be tested in April 2012.

Update on previously raised concerns

- 6.7 As reported to this Committee in March 2011 - in the original audit report of January 2010 testing on CRB checking for a sample of staff and volunteers, who work for the Council with children or vulnerable people, showed that a number have not had checks carried out and in some case they were overdue for their 3 yearly checks as per PCC requirements.
- 6.8 A review of this exception and agreed action was carried out in November 2011 and it was found that some CRB checks were still outstanding, although staff were being supervised. The PCC rules for CRB checks indicated that staff cannot be allowed to fully carry out their duties until the CRB checks have been undertaken and the results have been seen.
- 6.9 The responsibility for the service has now transferred to Housing and assurances have been given that since the audit all CRB checks have been carried out. In November 2011 it was agreed through the SLA with Housing that staff and volunteers are not allowed on site until a CRB check has been completed satisfactorily.

7. Audit Strategy 2012/13 (attached as Appendix B)

- 7.1 The Internal Audit objectives and outcomes are to achieve sufficient coverage of the audit plan to enable a good level of assurance on the internal control framework so that objectives can be achieved.
- 7.2 The Annual opinion is based on the degree of coverage of the audit plan and the level of exceptions found. Depending on the type and level of critical or high risk exceptions to the number of reviews then the opinion could range from no assurance through limited assurance to full assurance.
- 7.3 Internal Audit identify national and local issues from government and government agency sites, Strategy Unit bulletins, minutes of Council meetings, partnership meetings and priorities, Council Plans, Service Plans, Heads of Services, external auditors, Corporate and Service risk assessments amongst others and the issues form part of the Audit Needs Risk Assessment (ANRA). The Audit Plan is reviewed during the year to take account of any changes in priorities.
- 7.4 The Service is currently provided in-house and has purchased some skills externally in recent years and also sells some of its skills to other local authorities. In accordance with the CIPFA Code of Practice for Internal Audit in the UK all the senior staff have a relevant qualification and experience and junior staff are working towards qualifications. The Service is only resourced to achieve reviews of areas identified as high risk as well as an element of other skills related services detailed in the next paragraph.
- 7.5 Some reactive time is allowed for in the Audit Plan as Internal Audit also provide other services such as:
- Advice (on controls, financial rules etc),
 - Anti money laundering investigations and reporting,
 - RIPA authorisations and Policy,
 - Financial Rules annual review,
 - Counter fraud activities including the Anti Fraud Policy and response plan review,
 - Investigations on financial irregularities.

8. Equality impact assessment (EIA)

- 8.1 A preliminary equality impact assessment has been carried out which has revealed that the contents of this report do not have any relevant equalities impact and therefore a full assessment is not required.

9 City Solicitor's Comments

- 9.1 The City Solicitor has considered the report and is satisfied that the recommendations are in accordance with the Council's legal requirements and the Council is fully empowered to make the decisions in this matter.
- 9.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

10. Head of Finance's Comments

10.1 N/A

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Signed by: Lyn Graham, Chief Internal Auditor

Appendices:

Appendix A – Completed audits from 2011/12 Plan

Appendix B – Audit Strategy 2012/13

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Accounts and Audit Regulations 2003 amended 2006 (and 2011)	Internal Audit
2 Audit Strategy 2011/12 and Audit Plan 2011/12	Internal Audit
3 CIPFA Code of Practice for Internal Audit 2006	Internal Audit
4 Previous Audit Performance Status and other Audit Reports	Internal Audit
5 Audit Charter and Terms of Reference	Internal Audit

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the Governance & Audit Committee on 27th January 2011.

Assurance

Service	Function	Comments	Internal Control Environment	Monitoring and evaluation	Reliability and Integrity	Effectiveness of ops	Safeguarding of assets	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Actions agreed	Summary of areas where no assurance can be given
Adult Social Care	Portsmouth Day Services	Follow up		Amber			Amber	Amber	✓	Actions relating to inventory, purchase orders, income and petty cash are not yet completed.
	Alexandra Lodge	Inventory check						Amber	✓	The review focussed on inventory and disposal of assets
	Edinburgh House			Amber			Amber	Amber	✓	The review highlighted non-compliance with the Financial Rules for banking, purchase orders, inventory, income
	Shearwater			Red			Red	Red	✓	The review highlighted non-compliance with the Financial Rules for Purchase orders, Inventory, Amenity Funds, Holding accounts.
	Longdean Lodge			Green				Green	✓	All exceptions were actioned
	Home Workers	Follow up		Red					✓	Actions relating to staff not working their contractual hours are not yet fully actioned.
	Corben Lodge	Follow up		Amber			Green	Amber	✓	Actions relating to compliance with Financial Rules for purchase orders, inventory, income and amenity funds are not yet completed.
	Royal Albert Day Centre	Follow up		Amber			Amber	Green	✓	Actions relating to checking of driving licences and the keypad are still outstanding.
	Client contribution invoicing		Green	Green		Amber		Green	✓	The review highlighted there is no system to ensure the correct number of invoices have been printed.
Asset Management	Statutory Compliance	C/F from 10/11	Green	Green		Green		Amber	✓	The review highlighted that evidence of review and receipt of reports was not being retained.

