

**Audit Committee****Report of the Chief Internal Auditor****STRATEGIC INTERNAL AUDIT PLAN – APRIL 2015 TO MARCH 2018****1 Purpose of Report**

The purpose of this report is to present the Strategic Internal Audit Plan for 2015/16 to 2017/18 for consideration and approval by this Committee.

**2 Executive Summary**

As part of the Council's obligation to undertake an adequate and effective internal audit of its accounting records and of its system of internal control, it is necessary to consider, prior to the start of each financial year, the level and extent of internal audit coverage of the Council's activities. This report describes how this requirement has been approached and presents a plan of work for the next 3 years.

**3 Appendices**

Appendix 1 – Strategic Internal Audit Plan – April 2015 to March 2018.

**4 Proposed Action:****4.1 The Committee is invited to resolve that the Strategic Internal Audit Plan April 2015 to March 2018 be approved.****5 Background**

- 5.1. The Accounts and Audit (England) Regulations 2011 require the Council “to undertake 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”. The existence of a robust Internal Audit Plan represents a significant contribution towards meeting this requirement.
- 5.2. Such a plan, duly executed, also provides the Council's Section 151 Officer with a source of assurance in discharging his statutory duty regarding the proper administration of the Council's financial affairs.
- 5.3. The proper internal audit practices referred to at 5.1 above are those contained in the Public Sector Internal Audit Standards (PSIAS). These define the scope of internal audit as covering the whole internal control environment within the Council



cw audit services

**Borough Council of  
Wellingborough**

Strategic Internal Audit Plan 2015 - 2018

Getting value from your service

# 1. Introduction

## General background

This document sets out a proposed strategic plan of Internal Audit coverage for the period April 2015 to March 2018. The plan of work has been driven by the requirements of the Public Sector Internal Audit Standards (PSIAS) released by HM Treasury in December 2012, which are applicable from 1<sup>st</sup> April 2013, the Accounts & Audit Regulations (2011) and guidance relating to the Annual Governance Statement, which the work of Internal Audit supports and informs. The proposed plan supports an opinion based on an assessment of the design and operation of the internal control environment and the adequacy and effectiveness of control noted from our risk based audits carried out during the year. It follows therefore that the focus of the audit plan is critical to ensuring the right level of assurance to the Council.

### The aim of the plan is to:

- **Deliver a risk focused audit programme** - through a detailed risk assessment across the organisation and at component level
- **Be proactive and forward looking** - by looking at what risks the Council faces and trying to minimise these through our work.
- **Add value** – by providing practical, value-added recommendations, in areas of significant risk, by working where relevant with other functions (e.g. risk management and anti-fraud) and trying to save resources / enhance controls where possible.
- **Provide assurance to management and the Audit Committee** - as key stakeholders, we will work closely with management and the Audit Committee with regard to your assurance needs.

## Internal Audit Charter and Standards

The PSIAS requires us to explicitly detail the purpose, authority and responsibility of our internal audit activity in a formally documented Internal Audit Charter, which is included as Appendix 2 to this document.

In conducting our work as your Internal Auditors we are required to adhere to a set of standards as outlined in the PSIAS. We consider that compliance with these standards is a key element of our Internal Audit service in accordance with our contract with you, and maintain quality procedures to ensure compliance.

We believe that we have established suitable arrangements to enable us to comply with the standards. We will, however, report any instances of non-compliance should they arise, as soon as we become aware of them.

## 2. Developing the plan

Our plan of work is designed to support the annual Head of Internal Audit Opinion. The required basis for forming this opinion is as follows:

- An assessment of the design and operation of the overall internal control environment, governance and risk management arrangements; and
- An assessment of the adequacy and effectiveness of controls, based upon the results of our risk based audit assignments that are reported during the course of year.

It follows that an effective risk based audit plan, focusing the resource into areas of principal risk is essential.

