



**REPORT TO AUDIT COMMITTEE**

**DATE**

28th April 2015

**REPORT OF**

**Senior Finance Manager, Internal Audit**

**ITEM**

**SUBJECT**

**Internal Audit Plan 2015/16**

**SUMMARY**

The report presents the Internal Audit planning methodology and programme of work for 2015/16.

**RECOMMENDATIONS**

In respect of the provision of the statutory Internal Audit function and in order to comply with best professional practice (including CPA requirements) it is recommended that Members endorse the attached programme of work for 2015/16.

**FINANCIAL IMPLICATIONS  
CLEARED BY**

**No  
K Inman**

**PARAGRAPHS  
30**

**BACKGROUND PAPERS**

**CONTACT POINT FOR ACCESS**

**K Inman**

**TEL NO.**

**273 4435**

**AREA(S) AFFECTED**

**CATEGORY OF  
REPORT**

Open

## Statutory and Council Policy Checklist

<b>Financial implications</b>
<del>YES</del> /NO      Cleared by: K Inman
<b>Legal implications</b>
<del>YES</del> /NO      Cleared by:
<b>Equality of Opportunity implications</b>
<del>YES</del> /NO      Cleared by:
<b>Tackling Health Inequalities implications</b>
<del>YES</del> /NO
<b>Human rights implications</b>
<del>YES</del> /NO      :
<b>Environmental and Sustainability implications</b>
<del>YES</del> /NO
<b>Economic impact</b>
<del>YES</del> /NO
<b>Community safety implications</b>
<del>YES</del> /NO
<b>Human resources implications</b>
<del>YES</del> /NO
<b>Property implications</b>
<del>YES</del> /NO
<b>Area(s) affected</b>
Corporate
<b>Is the item a matter which is reserved for approval by the City Council? <del>YES</del>/NO</b>
<del>YES</del> /NO
<b>Press release</b>
<del>YES</del> /NO

**Director Finance Report – 2015/16 Work Programme**

**Purpose of the Report**

1. The purpose of this report is to present and communicate to members of the audit committee the internal audit plan for 2015/16.

**Background**

2. The strategy for internal audit work is to focus on areas of high-risk activity in order to provide assurance that risk and internal control systems are being properly managed by directors in service areas.
3. Throughout 2012/13, 2013/14 and 2014/15, internal audit have undertaken a significant number of main corporate system reviews in areas such as performance monitoring and risk management. Assurance has been taken that these processes are operating satisfactorily, based on the number of low or medium/low audit opinions assigned to these reviews. This has then helped to inform the planning process for 2015/16.
4. During the financial years 2012/13, 2013/14 and 2014/15 there was a decrease in the number of benefit fraud referrals received by internal audit. The prime reason for this was an agreed reduction in the processing of Department of Work and Pensions data matching referrals (Housing Benefit Matching Service) received by the Capita counter fraud team, in preparation for the establishment of the Single Fraud Investigation Service.

**Planning Methodology**

5. In order to plan for the use of internal audits' resources, the approach is structured around the following:
  - Utilisation of the corporate risk management process including the corporate risk register and portfolio risk management plans.
  - Utilisation of the information provided by directors under the Annual Governance Statement (AGS) process.
  - Risk based reviews in areas of highest perceived risk as determined by the chief executive/executive management team (EMT)/executive director - resources/director of finance/assistant directors of finance /senior finance managers/ finance managers.
  - An allocation of resource to cover fraud, theft and corruption allegations (re-active investigations).

- Pro-active counter fraud work.
  - Main financial systems (MFS) work including an allocation of days to consider transactions from the Combined Authority.
6. The format of the tactical plan was revised in 2014/15 and this was positively received by audit committee members. This format has been adopted again for 2015/16 and includes additional information about the scope of audit reviews, whether the auditable area is present in either the portfolio or corporate risk register and whether there are any AGS concerns raised.
  7. We have also distinguished between the different types of audit such as strategic reviews (single topic/theme that impacts on multiple services/portfolios), risk-based audit, compliance audits and other work such as grant sign-offs.

### **Utilisation of the Corporate Risk Management Arrangements**

8. The current risk management process requires service areas to consider risks and either manage and mitigate risks or escalate them up through a process to leadership teams and/or EMT. The information contained within the corporate risk register and portfolio service risk management plans provide a broad range of risks facing the council and identifies risk controls, costs, escalation process etc. A number of the higher risk rating entries on the registers/risk management plans have been included in the audit plan.

### **Utilisation of the Annual Governance Statement**

9. The process for collating information for the production of the AGS is managed by Legal and Governance. The information which directors submit and sign up to provides a wealth of information on how some of the most important internal control arrangements are managed within services. Audit managers review this information when identifying areas for the audit plan.

### **Fraud Allegations (Re-active investigations)**

10. An allocation of time is included in the plan to provide for the investigation of allegations of fraud, theft and corruption. During 2014/15 the number of housing/council tax benefit allegations received by Internal Audit decreased due to an agreed reduction in the processing of allegations by Capita. From Feb 2015, the Single Fraud Investigation Service was

formally established and all benefit fraud cases are now investigated by this central government service, rather than by SCC. Consequently the time allocated for this type of work during 2015/16 has been reduced. Nevertheless, in the event that the volume of fraud allegations increases or a large scale investigation becomes necessary, resources will be transferred from other areas of the internal audit plan.