	Conference Rooms	Follow up only	Amber	Green		Amber	Green		✓	Exceptions relating to usage of conference rooms are outstanding pending the accommodation review.
Audit & Performance Improvement	Partnerships and third sector								N/A	The outcome of this project was to produce guidance for Voluntary and Community Organisations setting out the expectations of Portsmouth City Council in relation to demonstrating how well they are governed
	Intend System			Green	Red	Red			✓	Actions relating to disaster recovery, contractual support and system controls are yet to be fully actioned.
Children's Social Care & Safeguarding	Skye Close			Amber			Green	Amber	✓	The review highlighted non-compliance with the financial rules for petty cash, purchase orders, inventory, purchase cards and vehicles.
	Beechside	Follow up		Green			Green	Amber	✓	The follow-up highlighted outstanding actions to address non-compliance with Financial Rules for inventory.
	Tangier Road	Follow up		Amber			Green	Amber	✓	The follow-up highlighted outstanding actions to address non-compliance with Financial Rules for purchase orders, inventory and vehicles.
	Pocket Money - LAC		Amber					Amber	✓	The review highlighted inconsistencies in the pocket money process and recording of pocket money given.
	Boarding out and Fostering allowances		Green				Amber	Green	✓	The review highlighted the need for improvements in preventing overpayments.
	Corporate Parenting Compliance with legislation									
	Support to Young people leaving care (Pathway plans)		Green	Green		Green	Green	Amber	✓	Potential breaches of some duties re Pathway Plans needing to be properly completed and reviewed.

Culture	Portsmouth Outdoor Centre		Green	Red			Green	Red	✓	The review highlighted that there are no formal procedures for monitoring that conditions of the lease are being complied with and that not all information required had been submitted by the lease holder.
	Schools library service (Peter Bone)		Green				Green			
	Tree Management	follow up			Green			Green	N/A	All exceptions actioned.
Customer, Community & Democratic Services	Members Expenses	follow up						Green	N/A	All exceptions actioned
	Register of Electors and Elections	follow up		Green				Amber	✓	Actions relating to employment checks and declarations to be completed.
	Corporate Branding		Green				Amber	Amber	✓	The review highlighted issues with ownership of the logo, websites not controlled by the Web Team and inconsistent use of the brand by some departments.
Education	Out of School activities	Follow up		Green		Green		Red	✓	Actions relating to non-compliance with the Financial Rules for inventory are not yet been fully implemented.
	CIPs exit strategy		Amber				Amber	Amber	✓	The review highlighted the need to ensure decommissioning plan responsibilities are implemented including the remaining budgets and communication with stakeholders.
External	Langstone Harbour Board		Green	Green	Green	Green	Green	Green	N/A	No exceptions raised
Finance	Banking	follow up		Green		Amber			✓	Actions relating to bank reconciliations are not fully implemented.
	controlled stationery	follow up	Green	Green			Green	Green	N/A	All exceptions actioned
Housing Management	Under occupation scheme		Green			Green				No exceptions raised