### **Risk Assessment**

The plan has been prepared in consultation with the Head of Finance. It has been informed by:

- A review of the risks contained within the Council's Risk Register and Annual Governance Statement.
- A series of meetings held with all the Heads of Service to identify key auditable areas based on an assessment of current and future issues and risks.
- Our understanding of the challenges to the Council to deliver its objectives within the current economic environment and changes in local government legislation.

On the basis of this process we have identified a number of priority areas (see section 3) and these have been scheduled for attention in the first year of the audit plan. We have also identified a number of more strategic issues that will require audit coverage in the second and third years of the plan. The resulting Internal Audit Plan is detailed at Appendix One. We will, however, continue to review the audit plan on an ongoing basis in response to developments and initiatives. If additional risks arise or change in priority during the year the audit plan will be reconsidered with management and, subject to Audit Committee approval, amended to ensure that audit resources remain focused on the key risk areas.

### 3. Linking our plan to your risks

The following table sets out the proposed areas of work for the 2015/16 financial year linked through to your business objectives/risk and showing the supporting rationale for that work and a summary outline of the work to be undertaken.

Area	Rationale - Links to Objectives/Risks	Work outline
<b>FINANCE, REVENUES &amp; BENEFITS</b>		
Financial Management & Budgetary Control	Financial strategy and management key in time of economic restraints in the public sector.	Review of key controls to include the delivery of the MTFS, budget setting, approval, adjustment and monitoring. Review of accountancy function in developing business partner role.
Main Accounting & Treasury Management	Accuracy of financial reporting and effective management of financial resources is key to the delivery of the Council's objectives. Changes brought about to close-down process caused by adopting CIPFA toolkit.	Review of key controls to include ledger account reconciliations, clearance of suspense accounts, investment of financial resources, bank account reconciliations. Review of parallel running arrangements for close-down of accounts following adoption of CIPFA toolkit.
Debtors	Raising and collecting of debtors' income is key to delivering the Council's financial plans.	Review of key controls to include prompt and complete raising of debtor invoices and appropriate recovery action
Payroll & Expenses	Pay expenditure represents significant proportion of Council's overall spending.	Review of key controls to ensure accurate, valid and timely payments are made to staff. Review of payroll bureau arrangements. Review of members' expenses, including suitability of current policy.
Council Tax	Key revenue system that is central to the Council's financial plans and delivery of objectives.	Review of key controls to include bill production, collection, discounts, empty properties, overdue debt collection and reporting.
Benefits	Key area of expenditure for the Council. Potential changes in the resource model used to deliver benefits and ongoing roll out of central government changes to benefits system (Universal Credit)	Review of key controls to include claims processing and payment, management checking, overpayment processes etc. Arrangements for introducing Universal Credit.
High Level Controls	Financial controls remain key to the delivery of the Council's objectives in a time of economic restraint.	Review of key controls for fundamental finance and revenue systems not subject to a specific audit during 2015/16 (creditors, capital accounting, capital programme, NNDR).
<b>ENVIRONMENT</b>		
Waste & Recycling	Financial risk associated with withdrawal of recycling credits by NCC. Potential to take on running of Wollaston Recycling Centre and potential for changes in government legislation.	Review of recycling arrangements with emphasis placed on effective management of recycling contracts, use of bulking station to manage fees down, review of any new arrangements arising from Wollaston Recycling Centre and arrangements in place to respond to any changes in government legislation
<b>COMMUNITY</b>		
Contract Audit (Crematorium)	Council is currently delivering a major capital scheme to build a crematorium. Independent assurance required at each stage of the contracting process.	Ongoing independent assurance provided through attendance at project/steering group meetings and reporting by exception as appropriate on control of any risk issues as they arise.

