

Agenda Item 5

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Date	13 th March 2014

Subject	Internal Audit Plan 2014 / 2015
<u>RECOMMENDATIONS</u>	
1.1	That the Committee notes the proposed work plan and recommends amendments as appropriate

<u>SUMMARY</u>	
2.1	To seek Members' views and alternative areas for consideration on the proposed Internal Audit Plan 2014/15

BACKGROUND

- 3.1 Internal Audit is a statutory requirement in local government as defined in the Local Government Act 1972. The Accounts and Audit Regulations 2011 (Regulation 6) state that 'A relevant body must maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'
- 3.2 The Council has delegated this responsibility to the Strategic Director /Section 151 Officer and appointed Baker Tilly (formerly RSM Tenon) as their Internal Auditors through a joint contract with three neighbouring Local Authorities (Reigate & Banstead BC, Epsom & Ewell BC and Tandridge DC).
- 3.3 To enable the Council and the S151 Officer to effectively discharge their responsibilities in relation to the Internal Audit service, the Audit performance is monitored and the Audit Committee assists in the promotion of effective internal control and corporate governance within the Council.
- 3.4 The Internal Audit Strategy 2012/13 – 2014/15 was approved by the Audit Committee on the 13 March 2012. This Annual Work Plan represents the proposed audits in the third and final year of the strategy.

CORPORATE IMPLICATIONS

- 4.1 **Legal Implications** – None contained within the report.
- 4.2 **Financial Implications** - There are no direct financial implications arising from this report.
- 4.3 **Risk Implications** – Delivery of the Internal Audit Strategy is based upon an analysis of:
- Risk based coverage such as Risk Management, Corporate Governance Reviews and Information Technology (IT) Systems in the Council.
 - Addressing specific key risk areas in the Plan
 - Follow-up review and management of the Audit Plan
- 4.4 **Equalities Implications** – None contained within the report.
- 4.5 **Employment Issues** – None contained within the report.
- 4.6 **Sustainability Issues** – None contained within the report.
- 4.7 **Consultation** – None contained within the report.

BACKGROUND PAPERS

- Strategy for Internal Audit 2012/13-2014/15

Mole Valley District Council

Internal Audit Strategy 2012/2013 - 2014/2015

For consideration by SMT prior to presentation to
the Audit Committee meeting of 13 March 2014

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1 Developing the Internal Audit Strategy

This document sets out the approach we have taken to update your internal audit strategy for 2012/2013 – 2014/2015 and the annual plan for 2014/2015.

1.1 Role of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Definition of Internal Audit: Public Sector Internal Audit Standards.

In line with the requirements of the Public Sector Internal Audit Standards (PSIAS), we plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that Mole Valley District Council has in place, focusing in particular on how these arrangements help the organisation to achieve its objectives. This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee. Our plan is developed to enable us to provide an opinion at year end, which may also be used by the Board to support its Annual Governance Statement.

1.2 Factors influencing Internal Audit coverage

The Council's objectives and identified risks are the starting point in the development of the audit strategy, and so we have updated the Strategy to take account of the current Strategic and Operational Risk Registers as well as other sector developments.

In reviewing the strategy preparing the draft annual internal audit plan we met with Phil Mitchell, Financial Services Manager, with the intention of the plan then being shared with SMT for further input in advance of the Audit Committee meeting.

The key areas / factors are summarised below:

Key areas discussed and their impact on the 2014/2015 internal audit plan

- | | |
|---|--|
| 1 | We have reviewed the Council's Strategic Risk Areas against the internal audit strategy and have noted that other than assurance against the implementation of the Medium Term Financial Strategy, sources of assurance are in place for the remaining risks identified or have been subject to previous internal audit coverage. |
| 2 | We have revised the Internal Audit strategy using the Operational Risk Registers in place, resulting in inclusion of additional audits for which assurance is required, notably: <ul style="list-style-type: none"> • Planning and Development • Telecare Service • Car Parking • Property Maintenance • Emergency Planning |
| 3 | We have also identified other auditable areas which are emerging issues for the local authority: <ul style="list-style-type: none"> • Payment Card Industry Compliance • Data Quality • Individual Electoral Registration • Income from s106 Agreements |

The detailed internal audit plan for 2014/2015 set out at Appendix A, with the updated strategy is set out at Appendix B.

