



Watford Borough Council
Audit Committee

Internal Audit Plan 2013-14 Report

13 March 2013

Recommendation

Members are recommended to approve the proposed Watford Borough Council Internal Audit Plan 2013-14

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A Proposed Watford Borough Council Audit Plan 2013-14

1. Introduction and Background

Purpose of Report

- 1.1 To provide the Members with the proposed Watford Borough Council (WBC) Internal Audit Plan 2013-14.

Background

- 1.2 The WBC Internal Audit Plan sets out the programme of internal audit work for the year ahead, and forms part of the Council's wider assurance framework. It is designed to inform the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Head of Internal Audit annual report.
- 1.3 The new United Kingdom Public Sector Internal Audit Standards (PSIAS) will apply across the whole of the public sector from 1 April 2013. The Terms of Reference for Internal Audit will be updated to reflect the new PSIAS and the transfer of the internal audit function to the Shared Internal Audit Service. This will be captured in an Audit Charter which will be presented to Audit Committee in June 2013.
- 1.4 The PSIAS require that the audit plan 'must incorporate or be linked to a strategic or high-level statement of how the IA service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities'. Section 2 of this report is provided in order to fulfil this requirement.

2. Audit Planning Process

Planning Principles

- 2.1 The SIAS Audit Strategy contains eight planning principles which underpin our approach to overall audit planning:
- Focus assurance effort on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principal risks; pitching coverage, therefore, at both the strategic and key operational aspects of the business;
 - Maintain up-to-date awareness of the impact of the external and internal environment on the organisation's control arrangements;
 - Use a risk assessment methodology to determine priorities for audit coverage based, as far as possible, on management's view of risk;
 - Take account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising, in a resource constrained environment, that there will be situations when not all needs can be met;

- Identify responsibilities for auditing any services which are delivered in partnership;
- Ensure flexibility so that the plan evolves through the year in response to emerging risks and issues;
- Provide for the delivery of key commitments, such as work done in support of the External Auditor and to deliver governance and counter fraud responsibilities;
- Include provision for responding to management requests for assistance with special investigations, consultancy and other forms of advice.

Approach to Planning

2.2 The approach to planning comprises:

- A Chief Financial Officers (CFO) workshop to identify and assess emerging risks and any assurance requirements for these risks. The workshop also identified potential joint reviews that could be conducted across SIAS partners;
- Initial discussions with members of the senior management team and identified key officers within the Council to identify risks, and confirm and complement the results of the CFO workshop;
- Application of a risk assessment approach that reflects management's assessed view of risk as well as the view of Internal Audit. Appendix A shows the risk assessment and audit desirability model which has been used to prioritise proposed audit activity;
- Application of a risk assessment approach that reflects management's assessed view of risk as well as the view of Internal Audit;
- Cross-comparative work across the 2013-14 plans conducted for all partners of the SIAS;
- Preparation and discussion of draft plans.

2.3 Given that this is a transitional year and SIAS does not formally take up its new role until 1 April 2013 there is, at the time of writing, still further work to do to

- Ensure clarification of the requirements of External Audit, and
- Ensure that the plan is widely discussed with all senior managers and finalise the proposed plan, particular in respect of operational audit coverage.

Any amendments to the plan resulting from these further discussions will be advised to the Committee as necessary.

2.4 The aim of our planning approach is to ensure that our work gives assurance on what is important and risky, and by doing so, assist the Council in achieving its objectives.

The Planning Context

2.5 The following considerations have informed the planning process this year:

- a) The challenging context for local government, housing organisations and the general governance, risk management, and internal control environment:
- Further funding reductions taking effect;
 - Efficiency and transformation programmes altering the nature and structure of Councils;
 - Greater transparency and scrutiny of public expenditure.
- b) The challenge of giving value in this context, which means that Internal Audit needs to:
- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk management and control arrangements in delivering the achievement of Council objectives;
 - Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective;
 - Give assurance which covers the control environment in relation to new developments, using leading edge audit approaches such as 'control risk self assessments' or 'continuous assurance' where appropriate;
 - Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses.

