
**Bath & North East
Somerset Council**

Risk & Assurance Service

Internal Audit Annual Plan

April 2011 - March 2012

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1. Introduction:

- 1.1 The purpose of this document is to explain:
 - § The role of Internal Audit
 - § How Internal Audit carries out its work
 - § Relationship with the Council's External Auditor
 - § How the annual plan is prepared, and
 - § Present the draft 2011 / 2012 Annual Audit Plan for consultation
- 1.2 The Internal Audit Service would welcome comments from Service Managers on the contents of this draft Annual Plan. Wherever possible, Audit reviews requested by Managers during the consultation process have been included. All requests are considered taking into account the adopted risk based methodology and available resources.
- 1.3 Comments and suggestions must be received by the 20th April 2011, at the latest, as the Annual Plan will be going to the Corporate Audit Committee for approval, on the 24th May 2011.

2. Internal Audit's Role 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's work is not limited to the Council's financial systems and records, but extends to all activities of the Council. This enables Internal Audit to give an independent and objective opinion on the control environment as a source of assurance to management.
- 2.2 The service objective of Internal Audit is produced in the form of an Annual Plan, which is presented for approval to the Council's Audit Committee each year.
- 2.3 As part of the annual opinion Internal Audit will report on its own compliance with the CIPFA Code of Practice for Internal Audit. This will be achieved by continually monitoring it's own performance.

Internal Audit Independence:

- 2.4 A critical element of the performance of Internal Audit is independence from the activities it audits. This enables Internal Audit to form impartial and effective judgment for the opinions and recommendations made.
- 2.5 To help ensure independence, Internal Audit is allowed unrestricted access to Senior Management & Members, particularly, the Leader of

the Council, the 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, reports in his own name.

- 2.6 The Internal Audit service form part of the core governance structure of the organisation and its input is required as part of the Annual Governance review. This Review is carried out by the Risk & Assurance Service on behalf of the organisation.

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, the Audit Commission, 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 already issued a plan for the audit of the 2010/11 accounts.
- 3.2 The Audit Commission have identified what they consider are the key controls, from the material financial systems, which they will test over a 3 year rolling period.
- 3.3 However, the Audit Commission seek to place as much reliance as possible on the work of Internal Audit on the key financial systems. As part of this approach, Internal Audit has agreed to carry out particular reviews within the Audit Commission's annual plan, using their methodology. The intention will be for the Audit Commission to place reliance on this work in coming to their opinion.
- 3.4 The relationship between Internal Audit and the Council's External Audit should take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on the Council's financial statements, whilst Internal Audit is responsible for assessing the adequacy and effectiveness of the internal controls and advising Management accordingly.
- 3.5 Internal Audit will co-operate and co-ordinate with External Audit to:
- Ensure that duplication of work is minimised
 - Consider joint delivery where appropriate
 - Determine the level of assurance that can be obtained from their work
 - Review the reliance that can be placed on that assurance as part of Internal Audit's opinion on the control environment
 - To enable access to all Internal Audit records as appropriate

4. Preparation of the Annual Plan:

The Internal Audit Service has adopted a risk based approach in determining its Annual Plan and carrying out individual reviews.

Internal Audit 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 – 2011/12

Criteria
A Risk on the Corporate Risk Register
An Improvement Priority within the Corporate Plan
Time since Last Audit Review
Assurance level last Audit
Considered as a Core system
Impact of failure on organisation
Size of budget/Turnover
Inherent risk
(including content of Service Risk Registers maintained)

- 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. In previous years, an allowance has been deducted from available productive days to cover ‘unplanned work’. Unplanned work consists of the investigation of irregularities and consultancy work. However, a decision has been taken to present what the Service would like to audit during the year and how ‘unplanned work’ impacts on the achievement of the plan. In consequence, when the need arises to redirect resources to unplanned work, planned audit reviews, with the lowest risk rating, will be deleted from the Annual Plan.

- 4.3 The application of the Risk Assessment provides details of auditable areas that should be included within the Audit Plan, by identifying a rating for each area of Critical, High, Medium and Low Risk. Included within this are:
- § The Council's Core financial systems
 - § A dedicated Anti-Fraud plan
 - § A dedicated IT plan
- 4.4 Whilst the Avon Pension Fund is included in the overall Audit Plan, it is separately reported to the Pension Fund. However, the same methodology and criteria are adopted.
- 4.5 Following the inclusion of requests from Senior Management, the Annual Plan is created, with strict limitations imposed through the available resources.
- 4.6 In view of the ever changing environment in which Local Government exists the Internal Audit Annual Plan will be reconsidered in September / October 2011 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 Service Managers.

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

5. Internal Audit Methodology:

Individual Assignments:

- 5.1 At the commencement of each Audit assignment, 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 Service and the auditor.
- 5.2 At the conclusion of each assignment, an end of review meeting will be held with the Manager responsible for the Service to discuss the matters arising, including both strengths and identified weaknesses. The Divisional Director may be involved.
- 5.3 Following this meeting, a draft report will be issued to Management, highlighting strengths & weaknesses, along with any appropriate recommendations. This draft report will include an opinion on the adequacy of controls (**Annex B**) within the area audited and an assessment of the risk to the Council.
- 5.4 The responsible Manager will be required to respond to recommendations and prepare an implementation plan within an agreed timetable.

- 5.5 A final report is then issued to the Divisional Director and appropriate Service Management.

