
Bath & North East Somerset Council

Risk & Assurance Service

Audit & Risk Team

Internal Audit Annual Plan

April 2013 - March 2014

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1. Introduction:

- 1.1 The purpose of this document is to explain:
- The role of Internal Audit
 - How the Audit & Risk Team carries out its Internal Audit work
 - Relationship with the Council's External Auditor
 - How the annual plan is prepared, and
 - Present the 2013 / 2014 Annual Audit Plan
- 1.2 During the last quarter of 2012/13 members of the Audit & Risk Team have liaised and consulted with Strategic Directors, Divisional Directors & key third tier Officers to enable an Annual Internal Audit Plan to be compiled.

2. The Internal Audit function within the Council:

- 2.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit is not limited to the Council's financial systems and records, but extends to all activities of the Council.
- 2.2 The Audit & Risk Team is required to compile each year an Internal Audit Plan for approval by the Council's Corporate Audit Committee.
- 2.3 The Audit & Risk Team is compliant with the Public Sector Internal Audit Standards.
- Internal Audit Independence:**
- 2.4 A critical element of the performance of Internal Audit function is independence from the activities audited. This enables the Audit & Risk Team to form impartial and effective judgment for the opinions and recommendations made.
- 2.5 To help ensure independence, the Audit & Risk Team is allowed unrestricted access to Senior Management & Members, particularly, the Leader of the Council, Chair of the Corporate Audit Committee, the Chief Executive, Strategic Directors, the Council's s151 Officer and the Council's Monitoring Officer. Additionally, the Divisional Director Risk & Assurance (responsible for the Audit & Risk Team) reports in his own name.
- 2.6 The Audit & Risk Team forms part of the core governance structure of the organisation and its input is required as part of the Council's Annual Governance review which results in the publication of the Council's Annual Governance Statement.

3. Relationship with the Council's External Auditor:

- 3.1 As part of their audit of the Council's financial statements, the Council's external auditor, Grant Thornton, have a dedicated plan from which they carry out specific reviews of the Council's activities and the Avon Pension Fund. To facilitate this work they have issued a plan for the audit of the 2012/13 accounts.
- 3.2 The External Auditors carry out their own risk assessment methodology to assist in agreeing their workplan.
- 3.3 The working relationship between the Audit & Risk Team and the External Auditors carrying out the internal audit and external audit functions respectively is important and must take account of their differing roles. The External Auditor has a statutory responsibility to express

an opinion on the Council's financial statements, whilst the Internal Audit function is responsible for assessing the adequacy and effectiveness of the internal controls and advising Management accordingly.

- 3.4 The External Auditors seek to place as much reliance as possible on the work of the internal audit function i.e. the Audit & Risk Team. To maintain effective working there is regular contact between the two parties. At a meeting on 18th March 2013 the annual planning process was discussed and the Annual Internal Audit Plan presented.

4. Preparation of the Annual Plan:

The Audit & Risk Team has adopted a risk based approach in determining its Annual Internal Audit Plan.

Internal Audit Plan Risk Assessment:

- 4.1 To properly develop and substantiate the overall Annual Audit Plan it is necessary to carry out a full and detailed needs assessment of the whole of the Council's activities.

This is carried out through the use of a Risk Assessment model. This model has been developed over many years of audit experience and external best practice and is being continually updated and refined.

The Risk Assessment model, for which a summary of the criteria can be seen below, was applied to the Council's activities:

Internal Audit Risk Assessment Matrix – 2013/14

Criteria
Previous Year Annual Governance Review Issue (Significant or Long List) or Directly linked to a Corporate Risk Register risk.
Exposure to Financial Irregularity (Control Environment / Corruption)
Time since Last Audit Review
Assurance level last Audit
Business Continuity Risk (Loss of function impacting on provision of Critical Services)
Expenditure (not to include employee costs)
Income
Inherent risk (Multiplier) – take into account 'other' risks and compensating controls such as review by external agencies / inspectorates.

- 4.2 In order to select reviews to be included in the audit plan, the number of available productive audit days based on available resources must be calculated. The number of available productive days is compared directly with the list of audits (recorded in risk score order – high to low) produced through the risk assessment process. When the total number of available days equals the cumulative number of allocated audit days per audit a line is drawn. All those audits 'above the line' are included in the Audit Plan. If 'Unplanned' work is required during the year this has to take the place of 'Planned Audit Work'. Unplanned work consists of the investigation of irregularities and prioritised 'consultancy' work. So, when the need arises to redirect resources to unplanned work, planned audit reviews, with the lowest risk rating will not be carried out during the current financial year.
- 4.3 In view of the ever changing environment in which Local Government exists the Internal Audit Annual Plan will be reconsidered in September / October 2013 to confirm that work planned to be carried out in the second half of the year is still appropriate. This process will be carried out in consultation with Strategic Directors, Divisional Directors and Service Managers.

The Draft Plan is attached at **APPENDIX 1**.

5. Internal Audit Function Methodology:

Individual Audit Reviews:

- 5.1 At the commencement of each Audit Review, an Audit Brief (**Annex A**) will be prepared and issued to the relevant Divisional Director and responsible Manager. This Brief will identify the objectives of the review and areas to be covered. This Brief will be subject to agreement between the client (Council Service) and the auditor.
- 5.2 At the conclusion of each review, an end of review meeting will be held with the client (usually Service Manager) to discuss the matters arising. The Divisional Director may be involved at this stage. Wherever possible this meeting will occur before a 'draft' audit report is produced.
- 5.3 Following the conclusion of the audit review work a 'draft' audit report will be issued to Management. The report will provide a graded 'Assurance Level' (see ANNEX B); a summary of identified strengths & weaknesses; and a detailed action plan recording weaknesses and recommendations.
- 5.4 The nominated responsible Manager is required to respond to the audit findings and recommendations and prepare an action implementation plan recording responsible officers and timescale for implementation.
- 5.5 The management comments and implementation plan are compiled into a 'final' version of the report. This is issued to the recipients of the 'draft' version and the Divisional Director. It should be noted that the relevant Strategic Director will be informed of the outcome of all work carried out by the Audit & Risk Team on a quarterly basis.