	Play service (adventure playgrounds)	follow up	Amber	Red				Red	✓	Actions relating to the Play Policy, retention of records, access to sites, risk assessment and CRB checks are not yet action fully.
Information Service	IS Cheque Printing	Follow-up			Green		Green		N/A	All exceptions were actioned.
Legal, Licensing & registrars	licensing	CRB checks						Amber	N/A	The review highlighted one area of non-compliance with the codes of practice.
Schools	Court Lane Junior		Green	Green			Amber	Amber	✓	The review highlighted non-compliance with the Financial Rules for budget approval, petty cash, inventory and vehicles.
	St George Beneficial		Green	Green			Green	Amber	✓	The review highlighted one high risk exception in relation to compliance with Financial Rules for Inventory
	Meredith Infant		Green	Amber			Amber	Green	✓	The review highlighted improvements required to the School Improvement Plan and Inventory.
	Devonshire Infant		Green	Amber			Amber	Amber	✓	The review highlighted non-compliance with the Financial Rules for Purchase Orders, Stock Control, Inventory and CRB retention.
	Copnor Infant		Green	Green	Green		Amber	Green	✓	The review highlighted non-compliance with the Financial Rules for Inventory.
	Somers Park Primary		Green	Green			Amber	Amber	✓	The review highlighted non-compliance with the Financial Rules for inventory, lettings and declarations of interest.
	Meon Infant		Green	Green	Green		Green	Amber	✓	The review highlighted non-compliance with the Financial Rules for Inventory and improvements required in the School Improvement Plan
	Copnor Junior		Green	Amber			Green	Amber	✓	The review highlighted non-compliance with the Financial Rules for Income, mini bus records and CRB retention.

	Victory Primary		Green	Green			Green	Amber	✓	The review highlighted non-compliance with the Financial Rules for petty cash and inventory.
	Gatcombe Park Primary		Green	Green			Green	Green	N/A	
	Manor Infant		Amber	Green			Amber	Amber	✓	The review highlighted non-compliance with the Financial Rules for decelerations of interest, CRB checks, budget approval, petty cash, inventory and income.
	Corpus Christi Primary		Green	Green			Amber	Amber	✓	The review highlighted non-compliance with the Financial Rules for budget setting, petty cash and inventory.
	Wimborne Junior		Amber	Green			Amber	Green	✓	The review highlighted the need for terms of reference for the Governing Body and non-compliance with Financial Rules for Inventory.
	St Judes CE Primary		Green	Green			Amber	Amber	✓	The review highlighted non-compliance with Financial Rules for lettings, income, petty cash and purchase cards.
	Wimborne Infant		Amber	Green			Amber	Amber	✓	The review highlighted evidence for CRB checks should be retained and non-compliance with the Financial Rules for purchase orders and inventory
	Craneswater Junior		Green	Amber			Amber	Amber	✓	The review highlighted non-compliance with the CRB policy and the Financial rules for charges, petty cash, purchase orders and inventory.

	Northern Parade Junior		Green	Amber			Amber	Amber	✓	The review highlighted non-compliance with the CRB policy, Data Protection registration requirements and the Financial Rules for petty cash, inventory and purchase cards.
	Charles Dickens Junior		Green	Green			Green	Amber	✓	The review highlighted non-compliance with the Financial rules for stock control, income, petty cash and vehicles. There is also non-compliance with the data protection requirements.
	St Edmunds	Unplanned	Amber	Amber		Amber	Red	Red	✓	The review highlighted improvements required to the documentation of the remit and training for senior staff. Non-compliance with the Financial Rules for Income, cash handling, stock control, inventory and vehicles.
Transport & Street Management	Abandoned Vehicles	follow-up only		Red	Amber				✓	The actions relating two exceptions on income reconciliation and record of information on the software are in the process of being implemented.
	Safer Roads Partnership	Grant review						Green	N/A	No exceptions raised

Purpose

1. The purpose of the Audit Strategy is to set out the strategic approach which allows the Chief Internal Auditor to manage the audit service in a way that will facilitate:
 - A sufficient review of the Authority's functions in order to form an annual opinion on the effectiveness of the control framework. This opinion forms part of the Annual Governance Statement, a statutory requirement.
 - An assurance on the organisations governance and control arrangements, including risk management, through the annual audit plan in a way that gives suitable priority to the organisations objectives and risks
 - Improvement of the organisations governance, control and risk management, by highlighting exceptions to line management and agreeing mitigating actions
 - The identification of audit resources and that they are suitably qualified and experienced as required by the Cipfa Code of Practice for Internal Audit in the UK
 - Effective co-operation with external auditors
 - Value for money including selling of spare capacity to fee paying customers and joint working/shared arrangements
 - Reactive work such as advice and investigations that add value to the organisation in meeting its objectives
 - Horizon scanning to ensure the inclusion in the audit risk analysis of key areas likely to impact on the organisation

Scope and Responsibilities

2. The scope and responsibilities relating to Internal Audit are specified in Financial Rules as well as in the Audit Charter and Terms of Reference.

Audit Remit

3. The Chief Internal Auditor is required to identify all systems operating within the Council in order to establish the full size of the audit area potentially to be covered. This is done by reference to Cost Centres, Business Plans, Strategic Directors, External Audit, Heads of Services and the Corporate Risk Register. This forms the Audit Universe.
4. The Audit Universe is revised each year to take into account the new priorities/risks of the Authority.

