

## GOVERNANCE COMMITTEE

28 MARCH 2013

### REPORT OF HEAD OF WELLAND INTERNAL AUDIT CONSORTIUM

#### INTERNAL AUDIT PLAN 2013/14

#### 1.0 PURPOSE OF REPORT

- 1.1 To allow those Members discharging the role of the Audit Committee to approve the Annual Audit Plan for 2013/14; to explain the basis of the planning process and the various elements making up the plan; and to indicate how the planning and delivery process meet the mandatory requirements implicit in the Public Sector Internal Audit Standards.

#### 2.0 RECOMMENDATIONS

- 2.1 **That Members approve the 2013/14 Audit Plan.**

#### 3.0 KEY ISSUES

- 3.1 The Public Sector Internal Audit Standards come into force on 1<sup>st</sup> April 2013. The Standards have modified the approach to Internal Audit planning in two ways:
- Firstly, the audit plan should be developed using a 'zero based' approach reflecting the key risks that have been identified by clients; and
  - Secondly, the audit plan should then be endorsed by an Audit Committee that can confirm that the plan addresses the Committee's assurance requirements.

In addition, changes in the External Audit regime and the External Auditor's expectations of internal audit have also impacted on the annual planning approach by reducing the requirement to undertake audits of low-risk fundamental financial systems.

- 3.2 Because the Standards were not published until December 2012, it was not possible to develop and carry out a corporate risk assessment process that would demonstrate full conformity – that process will be applied to develop the Audit Plan for 2014/15 and future years. Instead, a review of the Council's corporate and service risk registers, supplemented by meetings with individual Heads of Service, Directors and the Chief Executive, was used to develop a schedule of the key risks for 2013/14. An exercise to prioritise the identified risks was carried out jointly with the Council's Management Team.
- 3.3 The draft Audit Plan developed – and shown as Appendix A to this report – has been stratified to ensure that the range of audit work commissioned covers all aspects of the Council's risk exposure, particularly ICT and fraud risks. ICT risks were identified in an exercise, facilitated by the Consortium's specialist ICT audit contractor, involving the Council's IT Client Manager. Fraud risks were identified by reference to the Local Government Fraud Strategy – a Central Government initiative which sets out new expectation of local authorities in terms of detection of fraud.
- 3.4 The Council has commissioned 235 audit days from the Consortium to resource the 2013/14 Audit Plan. An allowance – of 15 days - has been made to allow for: Committee preparation and attendance; training and development of the "Audit Committee"; client liaison meetings; meetings and liaison with External Audit; and following-up Audit Recommendations.

3.5 To allow for flexibility in delivery of assurance, specific budgets have not been set for individual audit assignments at this stage: instead, indicative budgets have been set for the different categories of assurance work to be undertaken. As Terms of Reference are developed for individual audit assignments, a budget – sufficient to give the range and level of assurance required – will be agreed. The Plan identifies all risks for which the Council's Management Team consider that assurance would be desirable – and deliverable by internal audit. Those risks are shown in descending orders of priority and the intention is that higher priority assignments will be commissioned until the budget is exhausted.

3.6 The new Standards prescribe a new responsibility for the Audit Committee - that of 'Gate Keeper' required to consider any proposals for 'significant' in-year changes to the Audit Plan and to be satisfied that changes proposed would not affect the overall level of assurance. This role would be exercised in the event that: a client requests that an assignment be removed from the Plan or replaced by a different assignment; or the process of commissioning requires a reallocation of resources between the identified assurance categories. The Committee would also be expected to consider any requests to commission additional internal audit work – whether this involves additional audits or consultancy exercises.

#### **4.0 POLICY AND CORPORATE IMPLICATIONS**

4.1 The proposed level of audit coverage set out in Appendix A would provide an appropriate level of assurance as to the effectiveness of the Council's control framework in managing its risks. That assurance could be applied in support of the Annual Governance Statement for 2013/14.

#### **5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

5.1 Budgetary provision has been made for the 235 days of audit work identified in the draft Plan.

#### **6.0 LEGAL IMPLICATIONS/POWERS**

6.1 There are no legal implications arising directly from this report.

#### **7.0 COMMUNITY SAFETY**

7.1 There are no Community Safety implications arising directly from this report.

#### **8.0 EQUALITIES**

8.1 There are no Equalities implications arising directly from this report.

**9.0 RISKS**

9.1 If Members, discharging the role of the Council’s Audit Committee, do not demonstrate that they are engaged in effective consideration of the Audit Plan and the risks for which assurance is offered, the Council’s governance arrangements may be compromised. Failure to demonstrate engagement may also result in adverse reporting from the Council’s External Auditor.

**Probability**  
↓

Very High A				
High B				
Significant C				
Low D		1, 2		
Very Low E				
Almost Impossible F				
	IV Negligible	III Marginal	II Critical	I Catastrophic

→  
**Impact**

Risk No.	Description
1	Failure to demonstrate effective oversight
2	Failure to deliver Audit Plan

9.2 If the Consortium fails to deliver the Annual Audit Plan weaknesses in controls may not be identified placing the Council at avoidable risk. Such failure might again result in adverse reporting from the Council’s External Auditor.

**10.0 CLIMATE CHANGE**

10.1 There are no Climate Change implications arising directly from this report.

**11.0 CONSULTATION**

11.1 N/A

**12.0 WARDS AFFECTED**

12.1 All wards are indirectly affected by the report

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Date: 11/3/13

Appendices : 1

Background Papers: N/A

Reference : N/A