As well as assignments designed to provide assurance or advisory input around specific risks, the strategy includes:

- Planned assurance on core areas of activity;
- A contingency allocation, which will only be utilised should the need arise, and which will be subject to prior approval by management;
- Time to follow up previous recommendations and actions to provide the Audit Committee with assurance on the actions taken by management to address previous internal audit recommendations; and
- Audit management, which is used at Partner and Manager level for quality control, client and external audit liaison, preparation of the annual opinion, and attendance at Audit Committee.

2 Assurance Resources

2.1 Your Internal Audit Team

Your internal audit team is led by David Taylor as Head of Internal Audit, supported by Karen Williams.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

2.2 Internal Audit Fees

The fee for your internal audit service for 2014/2015 have been communicated by separate fee notification and are in line with our original tender.

2.3 Working with other assurance providers

We intend to meet with the External Auditor to avoid duplication of coverage between Internal and External Audit. This will ensure that External Audit can continue to place their planned level of reliance on our coverage of financial controls.

The Audit Committee is reminded that internal audit is only one source of assurance. Through our plan we do not seek to cover all risks and processes. We will however, seek to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance obtained.

2.4 Considerations for Management and the Audit Committee

- Does the internal audit plan for 2014/2015 (Appendix A) reflect the areas that Management and the Audit Committee believes should be covered as priority?
- Does the Internal Audit Strategy (Appendix B) cover the organisation's key risks as they are recognised by management and the Audit Committee?
- Are management and the Audit Committee satisfied that sufficient assurances are being received to monitor the organisation's risk profile effectively, including any emerging issues / key risks not included in the strategy or annual plan?

Appendix A: Internal Audit Plan 2014/2015

Audit	Internal Audit Coverage	Assurance / Advisory	Days Allocated	Proposed Timing
Reviews relating to specific risks				
HR Management	Organisational development strategy and future workforce planning. Given changes in the delivery of services over the next 3 years, notably the cessation of benefits.	Assurance	10	July 2014
Planning and Development	To provide on-going assurance that the control framework operates as planned.	Assurance	10	May 2014
Governance - Partnership Working and Joint Delivery Arrangements	The Council has an increasing number of such arrangements and our audit will challenge the agreements established to ensure that the provision meets the needs of the Council, provide value for money and work within sound governance principles.	Advisory	12	September 2014
Medium Term Financial Strategy	To provide on-going assurance that the established controls continue to operate as planned.	Assurance	10	September 2014
Income Activities - Telecare	To provide assurance that risks to the delivery of this service as identified by management are being adequately controlled in practice, as well as ensuring that the service operates as planned with all income due collected.	Assurance	10	May 2014
Income from Car Parking	To provide on-going assurance that the control framework operates as planned.	Assurance	10	May 2014
Property Maintenance	To provide on-going assurance that the risks identified by management are being appropriately managed.	Assurance	8	June 2014
Emergency Planning/Civil Contingencies Act	To provide on-going assurance that the control framework operates as planned.	Assurance	12	December 2014
Other Audits Identified				
Individual Electoral Registration	From 2014 a new system of registration will require individuals making an application to register individually and provide personal identifiers. Management has requested an early advisory review on the preparation for the change.	Advisory	10	September 2014
Income from s106 agreements	To provide assurance that the control framework reflects changes as a result of the introduction of the Community Infrastructure Levy, as well as the general management of s106 income.	Assurance	8	May 2014