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5. All areas identified in the Audit Universe are subject to an Audit Needs Risk Assessment (ANRA) to identify their risk level and whether or not they are to be included in the Annual Plan.
 6. To widen the assurance scope and maximise resources, Internal Audit will, wherever possible, rely on the assurance work of others. This is only where they have satisfactorily tested it for objectivity, integrity, accuracy and sufficiency. To this end self assessment checks are being promoted in some areas which will be spot checked by Internal Audit for integrity.

Annual Plan- Audit Areas

7. The Chief Internal Auditor is required to produce an Annual Plan for each financial year that translates into a schedule of audit assignments. It defines the area and duration of each audit based on each audit's programme, risk assessment, national or local impacts, time spent in previous audits, any problems encountered and level and skill of staff involved.
8. In order to preserve the independence of Internal Audit the final risk assessment and inclusion in the Annual Plan rests with the Chief Internal Auditor.
9. Audit resources are matched to the areas to be audited and any high risk audits that will not be covered are brought to the attention of the s151 Officer; (Chris Ward, Head of Financial Services) and Members of the Governance and Audit Committee, for them to make a decision on Audit resourcing. Where resources allow, high and medium risk audits will be covered with the focus on high risk audits.
10. In order to maximise resources between the External Auditors and Internal Audit, the Chief Internal Auditor and the External Audit Manager try to take into account where their resources can be shared. As the External Audit are allowed to place reliance on Internal Audit work, where they can, in order to form their opinion on the Authority's accounts, it may be more cost effective for Internal Audit to carry out some of the system work. However, this depends on Internal Audit priorities and resources available at the time. To this end the Audit Plan risk assessment takes into account (amongst other things) the External Audit interest in the Authority's financial systems.
11. The Audit Plan also has to make provision for the following areas (in some cases regardless of any risk assessment);
 - **Data matching exercise**– an exercise matching internal records to identify any fraudulent claims
 - **External services- Gosport and Eastleigh Council, Bournemouth Council and Langstone Harbour Board (LHB)** – The LHB is part funded

by PCC. At the Board's request we carry out an annual Internal Audit charged directly to them. We have an agreement with the aforementioned councils to provide some IT Audit.

- **Follow-up Audits** – To ensure that critical and high exceptions have been implemented as agreed.
- **Reactive work (Advice and unplanned work)** – To allow for; changes in priorities and issues that arise during the year; extensions to reviews where further testing may be required because of control weaknesses; advice on general control issues and Financial Rule Waiver requests
- **Special Investigations** – To provide an independent investigation service on internal irregularities that require investigative and evidence gathering skills. Also to review controls post investigation as part of the core audit function.
- **Fundamental Financial Systems** – including Payroll, main accounting and others as agreed with the External Auditors
- **Audit slippage**- Audits started at the year end will often be completed in the early part of the new financial year.
- **Counter fraud activities** – including proactive anti fraud checks, education and updating of policies
- **Spot checks on self assessments**

12. As the Financial Management Standard in Schools has undergone significant change and is no longer required to be externally assessed, and some schools are no longer under PCC jurisdiction, the establishment audits of Schools will no longer form part of the audit plan. However, where there have been highlighted risks across schools still under the jurisdiction of PCC the audit plan will include themed cross cutting audits of schools.

Horizon Scanning

13. There are three areas of emerging risks:
1. The new responsibilities of the council, changes in legislation and Government policy. These may cause risks related to budget pressures: trying to do more with less and potentially impacting on service delivery
 2. The changes that maybe made as a result of transformation of services which could lead to added risks of not realising projected efficiency savings if not embedded corporately or estimates prove incorrect due to other unforeseen issues
 3. Budget savings which could impact on existing system controls and adding risk because of loss of experienced staff, removing layers of management, reducing scope for separation of duties, pressures on service delivery etc
14. Some of the specific risks may include:
- Public Health Duties (Health and Social Care bill) which may bring risks because of differences in such things as staff management, accounting