Area	Rationale - Links to Objectives/Risks	Work outline
Community Safety	Reducing crime and anti-social behaviour is one of the Council's key strategic priorities.	Review of the Council's role in contributing to the Wellingborough Community Safety Partnership and effective delivery of the Community Safety Plan.
<b>RESOURCES</b>		
Risk Management	Robust Risk Management system is required to underpin delivery of Council objectives, compliance with legislation. IA review is also required to provide a balanced Annual Head of Audit Opinion that contributes to the Annual Governance Statement.	Review of evidence to ensure that the Council has a fully embedded risk management system in place that identifies and treats risks to key strategic and operational objectives.
Democratic Services	New members likely to join Council following elections in May 2015	Review of new member induction and training programme. Review of set-up of members' remuneration panel.
Service Planning	Delivery of service plans is key to the achievement of the Council's key strategic objectives and realisation of savings required to address ongoing central government cuts in funding.	Review of the process for agreeing service plans, including links to the MTFS and corporate plan. Review of arrangements for monitoring delivery of service plans.
Human Resources	Effective deployment of an appropriately skilled and resourced workforce is key to the delivery of the Council's objectives.	Review of flexi time and holiday arrangements, with specific reference to how these are applied to part-time workers.
Data Quality & Performance Information	Accurate performance information is a key requirement for the Council to confirm that its strategic objectives are being delivered.	The Council wishes to review its existing performance information with a view to developing a set of corporate health indicators. Internal audit will comment on the usefulness of existing performance indicators and provide independent advice and benchmarking information on the development of corporate health indicators.
<b>PLANNING &amp; LOCAL DEVELOPMENT</b>		
Building Control	Keys service delivered by the Council that requires auditing on a cyclical basis.	Review of processes for processing building control applications, collecting fees and ensuring that appropriate building regulations are followed.
Economic Development	Promoting high quality growth is one of the Council's key strategic priorities.	Review of the Council's role in the Wellingborough Economic & Business Partnership and delivery of the Economic Development Strategy.
S106 Agreements	Key income source to deliver needed infrastructure improvements within the Borough.	Review of the arrangements for identifying and collecting s106 Agreement monies from developers and subsequent spending on infrastructure projects defined in the agreements.
<b>OTHER</b>		
Anti-Fraud & Corruption	Prevention and detection of fraud in local government remains a key central government priority.	Review of the Council's arrangements for applying government strategy on tackling fraud in the local government sector.

## 4. Reporting and relationships

### 4.1 Reporting Lines

The Internal Audit Charter attached at Appendix 2 outlines the reporting lines and relationships for this engagement, essentially setting out the accountability of the Head of Internal Audit to the Chief Executive, but noting that operationally in practice this accountability is delegated to the Head of Finance. The Chief Internal Auditor also has direct right of access to the Audit Committee and the Chairman where required. This is also embodied in the Council's Financial Regulations.

### Audit Reporting

#### Periodic and Assignment Reporting

Final reports relating to individual audit assignments will be reported to the relevant operational manager and associated executive director prior to submission to the Audit Committee, which will also receive a progress update at each meeting detailing progress against the plan, a summary of assignment opinions issued to date and an update in relation to the implementation of audit recommendations.

#### Annual Head of Internal Audit Opinion

In line with the PSIAS and expected professional practice, we will issue a formal audit opinion taking account of:

- An assessment of the design and operation of the overall internal control environment, governance and risk management arrangements; and

- An assessment of the adequacy and effectiveness of controls, based upon the results of our risk based audit assignments that are reported during the course of year.

This opinion will be formally recorded in the Internal Audit Year End Report and presented to the Audit Committee. In addition to this formal opinion we will also bring to the attention of the Chief Executive and the Audit Committee any Significant Internal Control Issues that we feel should be declared in your Annual Governance Statement.

### 4.2 Third Party Audit Arrangements

As your Internal Auditors we are required to agree with you the arrangements for forming an appropriate opinion where either you operate key systems on behalf of other organisations, or key systems are being operated by other organisations on your behalf. We recognise that the Council operates within a number of different partnership arrangements and procures and contracts various services. It is our current understanding that the following key services are provided by third parties:

- IT – East Northants Council
- Legal – Kettering Borough Council
- Licensing - East Northants Council
- Environmental Services – Wellingborough Norse

### 4.3 Relationships with external bodies

#### External Audit

We will agree a protocol of joint working arrangements supported by a regular programme of update meetings with External Audit. We will use these meetings to report on progress against our plan and as an opportunity to discuss any significant issues arising from our work.