Follow-ups:

- 5.6 Internal Audit reports / recommendations are subject to “follow-up”. The objective of this process is to ensure agreed actions are implemented within the agreed timecales.
- 5.7 The follow-up process will concentrate on ‘Critical’ and ‘High’ recommendations ensuring that any failure to implement as agreed is promptly highlighted to management. ‘Medium’ and ‘Low’ risk recommendations will also be followed up but Internal Audit resources will be focussed on the more significant audit findings and recommendations when carrying out follow ups.

6. Internal Audit Fraud related work:

- 6.1 Internal Audit does not have responsibility for the prevention and detection of fraud. Internal Audit staff, however, shall be alert, in all their work, to risks and exposures that could allow fraud or corruption.
- 6.2 Members of staff working within the Council must report any possible fraud and irregularities to the Internal Audit Service. 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.

7. Performance Management:

- 7.1 To aid continuous improvement in quality and performance, the Audit Service has its own Quality Performance Indicators (QPI’s), the details

of which are shown below. These feed through to the Risk & Assurance Service performance indicators.

Performance Indicator	Target	Frequency
% of Critical / High & Medium Risk Recommendations implemented by Services	90%	Monthly
% of Audits completed within time allocated	80%	Monthly
% of Services which have an Internal Control Framework assessed as Excellent, Good or Adequate	80%	Monthly
% of Services which rate Internal Audit as Excellent or Good	90%	Quarterly
% of Savings when comparing cost of Internal Audit against the Unitary Average	5%	Annual
% of Council Budget where there is no identifiable fraud	99.9%	Annual
For Final Reports issued in the reportable quarter, % of Final Reports issued within 4 months of the issue date of the Audit Brief	80%	Quarterly
% of chargeable time spent on planned work	60%	Quarterly
% of Core Financial Systems reviewed within the Annual Audit Plan	85%	Annual
% of Audit assignments in the Annual Audit Plan completed at year end.	90%	Annual
% of queries & enquiries dealt within 5 working days of being logged	90%	Quarterly

ANNEX A

AUDIT BRIEF

**Bath & North East
Somerset Council**

Client	DIRECTOR/HEAD OF SERVICE ETC
Audit Area	TITLE OF AUDIT

1. Purpose of Audit	<p>This will depend on the audit approach taken (see next section for options) but in the vast majority of instances it will be –</p> <p><i>‘To provide the Client with assurance on the adequacy of the framework of risk controls in relation to the..... ‘</i></p>
2. Audit Review Methodology	<p>Detail here the type of audit you are performing and then the scope. Different audit approaches include –</p> <p>Risk Based Audit ICQ/KCQ/Systems Audit Questionnaire Risk Workshops Risk Register Analysis Probity Testing Consultancy Projects Systems Development</p> <p>So if it is a Risk Based Audit of Pensions Administration for instance you would say –</p> <p><i>Methodology adopted will be a Risk Based Approach which will:</i></p> <ul style="list-style-type: none"> <i>a) Ascertain and document the current systems</i> <i>b) Evaluate, test and assess the internal controls in place to mitigate risk</i> <i>c) Report on the adequacy and effectiveness of the internal controls in place to mitigate the identified risks</i>
3. Areas to be Reviewed	<p>Detail here the key areas you wish to review in the audit. This replaces the Control Objectives section but effectively means the same thing. These must be understandable to the Client, avoid jargon and be as concise as possible. You must agree these with whoever the Audit Reviewer is on each review before issuing to the Client.</p> <p>The Areas you include here should match in the vast majority of cases the areas you include in Section A – Assurance Summary of the Report Format.</p>

<p>4. Timescales</p>	<p><i>The audit will be carried out over a three month period from the date the brief is agreed by the Client. If the scope of the review or areas to be reviewed should be altered then revised timescales will be agreed with the Client.</i></p> <p><i>As part of the Audit process we will make every effort to minimise the impact on your service and aim to give adequate notice to any requests for information or officer time.</i></p>
<p>5. Key Contacts/ Access Required</p>	<p>Contacts: Indicate here the key people you will deal with plus their extension no. or e-mail ref plus the names/extension numbers of the relevant auditor(s)</p> <p>Access Required: <i>Access to all systems, records and personnel as required to complete the review</i></p>
<p>6. Audit Output & Management Response</p>	<p>Audit Output: <i>A written report will be produced at the completion of the audit in draft and final form. This will detail an evidence based opinion, summary of assurance over each of the areas being reviewed and a risk based Action Plan.</i></p> <p>Management Response: <i>The Client should designate a key contact to agree the audit brief and to also complete the Action Plan contained within the report. All reports and audit briefs will be copied to the Divisional Director as a matter of course.</i></p> <p><i>It will be the responsibility of the Divisional Director to ensure that the Audit Brief is approved within 7 days of issue and the Action Plan contained within the Audit Report is completed and returned to Internal Audit within 2 weeks of the date of issue of the report.</i></p>
<p>7. Standards</p>	<p><i>The Internal Audit Service operates under the CIPFA Code of Practice for Internal Audit in Local Government as stipulated by the Accounts and Audit Regulations 2006.</i></p> <p><i>The Service's terms of reference have been agreed by Members and more details about the work of Internal Audit are available on our website.</i></p>
<p>Prepared By</p>	<p>Date</p>
<p>Accepted By</p>	<p>Date</p>

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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