- periods, VAT claims, risk and insurance treatment as well as due diligence, commissioning risks, financial resilience and value for money
- Social enterprises which may result in the organisation facing a number of applications that could inter alia; divert resources, lead to redundancy costs, increases in monitoring costs.
 - Academies as more schools choose to become academies it may reduce the resources left to support remaining schools.
 - Reduction in Inspection and performance regimes resulting in a possible loss of governance and/or increased work pressures for Internal Audit for example on assisting with assurance reports to support the accounts.
 - Recessional difficulties as well as the austerity measures introduced by the Government could impact on the financial stability and contingency arrangements of third parties that contract with the Council; e.g. the recent issues with Southern Cross Healthcare Homes that whilst it luckily did not impact upon PCC could happen again with other contractors and requires robust due diligence to prevent it.
 - The impact of budget cuts on Children's Social Services and Adult Social Care increases the risks on service delivery
 - The risks to property assets in particular landlord responsibilities and maintenance due to budget cuts
 - Proposed changes in local government funding e.g. the impact on Council Tax

RIPA/ Money Laundering

15. There are some non-audit duties that are carried out because they sit within the audit skill mix and these are RIPA (Regulation of Investigatory Powers Act), and Anti Money Laundering investigations and reporting. The Coalition government are proposing that local authorities seek magistrates' authorisations for RIPA requests but it is not known when, or if, this will happen, or what impact this will have. If it does happen it is anticipated that the Authority will still require a policy and training of staff.
16. In order to ensure compliance with the Money Laundering Regulations 2006 the Authority investigates and reports on any potential cases these are carried out by Audit. Time will be allocated within the Audit Plan to take account of the specific activities that this will require over the next year, namely; Policy and Strategy, carrying out a risk assessment, determining training needs, detailing a reporting process, investigating and reporting on any notifications by staff.

Financial Rules

17. The Chief Internal Auditor also drives the project for the on-going review of Financial Rules and their cascade to staff.

Priorities

18. The Accounts and Audit Regulations require that Internal Audit provide independent assurance on the control framework (the Audit Opinion) for inclusion in the Annual Governance Statement (AGS). Therefore, the priority for the Audit Service must be to carry out and achieve the planned work as contained in the Annual Audit Plan.
19. Once the items listed in paragraphs 11 to 14 have been taken into account all other areas identified as being within the Audit remit will be subject to an Audit Needs Risk Assessment (ANRA).
20. The Audit Needs Risk Assessment takes into account three key areas: Size, Control and Detection. Within these headings are further sub headings as detailed below, with different weightings a key one of which is the date of the last audit;
 - **Size;** Value of income or expenditure or size of budget; Number of Employees involved in the activity; Risk impact; Alignment with corporate objectives,
 - **Control;** Impact of management and staff; Third party sensitivity (i.e. local or national interests and impacts e.g. external assessments, central government priorities etc); Standard of Internal control; Likelihood of occurrence of risks,
 - **Detection;** Likely effectiveness of internal audit; Duration of the audit; Length of time since the last audit; Effectiveness of other assurance providers.
21. National and local issues are identified from government and government agency websites, Strategy Unit bulletins, minutes of Council meetings, partnership meetings and priorities, Council and Service Plans, external auditors, Heads of Services, Corporate and Service risk registers as well as networking with other local authority auditors. These feed into the control element of the ANRA.
22. Areas of high risk control weaknesses identified from the previous year's audit reviews are also taken into account under the control element of the ANRA.
23. The Chief Internal Auditor and Deputy Chief Internal Auditor consult with all the Heads of Services prior to the start of the new financial year, requesting any additional items or other comments.
24. The review of risk and other criteria gives an indication of the level of risk. The Chief Internal Auditor uses her judgement to assess the provisional amount of

time to allocate to each area on the audit plan (based on previous time spent, skill mix, resources available etc). The number of days estimated to do an audit must include time for:

- Supervision,
 - Research and background of the subject,
 - an element of contingency to cover any other issues that may arise,
 - training time for developing junior staff,
 - adequate testing
 - And reporting.
25. Systems ranked as high risk are the priority, and generally include fundamental financial systems (based on their risk), which must be completed in agreement with external audit deadlines in order for them to be able to use the work of Internal Audit, which helps to keep the cost down of external audit systems work.
26. The external auditors must comply with the International Auditing Standards (IAS) and can only rely on the work of Internal Audit if they either perform some similar tests, or re-perform some of the tests carried out by Internal Audit and are satisfied as to the results and quality of the work.
27. All other audits will be prioritised in accordance with the Audit Needs Risk Assessment. The Section is resourced to cover only high-risk audits with an allowance for reactive work (medium risk reviews will be undertaken if all high risk audits are completed and there is spare capacity because not all of the allotted allowance for reactive work has been used).
28. Reactive work is prioritised and may be carried out in preference to items in the Audit Plan if assessed as immediate priority (by either the Investigation Steering Panel if it is a financial irregularity investigation or by the Chief Internal Auditor if a review needs further Audit work) in accordance with the following criteria;
- Risks if the work is not carried out,
 - Impact on the Audit Plan,
 - Whether the work can be left until the Plan is reviewed or is immediately required.
29. The Audit Plan will be reviewed six monthly to take account of any significant changes in priority that have occurred during the year.