## **Other Review Bodies**

Where we intend to place formal reliance on the work of any other review body, we will undertake an appropriate audit or quality assurance exercise to ascertain the level of assurance that we can derive from that work.

## **4.4 Additional Services/Ad-hoc Work**

The PSIAS requires us to define the potential role that we may have in providing ad hoc consultancy work. In providing such a service we would seek to apply the professional skills of Internal Audit through a systematic and disciplined evaluation of the policies, procedures and operations that you have put in place to ensure the achievement of your objectives. We believe that our status as Internal Auditors ensures that we can deliver such work in an independent and objective manner. We also have access to consultancy services via our strategic relationships (e.g. PwC and Deloitte).

**Mark Watkins**  
**Chief Internal Auditor**



Area	Audit Assignment	2015/16	2016/17	2017/18
Finance & Revenues	Financial Management & Budgetary Control	8	8	8
	Main Accounting & Treasury Management	10	-	10
	Capital Accounting & Fixed Assets	-	7	-
	Creditors	-	10	-
	Capital Programme	-	-	7
	Debtors	9	-	9
	Receiving & Banking of Income	-	-	8
	Payroll & Expenses	13	-	10
	Procurement	-	10	-
	Insurance	-	7	-
	Council Tax	9	-	9
	Business rates	-	9	-
	Benefits	10	10	10
	High Level Controls	10	10	10
	<b>Sub-total</b>		<b>69</b>	<b>71</b>
Environment	Grounds Maintenance	-	9	-
	Street Cleansing	-	9	-
	Waste & Recycling	10	-	-
	NORSE – Contract Monitoring	-	-	10
	<b>Sub-total</b>	<b>10</b>	<b>18</b>	<b>10</b>
Community	Licensing Partnership	-	9	-
	Licensing (local – e.g. Taxis)	-	8	-
	Contract Audit ( Crematorium in yr1)	10	-	10
	Food Safety	-	-	10
	Castle Theatre – Contract Monitoring	-	9	-
	Leisure Services – Contract Monitoring	-	-	10

Area	Audit Assignment	2015/16	2016/17	2017/18
	Pest Control	-	9	-
	Emergency Planning	-	-	9
	Community Safety	10	-	-
	<b>Sub-total</b>	<b>20</b>	<b>35</b>	<b>39</b>
Resources	Risk Management	8	8	8
	Corporate Governance	-	-	8
	Corporate Health & Safety	-	-	10
	Property Management	-	9	-
	Democratic Services	8	-	-
	Service Planning	10	-	-
	Human Resources	10	-	-
	Data Quality & Performance Information	8	-	-
	<b>Sub-total</b>	<b>44</b>	<b>17</b>	<b>26</b>
Planning & Local Development	Choice Based Lettings	-	10	-
	Planning & Development	-	9	-
	Building Control	10	-	-
	Local Land Charges	-	-	8
	Economic Development	10	-	-
	Housing Renewals	-	-	8
	Homelessness	-	9	-
	Community Infrastructure levy/S106	10	-	-
	Private Sector Housing – Enforcement	-	9	-
	<b>Sub-total</b>	<b>30</b>	<b>37</b>	<b>16</b>
Computer audit	Assignments to be advised	15	10	15
	<b>Sub-total</b>	<b>15</b>	<b>10</b>	<b>15</b>
Follow Up	Recommendation Tracking	5	5	5
	Follow Up Reviews	8	8	8
	<b>Sub-total</b>	<b>13</b>	<b>13</b>	<b>13</b>

Area	Audit Assignment	2015/16	2016/17	2017/18
Other	Contingency	7	5	8
	National Fraud Initiative	-	10	-
	Anti-Fraud & Corruption Arrangements	8	-	8
	<b>Sub-total</b>	<b>15</b>	<b>15</b>	<b>16</b>
Management & Advice	Audit Needs Assessment, Planning & Annual Report	5	5	5
	Audit Committee/External Audit/Senior Team meetings	5	5	5
	Contract Management & ad hoc advice	6	6	6
	<b>Sub-total</b>	<b>16</b>	<b>16</b>	<b>16</b>
<b>Totals</b>		<b>232</b>	<b>232</b>	<b>232</b>