Audit Review ‘Follow-Ups’:

- 5.6 Internal Audit reports / recommendations are subject to “follow-up”. The objective of this process is to ensure actions are implemented within the agreed timescales.
- 5.7 All recommendations are subject to ‘follow-up’. The process is dependent on the risk classification of the weaknesses / recommendations. For all ‘Low’ and ‘Medium’ risk recommendations, management are required to confirm implementation of actions. For all ‘Critical’ and ‘High’ risk recommendations the Audit & Risk Team will carry out appropriate testing to confirm implementation.
- 5.8 The findings of Audit Review ‘Follow-Up’ will be reported to the relevant manager(s) and the Divisional Director. As stated in 5.5 above the relevant Strategic Director will be informed of the outcome of this work.

6. Investigation of Financial Irregularities:

- 6.1 The Internal Audit function does not have responsibility for the prevention and detection of fraud and other financial irregularities. The staff of the Audit & Risk Team will however be alert in all their work to the possibility of theft, fraud, corruption and bribery.
- 6.2 Members of staff working within the Council are required to report any possible wrongdoing. The Audit & Risk Team will provide a professional response to any such reports received. In this respect, attention is drawn to the Council’s own Anti-fraud & Corruption and Whistle blowing policies. These can be found on the ‘Internal Audit’ website.

AUDIT BRIEF



Client	Divisional Director / Head of Service / Other Service Area
Audit Area	e.g. Legal Services

1. Purpose of Audit	The audit will review the risks and internal controls related to the scope of the audit (detailed below) and provide management with an audit opinion on the adequacy of the framework of internal control including an Assurance Level grading.
2. Scope of Audit Review	<p>This audit of xxxxxx will review the following key control objectives:</p> <ul style="list-style-type: none"> • Appropriate financial management arrangements are in place to ensure that income and expenditure related to legal cases is promptly and accurately coded with the approval of the 'responsible' Officer (budget holder). • All legal records / documentation including 'Property Deeds' can be accessed without undue delay by authorised personnel and are safeguarded in compliance with relevant Information Governance Legislation and Council adopted standards and policies. • The Service complies with Contract Standing Orders, relevant EU Procurement Directives and other Council procurement procedures including transparency arrangements, when engaging external legal services. • A performance monitoring system is in place to ensure that the Service provides effective legal support to the Council.
3. Access Requirements & Timescales	<p>Access to all systems, records and personnel as required, to complete the review.</p> <p>The audit fieldwork will commence in {Month} {Year}. Based on the scope of the audit the 'Draft' audit report should be available in {Month} {Year}. If the scope of the review is altered you will be consulted / informed.</p>
4. Audit & Risk Personnel	<p>Dave Mehew - Audit Team Leader Mark Wheeler - Senior Auditor</p>
5. Audit Report	<p>A written report will be produced at the completion of the audit. The report will provide:</p> <ul style="list-style-type: none"> • An audit opinion on the framework of internal controls. • An 'Assurance Level' grading based on the assessment of the risks and the internal controls related to the key control objectives being reviewed (Scope of Audit). • An Action Plan recording system / control weaknesses, associated risk(s) and the recommended actions(s).

<p>6. Standards</p>	<p>The Audit & Risk Team operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The Team / Service 'Terms of Reference' have been agreed by Members and more details about the work of the Audit & Risk Team are available on our intranet web pages.</p>
<p>7. Service Management Responsibilities</p>	<ul style="list-style-type: none"> •Review and agree Audit Brief. •Inform all relevant staff of the scheduled audit. •Respond promptly to all reasonable requests for access to systems, records and personnel. •Attend a meeting to discuss 'Draft' Audit Report and agree on recommendations to be implemented and timescales. •To monitor the implementation of agreed audit recommendations (consider the use of Team / Service Risk Registers). •To provide confirmation of implementation status of audit recommendations during the Audit & Risk 'Follow-Up' process. (Note: The Audit Risk 'Follow-Up' Review will be timed based on the implementation dates of agreed audit recommendations).

Audit Opinions

Assurance Level 5 - Excellent Control Framework

The administration and management of the system of internal controls was excellent and reasonable assurance can be provided over all the areas within the audit scope.

- *Assurance Level 4 - Good Control Framework*

The administration and management of the system of internal controls was good and only minor weaknesses were identified from the areas detailed in the audit scope.

- *Assurance Level 3 – Adequate Control Framework*

The administration and management of the system of internal controls was adequate. However, there are a number of areas which require improvement.

- *Assurance Level 2 – Weak Control Framework*

The administration and management of the system of internal controls was weak and reasonable assurance could not be provided over a number of areas detailed in the audit scope. Prompt action is necessary to improve the current situation and reduce the risk exposure.

- *Assurance Level 1 – Poor Control Framework*

The administration and management of the system of internal controls was poor and there are fundamental weaknesses in the areas detailed in the audit scope. Urgent action is necessary to reduce the high levels of risk exposure.

Contact Details

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