Resources

30. The biggest impacts on Audit resources are special investigations, reactive work and computer forensic examinations (as part of special investigations),
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as well as non-core audit work (Ripa, Anti Money Laundering). If the allocated days are exceeded then some core (high priority) work will not be carried out.

31. Special investigations and forensic examinations are not a statutory requirement. The responsibility for fraud detection and investigation rests with managers. Investigations have always been part of the audit function because of the independence of the function and the possession of the investigative and evidence gathering skills required and in order to identify weaknesses in control to prevent re-occurrences. Several audit staff are trained in Internal Investigations.
32. Giving one-off advice to departments on a range of control issues, processing Financial Rule Waiver requests and allowing further time on audits where further testing is required also adds to the pressure on resources.
33. There is a mix of full and part time audit staff totalling 9.3 FTE for the provision of the Internal Audit Service, with a small proportion being sold to other local authorities and external organisations. The Cipfa Code of Practice for Internal Audit in the UK requires that staff are suitably qualified and experienced. All staff in Internal Audit are either qualified or in training to become qualified, in addition senior staff have several years internal audit experience.

Level and Depth of Reviews

34. At the start of each audit assignment the Auditor will undertake a further risk assessment to firm up the time to be spent, based on inter alia:
 - Any concerns that the manager may have,
 - Changes since last audit,
 - Previous exceptions raised and agreed actions implemented,
 - Issues/special investigations since last audit.
35. If, because of control weaknesses, further testing is required which leads to the time allocated likely to be exceeded, and the Chief Internal Auditor considers that it is required, extended time will be taken out of the reactive allowance.
36. Quality assurance is in-built into audit assignments to ensure, amongst other things, that the external audit are able to rely on the work of Internal Audit. This is to help to keep the cost down of external audit on systems work,

Reporting

37. Reporting will be as described in the Audit Charter and Terms of Reference.

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38. The overall Annual Audit Opinion will be delivered in the Annual Report and will be based on whether or not assurance can be given on the effectiveness of controls tested.
 39. Evidence for this opinion will be based on the coverage of the Audit Plan and the overall level of critical and high exceptions found on each of the Audits.
 40. Critical exceptions are those exceptions seen as “show stoppers” i.e. control failures or weaknesses that could lead to prosecution or the imminent collapse of a system or service that would result in reputational and financial damage These will be reported to Members along with the managers proposed actions or actions that have been taken.
 41. High risk exceptions are where action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not “show stopping” but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. If there are several high risk exceptions in one area Internal Audit will highlight these to Members along with the managers response
 42. Medium risk exceptions are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.
 43. Very low risk exceptions are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency.
 44. Depending on the level of critical, high or medium risk exceptions in comparison to the number of reviews carried out then the opinion could range from no assurance through limited assurance to full assurance. This will also be compared to previous year’s levels to give an indication of improvement in the effectiveness of the control framework.

Risks

45. The risk of Internal Audit not completing the Annual Audit Plan at this stage is low as the resources and skill mix should be sufficient to achieve the level of high risk audits (the general level of high risk audits is about the same each year- where high risk audits are completed, medium risk audits are then carried out). The only other impact on resources would be reactive work such as special investigations. This is monitored by this Committee at every meeting and any impact on resources highlighted to the s151 officer, Monitoring officer, Chief Executive and Members for a decision to be made.

KPI's

46. The indicators used to measure the performance of the service are as detailed in the Audit Charter and Terms of Reference, namely:

- Risks to the Authority are identified and mitigated by agreed actions being implemented re critical, high and medium exceptions highlighted in Audit reviews 100%
- Compliance with the Cipfa Code of Practice (reviewed by Peer Review)
- Satisfactory External Audit reviews (when carried out)
- Client satisfaction – annual review of effectiveness at SDB/Member level and on-going for audit reviews with heads of services
- External Auditors are able to rely on the work of Internal Audit when forming their opinion on the Authority's accounts.
- Audits completed to plan (95% of high risk audits completed)

LW Graham
Chief Internal Auditor

References:

Audit Charter and Terms of Reference and Audit Manual

CIPFA Code of Practice for IA in UK and Accounts and Audit Regulations 2011

Money Laundering Regulations 2006