## INTERNAL AUDIT CHARTER

### 1. DEFINITION

Internal Audit is an independent and objective appraisal service within an organisation:

- Internal Audit primarily provides an independent and objective opinion to the Council, through the Audit Committee, on the degree to which risk management, control and governance support the achievement of the organisation's agreed objectives. In addition, Internal Audit's findings and recommendations are beneficial to line management in the audited areas. Risk management, control and governance comprise the policies, procedures and operations established to ensure the achievement of objectives, the appropriate assessment of risk, the reliability of internal and external reporting and accountability processes, compliance with applicable laws and regulations, and compliance with the behavioural and ethical standards set for the organisation.
- Internal Audit also provides an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance. The service applies the professional skills of Internal Audit through a systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organisation's objectives, and through recommendations for improvement. Such consultancy work contributes to the opinion, which Internal Audit provides on risk management, control and governance.

### 2. INTERNAL AUDIT TEAM

Within the parameters of the Service Level Agreement, the Head of Internal Audit is responsible for ensuring the team is adequately staffed and that there is access to the full range of knowledge, skills, qualifications and experience to deliver the Internal Audit Plan in line with Public Sector Internal Audit Standards (PSIAS) and other professional standards. The team will undertake regular assessments of professional competence through an on-going appraisal and development programme (i.e. Personal Development Plans and Continuing Professional Development) with training provided where necessary. Auditors also have responsibilities for applying due professional care when performing their duties.

Appointment at all levels of the team will endeavour to fulfil the four main principles of the Code of Ethics for Internal Auditors i.e. Integrity, Objectivity, Competency (i.e. professional qualifications, skills and experience) and Confidentiality.

If the Head of Internal Audit, Chief Executive, Head of Finance or the Audit Committee consider that the level of Internal Audit resources or the terms of reference in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with the definition of internal auditing, they should advise the Council accordingly.

### 3. RESPONSIBILITIES AND OBJECTIVES OF INTERNAL AUDIT

The Head of Internal Audit is responsible for developing and maintaining an Internal Audit Strategy for providing the Council, economically and efficiently, with objective evaluation of, and opinions on, the effectiveness of the organisation's risk management, control and governance arrangements. The Head of Internal Audit's opinion is a key element of the framework of assurance the Chief Executive needs to inform the completion of the Annual Governance Statement.

This strategy will be realised through the delivery of considered and approved annual plans. These will systematically review and evaluate risk management, control and governance which comprises the policies, procedures and operations in place to:

- Establish, and monitor the achievement of, the organisations objectives.
- Identify, assess and manage the risks to achieving the organisations objectives.
- Ensure the economical, effective and efficient use of resources.
- Ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations.
- Safeguard the organisation’s assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

**4. RELATIONSHIPS – CHIEF EXECUTIVE, HEAD OF FINANCE, AUDIT COMMITTEE AND COUNCIL**

The Head of Internal Audit is accountable to the Chief Executive via the Head of Finance (as s151 Officer). The Head of Internal Audit is invited to the Audit Committee and prepares reports for it in an agreed format. A summary of issues arising from Internal Audit work is reported to the Council via the Audit Committee. The Head of Internal Audit has the right of access to the Chief Executive, Head of Finance and the Chair of the Audit Committee. Should any issue arise that cannot be resolved through negotiation, the escalation process will be that issues will firstly be raised by the Head of Internal Audit with the Head of Finance, and should a satisfactory resolution not be secured, further escalated to the Chair of the Audit Committee.

**5. INDEPENDENCE**

Internal Audit must be sufficiently independent of the activities, which it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations. Internal Auditors will have no executive responsibilities.

Individual auditors will have an impartial, unbiased attitude, characterised by integrity and an objective approach to work, and should avoid conflicts of interest. Individual auditors must declare any conflict of interest to the Director of Internal Audit. Any conflicts of interest encountered by the Director of Internal Audit must be declared to the Head of Finance.