### **Pro-active Counter Fraud Work**

11. Despite the changes introduced for external audit and the role of the Audit Commission, the National Fraud Initiative (NFI) element of the Commission's work continues under the remit of the Cabinet Office. This element of work has grown in recent years and will probably continue to expand and is no longer exclusively focused on housing benefit fraud, as new areas of scrutiny continue to be added e.g. most recently tenancy fraud and abuse of the blue badge scheme.
12. In addition to the above externally generated work, in recent years internal audit have included a number of exercises in the plan directed primarily at consideration of the specific risk of fraud in an area of activity, for example employee expenses, grants and fuel management. These exercises have been successful in identifying irregularities and weak/inconsistent controls and management arrangements. Four such reviews have been included in this year's tactical plan.
13. During recent years internal audit has provided fraud awareness presentations to employees to improve defences against fraud. In 2015/16 the e-learning course will be refreshed and made available to replace face to face training.

### **Main Financial Systems (MFS)**

14. Internal audit have for a number of years tried to reduce the time devoted to MFS work, however it is unlikely that this could be reduced further and we may come under pressure to increase this work at the behest of external audit. External audit place reliance on the soundness of the MFS and assurance from the work of internal audit on these systems. Any work undertaken on the MFS by external audit is likely to be in the region of double the price of internal audit on a day rate basis.
15. Key financial systems have been selected for the 2015/16 audit plan, including a number of follow up reviews. In addition to this, a number of reviews relating to general ledger systems have also been included within the Resources Portfolio plan. This will assist external audit, who has

confirmed that they will be focusing on these areas for future years. The director of finance believes this aspect of the work of internal audit to be crucial in supporting the S151 officer responsibilities.

16. For 2015/16, it has also been agreed that SCC internal audit will conduct some compliance tests of the Combined Authority transactions which are processed through the MFS of SCC. This work will provide assurance to Barnsley Metropolitan Borough Council (BMBC) who is responsible for governance and audit of the Combined Authority. This work will be recharged to BMBC.

## **ICT**

17. The partnership for technical ICT support is not being renewed for 2015/16 due in part, to the significant changes being undertaken with regards to ICT systems. Consideration will be given to retendering for this support from 2016/17 onwards.

## **Risk Based Audits of Systems/Services/Functions**

18. The resource not utilised on the above elements is devoted to undertaking reviews of the areas of most perceived risk as identified by internal audit in consultation with key officers i.e. principally the executive director - resources/director of finance/chief executive plus executive directors and directors. The basis of the planning discussions was not a fully risk scored audit universe but was more reliant on perceived areas of risk and emerging issues.
19. Management are asked to contribute to the planning process, however the plan and its contents are entirely the responsibility of internal audit.
20. At the beginning of each audit assignment the relevant service manager will also be consulted to ensure that current risk areas are included in the remit for the work.

## **Capital Programme**

21. For 2015/16 a block of resource has been dedicated to reviewing the capital programme of SCC. This will start with a review of the revised process introduced in 2014/15, and then audits of specific capital schemes will be undertaken to establish whether there is compliance with the new process.

## Summary of the Audit Plan

22. The following represents the summary of the planned audit time for the current year.

<b>Auditable Area</b>	<b>Days</b>
Corporate Reviews	234
Capital Programme	90
Communities	356
Main Financial Systems	126
Children, Young People and Families (CYPF)	311
Place	181
Resources and ICT	338
Investigations and Benefits	246
<b>Total</b>	<b>1882</b>
High Priority	1384
Medium Priority	448
Low Priority	17
Statutory	33
<b>Total</b>	<b>1882</b>

23. It should be noted that the above total does not balance exactly to the resources available. In addition, it will be significantly affected by any unplanned work requests. In the event that these materialise, we will need to re-prioritise our work programme to ensure that key risk areas are still covered.

24. The 2014/15 annual plan is attached at Appendix 1.

## **Future Considerations**

25. Throughout the coming year, internal audit will evaluate the plan to ensure we are directing internal audit resources at the main risks facing the authority.
26. Given that the operating environment of the council is changing rapidly, it has been agreed that the planning process needs to be much more flexible and responsive than in previous years. Internal audit will ensure that key officers are able to suggest areas for review at any time rather than at a fixed planning stage. This approach will potentially involve a greater level of management liaison with senior officers throughout the year.

## **FINANCIAL IMPLICATIONS**

27. There are no direct financial implications arising from the report.

## **EQUAL OPPORTUNITIES IMPLICATIONS**

28. There are no equal opportunities implications arising from the report.

## **CONCLUSION**

29. The audit plan summarises a risk based programme of work which demonstrates that the council has made provision to discharge its (and officers) statutory responsibilities.

## **RECOMMENDATION**

30. In respect of the provision of the statutory internal audit function and in order to comply with best professional practice it is recommended that members endorse the attached programme of work for 2015/16.





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