Internal Audit Plan 2013-14

- 2.6 The draft plan for 2013-14 is included at Appendix B and contains a high level proposed outline scope for each audit and a suggested quarter for delivery.
- 2.7 The table below shows the estimated allocation of the total annual number of purchased audit days for the year. Operational audits are subject to further discussion and confirmation and any amendments will be advised to the Audit Committee as necessary.

| | Watford BC | Shared Service |
|------------------------------|-------------------|-----------------------|
| Purchased audit days | 148 | 170 |
| Key Financial Systems | 21 | 118 |
| Operational audits | 84 | 30 |
| Joint Reviews | 1 | 2 |
| Governance & Risk Management | 10 | 0 |
| IT Audits | 0 | 20 |
| Strategic Support* | 32 | 0 |
| Contingency | 0 | 0 |
| Total allocated days | 148 | 170 |

* This covers provision of the servicing the Audit Committee, Audit Planning and Annual Reporting and External Audit liaison, along with work to follow up the implementation of agreed audit recommendations.

Internal Audit Plan 2014-15

- 2.8 During audit planning discussions with the senior managers of the Council the following areas were identified as potential audits for the 2014/15 financial year:
- a) Future IT Strategy
 - b) Channel Shift
 - c) Introduction of Community Infrastructure Levy
 - d) Economic Development Strategy
 - e) Effectiveness of arrangements for oversight and governance relating to the Health Campus Development
 - f) Review of new election system (for 15/16 financial year)
- 2.9 The above audit areas will be formally risk assessed for inclusion in the 2014/15 audit plan in 12 months time.

3. Performance Management

Update Reporting

- 3.1 The work of Internal Audit is required to be reported to a Member Body so that there is an opportunity to review and monitor an essential component of corporate governance and gain assurance that the Councils internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan. Progress against the agreed plan for 2013-14 and any proposed changes will be reported to this Committee four times in the 2013-14 civic year.
- 3.2 The implementation of agreed high priority recommendations will be monitored by Internal Audit and progress will be reported as part of the update reporting process.

Performance Indicators

- 3.3 Annual performance indicators were approved at the SIAS Board meeting on the 7 September 2011. Details of the targets set for 2013-14 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

| Performance Indicator | Performance Target |
|--|---------------------------|
| 1. Planned Days percentage of actual billable days against planned chargeable days completed | 95% |
| 2. Planned Projects percentage of actual completed projects to draft report stage | 95% |

| | |
|--|---|
| against planned completed projects | |
| 3. Client Satisfaction percentage of client satisfaction questionnaires returned at 'satisfactory' level | 100% |
| 4. Number of High Priority Audit Recommendations agreed | 95% |
| 5. External Auditor Satisfaction | Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS' work |
| 6. Annual Plan | Presented to the March meeting of each Audit Committee. Or if there is no March meeting then presented to the first meeting of the new financial year |
| 7. Head of Assurance's Annual Report | Presented to the first meeting of each Audit Committee in the new financial year. |

Appendix A

Audit Planning Risk Assessment

During audit planning discussions managers are asked to evaluate identified emerging risk areas according to two criteria

- The significance of the emerging risk
- The desirability of audit activity in the area

The framework for scoring both criteria is below.

Risk Voting Criteria

A four point scale is used to score risk areas:

| | |
|--------------------------|--|
| Severe A | <ul style="list-style-type: none">• Managers are most concerned about this risk.• The consequences will have a severe impact on the delivery of priorities.• Comprehensive management action is required immediately. |
| Significant B | <ul style="list-style-type: none">• Managers are concerned about this risk.• The consequences of the risk materialising would be significant, but not severe.• Some immediate action is required plus the development of an appropriate action plan. |
| Material C | <ul style="list-style-type: none">• Managers are uneasy about this risk.• Consequences of the risk are not significant and can be managed through contingency plans.• Action plans can be developed later to address the risk. |
| Manageable D | <ul style="list-style-type: none">• Managers are content to tolerate this risk.• Consequences of the risk are considered relatively unimportant.• The status of the risk should be reviewed periodically. |

Desirability Voting Criteria

A five point scale is used:

| | |
|---|---|
| Highly Desirable 1 | Assurance activity will have a positive effect and be extremely beneficial / give high value in 13/14 with clear opportunity for joint work |
| Desirable 2 | Assurance activity will have a positive effect with minimum negative effects; work will be beneficial and give value in 13/14 |
| Neither Desirable nor Undesirable 3 | Assurance activity will have a neutral effect and give some limited benefit and some limited value in 13/14 |
| Undesirable 4 | Assurance activity will have no positive effect, and give no benefit or value in 13/14 |
| Highly Undesirable 5 | Assurance activity will be detrimental in 13/14 |