**6. REMIT**

Internal Audit’s planning will embrace risk management, control and governance processes of the organisation including all its operations, resources, services and responsibilities for other bodies.

**7. ACCESS**

Internal Audit have the right to access all records, assets, personnel and premises of the Council and, where relevant its partner organisations, in the pursuit of information necessary to fulfil its responsibilities. In any instances of conflict this will be referred for resolution to the Head of Finance, Chief Executive or Chair of Audit Committee as appropriate.

## **8. AUDIT OPINION**

The Head of Internal Audit will present a formal annual report based on the work of Internal Audit to the Chief Executive. Interim Reports will also be presented in year. The Audit Committee will present the opinion of the overall adequacy and effectiveness of the organisations risk management, control and governance processes.

Audit Opinions in reports on specific reviews will be in a format agreed by the Head of Internal Audit.

## **9. QUALITY ASSURANCE**

The Head of Internal Audit is responsible for developing a quality assurance programme designed to gain assurance by both internal and external review that work of Internal Audit is compliant with the professional standards and achieves its objectives. Results of this quality assurance programme will be reported to the Audit Committee in the Annual Report.

## **10. RELATIONSHIPS – MANAGEMENT, AND OTHER AUDITORS/REVIEW BODIES**

The Head of Internal Audit will co-ordinate Internal Audit Plans and activities with line managers, external audit and other review agencies to ensure effective audit coverage is achieved and duplication of effort is minimised.

## **11. APPROVAL AND INTERPRETATION OF INTERNAL AUDIT CHARTER**

The Internal Audit Charter will be approved by the Audit Committee. Any questions of interpretation regarding the Internal Audit Charter should be reported to the Head of Internal Audit, who will refer to the PSIAS and other relevant Internal Audit Standards and if necessary the Head of Finance before providing necessary feedback. The Internal Audit Charter will be subject to periodic review as necessary.

i.e. not just financial control, but also systems of governance, risk management and internal control. The Plan provides that breadth of scope.

- 5.4. The PSIAS states that the Head of Audit must provide an annual opinion on the overall adequacy and effectiveness of the Council's entire control environment. The work contained in the Plan is sufficient to support the provision of such an opinion. It should also assist with the preparation of the Council's Annual Governance Statement.

## **6 Discussion**

- 6.1 The plan has been prepared in consultation with the Head of Finance. It has been informed by:

- A review of the risks contained within the Council's Risk Register.
- Circulation to Heads of Service and Principal Managers for comment.
- Our understanding of the challenges to the Council to deliver its objectives within the current economic environment and changes in local government legislation.

- 6.2 On the basis of this process we have identified a number of priority areas and these have been scheduled for attention in the first year of the audit plan. The rationale for auditing the systems included in the first year of the plan is included in section three. We have also identified a number of more strategic issues that will require audit coverage in the second and third years of the plan.

- 6.3 The Strategic Internal Audit Plan will be subject to an annual refresh prior to the start of each financial year in order to ensure that it continues to address current risks as they arise.

## **7 Legal Powers**

The Council has a statutory duty to undertake 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, as referred to in the background section of this report.

## **8 Financial and Value For Money Implications**

The total planned number of audit days to be delivered on an annual basis remains the same as was delivered for the 2014/15 year and at the same daily rate. There has therefore been no increase to the cost associated with providing an appropriate level of internal audit coverage.

## 9 Risk Analysis

<b>Nature of risk</b>	<b>Consequences if realised</b>	<b>Likelihood of occurrence</b>	<b>Control measures</b>
An audit plan not properly based upon risk	Key systems may not be subject to internal audit review.	Low	Plan based on series of meetings with key Directors and Heads of Service, along with review of Council's risk register.

## 10 Implications for Resources

None

## 11 Implications for Stronger and Safer Communities

None

## 12 Implications for Equalities

None

## 13 Author and Contact Officer

Mark Watkins, Chief Internal Auditor.

## 14 Consultees

Liz Elliott, Head of Finance

## 15 Background Papers

None