Audit	Internal Audit Coverage	Assurance / Advisory	Days Allocated	Proposed Timing
Payment Card Industry Compliance	Recognising the emergence of this area as a potential risk to Councils, one of our specialisation Technology Risk Solutions Auditors will undertake a review of the Council's controls in this area, bringing specialist knowledge as well as good practice.	Assurance	12	July 2014
Data Quality	To provide on-going assurance that the control framework operates as planned.	Assurance	10	December 2014
Procurement	To challenge the processes followed by the council to ensure that best practice associated with procurement, as well as legislative requirements such as OJEU compliance, are properly considered.	Assurance	12	December 2014
Value for Money Review	To undertake a specific review of a Council function to determine the adequacy of VFM considerations in service delivery.	Advisory	12	November 2014
Core assurance				
Risk Management	To provide on-going assurance that the control framework operates as planned.	Assurance	8	November 2014
Creditors	To provide on-going assurance that the control framework operates as planned.	Assurance	10	November 2014
Revenues	To provide on-going assurance that the control framework operates as planned.	Assurance	10	November 2014
Benefits	To provide on-going assurance that the control framework operates as planned.	Assurance	8	December 2014
Debtors	To provide on-going assurance that the control framework operates as planned.	Assurance	8	December 2014
Other Internal Audit Activity				
Contingency	To allow additional reviews to be undertaken in agreement with management based in changes in risk profile or assurance needs as they arise during the year.	N/A	10	N/A
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	Follow up	10	February 2015
Management	This will include: <ul style="list-style-type: none"> • Annual planning • Preparation for, and attendance at, Audit Committee • Regular liaison and progress updates • Liaison with external audit and other assurance providers • Preparation of the annual opinion 	N/A	20	N/A

Appendix B: Updated Internal Audit Strategy 2012/13 – 2014/15

Auditable Area	Risks	2012/2013	2013/2014	2014/2015
Risk based reviews – Updated to reflect 2013/14 Strategic and Operational Risk Registers				
HR Management	<p>Operational Risk Registers –</p> <p>Service: Increased stress levels on staff due to workload impacts of Welfare Reform and eventual removal of Housing Benefit administration of a district function as a consequence of universal credit.</p> <p>Service: Loss of staff and impact on ability to deliver service</p> <p>Financial: Employment disputes/tribunal resulting in costs to the Council</p> <p>Low staff morale resulting from political and economic circumstances.</p> <p>Service: The sudden absence of scheduled staff could lead to inability to provide a service, mainly but not exclusively, a Telecare risk.</p>		✓	✓
Housing assistance and adaptations	<u>Budget</u> – Council decision making not fully effective, which leads to inability to maximise Council's resources	✓		
Final accounts project plans for 2011/12	<u>Reputation</u> – local campaigns and national media coverage adversely affect the Council's reputation	✓		
Olympics 2012 Project	<u>Reputation</u> – local campaigns and national media coverage adversely affect the Council's reputation	✓		
Planning and Development	<p><u>Planning and Partnerships Risk Register</u> -</p> <p>Financial: Reduction in planning income including through Permitted Development Rights, will lead to the department not meeting financial targets</p> <p>Reputational: Controversial planning application may cause damage to council if there is a bad local or national press story there may be some damage to dept/TCM / Council.</p>			✓
Housing Rents & Temporary Accommodation	<p>Operational Risk Registers:</p> <p>Service: Reduction of number of landlords working with our private rented scheme could lead to inability to house homeless.</p> <p>Service: Increase in homelessness because of the impact of the Welfare Reform</p> <p>Service: Circle Housing Mole Valley (Circle), the largest Social Housing Provider in the area, goes into supervision due to financial difficulty</p> <p>Service: Shortage of land to develop new affordable homes/ delay in construction period could lead to inability to deliver affordable homes target</p> <p>Financial: There could be financial loss to the Council, if all rent deposit bonds are claimed at the</p>		✓	

Auditable Area	Risks	2012/2013	2013/2014	2014/2015
	same time by landlords, or the Council fails to follow correct procedures under the 'Suitability Order' to discharge duty in the private sector.			
Governance - Partnership and Collaborative Working	Operational Risk Registers: Reputational: Child or young person subject to mistreatment or abuse leading to damage to Council's reputation		✓	✓
Waste Collection and Recycling	Failure of joint procurement initiative involving 5 District/Borough council cause Joint Waste Collection Procurement projects to fail		✓	
Corporate Counter Fraud Arrangements	Financial/Service: Inappropriate actions or misuse of systems leads to Corporate Fraud (financial fraud and data corruption)		✓	
Medium Term Financial Strategy	If we fail to deliver the Medium Term Financial Strategy (MTFS), this could lead to a lack of financial resilience and a failure to deliver statutory and essential services.			✓
IT Reviews	Reviews of IT areas of risk and management concerns. Risk C2 - IT systems The Council needs to make sure that its IT systems are robust and enable the organisation to deliver the services for which it is responsible. Risk C5 - Data Protection/Information Governance The Council needs to make sure that personal data is secure and that an individual's right to privacy is protected. Both covered in 2012/13 and 2013/14.	✓	✓	
Income Activities - Telecare	Operational risks – Financial: Wrong pricing of facilities could lead to loss of custom and income. Financial: Loss of income or increased cost due to tenants failing to pay or breaching lease. Specific focus on Telecare contract, and the management of risks identified on the Operational Risk Register.	✓		✓
Income Activities – Car Parking	Operational risks – Service: Car park machines become inoperable through break-ins and theft. Financial: Car parking not achieving income targets Reputational: Risks of physical harm to staff working alone (specific to parking staff)			✓
Property Maintenance	Operational risks – Service/Financial: Pressure on budgets results in inadequate resources and capacity available to maintain property assets acceptably.			✓

Auditable Area	Risks	2012/2013	2013/2014	2014/2015
	Service/Financial/Reputational: Not ensuring the safety of Playgrounds could result in injury to children and other users			
Emergency Planning/Civil Contingency Act Compliance	Severe weather conditions could lead to serious disruption to services and some financial impact on the Council (SNOW / ICE)			✓

Auditable Area	Outline Scope	2012/2013	2013/2014	2014/2015
Other Areas Identified				
Income Collection - Town Centre Management	To review the processes in place to <ul style="list-style-type: none"> ensure that income and expenditure is being accounted for appropriately and recorded on the Council's financial system accurately; and income due is being collected and recovered 		✓	
Governance arrangements for proposed sale of Leatherhead By-Pass land	A high level review of the governance and project management arrangements.		✓	
Individual Electoral Registration	A review of the implementation of this new approach.			✓
Management of s106 Agreements	To review compliance in this area.			✓
Payment Card Industry Compliance	To review compliance in this area.			✓
Data Quality	To provide on-going assurance that the control framework operates as planned.			✓
Procurement	To challenge the processes followed by the council to ensure that best practice associated with procurements, as well as legislative requirements such as OJEU compliance, are properly considered.			✓
Value for Money Review	To undertake a specific review of a Council function to determine the adequacy of vfm considerations in service delivery.			✓

Auditable Area	Outline Scope	2012/2013	2013/2014	2014/2015
Core assurance. Including areas where external audit will place reliance on our work				
Risk Management	High level review of the effectiveness current arrangements, including a follow up of previous recommendations made.	✓	✓	✓
Corporate Governance	Review of arrangements and documentation that support the Council's annual governance statement (using CIPFA /SOLACE best practice guidance). 2014/15 – coverage of Partnerships and Joint Working.	✓	✓	

Auditable Area	Outline Scope	2012/2013	2013/2014	2014/2015
IT Reviews	Reviews of IT areas of risk and management concerns. Strategic Risk - IT Systems The Council needs to make sure that its IT systems are robust and enable the organisation to deliver the services for which it is responsible. Operational Risk Reputational/Financial: A breach of confidentiality will result in unauthorised users gaining access to confidential data	✓	✓	✓
Revenues	External audit will place reliance on our work to inform their audit.	✓	✓	✓
Benefits		✓	✓	✓
Treasury Management		✓		
Main Accounting, General Ledger and Reconciliations		✓	✓	
Payroll		✓	✓	
Creditor payments		✓		✓
Capital Accounting and Fixed Assets		✓	✓	
Debtors		✓		✓
Other Internal Audit Activity				
Contingency	To allow additional reviews to be undertaken in agreement with the Audit Committee or management based in changes in risk profile or assurance needs as they arise during the year.	✓	✓	✓
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	✓	✓	✓
Management	This will include: <ul style="list-style-type: none"> • Annual planning • Preparation for, and attendance at, Audit Committee • Regular liaison and progress updates • Liaison with external audit and other assurance providers • Preparation of the annual opinion 	✓	✓	✓