

CAERPHILLY COUNTY BOROUGH COUNCIL**INTERNAL AUDIT SERVICES****ANNUAL AUDIT PLAN 2014/15****1. Purpose of the Report**

The purpose of the report is to outline the intended allocation of audit time for the financial year ending 31st March 2015.

2. Introduction

- 2.1 The Auditing Practices Board guidelines (endorsed by the Chartered Institute of Public Finance and Accountancy) and the Council's own Financial Regulations require that an Audit Plan should be prepared to ensure that there is an effective and efficient use of audit resources. At a previous Audit Committee a Five Year Strategic Plan based around an ongoing risk assessment was presented and approved. The 2014/15 Annual Plan is broadly based on the Strategic Plan and the purpose of an annual plan is to outline the resources available and set out the intended allocation of audit time for the forthcoming year. Actual work carried out will be regularly assessed against the Plan.
- 2.2 During the coming year as the Authority continues to review its operations, its methods of delivery and its performance the delivery of the internal audit service may have to flex to accommodate changes to service delivery models and to take account of emerging risks as the Authority reshapes itself. This process will not be confined to the coming year and the level and impact of any flexing cannot be gauged at the present time however as identified in previous annual plan reports to the Audit Committee resource priority will always be given to high risk areas, new or existing.
- 2.3 In addition to the Authority wide landscape changes the internal audit service is in the process of re-examining its strategy and approach in response to the requirements of the new Public Sector Internal Auditing Standards and the developing risk management and governance agendas.
- 2.4 Additionally, the service has recently undergone a health check review as part of the special inspection on the Council's governance arrangements undertaken by the Council's external auditors. An action plan emanating from the inspection report was agreed by Council on 28th January and Internal Audit Services is now working to realign its working practices and audit coverage in response to the detailed issues identified.
- 2.5 A follow up meeting with the external auditors took place on 17th February and a second Audit Committee workshop is being planned to further align the audit plan coverage to strategic risks.
- 2.6 It is considered that changes or adjustments to either service delivery or coverage will have to be introduced on a rolling basis with a view to maintaining the level of service

and keeping operational disruption to a minimum. The effect of this being that the 2014/15 plan will evolve over time as the effect of increased engagement and profile filters through.

3. Staffing

- 3.1 The establishment level of the Internal Audit Section for 2014/15 is 9.2 FTE's which although reducing from the previous year continues to mirror the Welsh average.

4. Plan

- 4.1 An outline of the 2014/15 Annual Audit Plan showing the audit days allocated to the main service areas is attached as Appendix A. In preparing the Plan, due consideration has been given to the Five Year Strategic Plan, previous years' coverage and any "local factors" as well as acknowledging themed areas that are linked to priorities highlighted in the Auditing Standards.

In addition to the above due regard has been made to the following:

4.2 Systems

4.2.1 System audits continue to receive a high level of resource allocation. The Five Year Strategic Plan has highlighted the requirement to review certain "high risk" systems on an annual basis, either by undertaking a full audit or carrying out an "overview" of system controls. This allocation also allows the expansion of the service into cross cutting reviews and specific risk or business related projects as identified on an ongoing basis.

4.2.2 Throughout the year Internal Audit staff will continue to have a role to play in both advising on the introduction of new systems and in undertaking regularity checks to ensure that the risks inherent in systems are minimised.

4.2.3 Internal Audit will liaise with the Council's external auditors in order to ensure that fundamental systems receive adequate coverage to satisfy the External Auditors' "managed audit" requirement and prevent duplication of effort.

4.2.4 A total of 630 audit days are therefore allocated to systems audit/reviews.

4.3 Establishments

4.3.1 The majority of council establishments continue to receive a visit over a three to five year period and a more structured approach to establishment audits has been established to ensure that audit resources are deployed where most benefit can be achieved. It is intended to review the focus of these audits and consider alternative approaches that incorporate a greater link with the governance and risk agendas. This review will take place throughout the year as part of the drive to change to change the focus of the service. A rolling

visiting schedule covering all establishments has been set up, and a schedule of visits relating to 2014/15 is shown as Appendix B.

4.3.2 In addition to ensuring that the link between the establishments and the “corporate centre” are strengthened, it is hoped that the more structured approach to establishment audits will continue to:

- highlight the need for probity in financial administration;
- deal with problems where advice and assistance are required;
- identify any significant areas where procedures are weak;

and, on a more positive note, continue to promote best practice across a wide range of establishments.

4.3.3 A total of 340 audit days have been allocated to this area.

4.4 Contract Audit

4.4.1 The move to a more pro-active system based approach to contract auditing will continue and will be further developed by moving the focus to auditing schemes as they progress. The more traditional approach of auditing contractors' final accounts will continue and information obtained via the final account audits will be used to complement the systems work.

4.4.2 Internal Audit staff will continue to work closely with staff from Procurement Services to promote a high level of contract compliance throughout the Council. It is also anticipated that during 2014/2015 resource will continue to be focussed on ensuring the successful implementation of revised Standing Orders and Financial Regulations and there will also be ongoing coverage in respect of the developing arrangements in respect of the WHQS works.

4.4.3 A total 200 days have been allocated to the audit and review of contracts.

4.5 Computer Audit

4.5.1 Computer auditing continues to be an area of concern due to the speed and complexity of developments in the IT arena.

4.5.2 In an effort to ensure that resources are used in the most effective way a comprehensive computer audit needs assessment was carried out during 2000/1, which was re-assessed as part of the recent wider audit risk assessment process. The needs assessment has formed the basis of a rolling programme for computer audit coverage which is constantly reviewed and updated to address emerging issues and varying priorities.

4.5.3 In addition to the above the designated computer auditor is working closely with staff within the IT Section to design and build control mechanisms into all new IT applications / environments. The auditor will also continue to contribute to the IT Section's Security Standard.

4.5.4 A total of 145 audit days have been allocated to this area. This allocation of time is additional to the time spent reviewing computer based systems.

4.6 Corporate/Other

4.6.1 An action plan review process is in place to monitor the implementation of agreed actions as the final part of the audit cycle. This work is regarded as additional to the actual audit as it provides assurance on a corporate basis that agreed recommendations are being implemented by managers. Additionally in order to provide reports to, and address any issues emanating from, the Audit Committee, a time allocation has been included.

4.6.2 The Internal Audit Section also co-ordinates and contributes work in respect of the National Fraud Initiative, the production of the Annual Governance Statement and the periodic reviews of Standing Orders for Contracts and Financial Regulations and provides support to the Council's technical officers panel.

4.6.3 As part of the ongoing process to improve the scope of the audit reviews assurance work has been included which will further align the audit coverage to that identified in the audit standards and contribute to the overall assurance provided by the service. Specific focus for 2014/15 will be around fraud, the SIRO role (including information governance) and risk management.

4.6.4 A total of 158 days have been included in the Plan to cover such topics.

4.6.4 In anticipation of "unplanned" issues arising during the year, such as special investigatory work, and work brought forward from the previous year, days have been allocated as a general contingency. This approach should reduce problems with audits having to be postponed or cancelled and make the audit plan more aligned to actual eventualities. A total of 80 days (5%) has been allowed for this.

4.7 Non-Audit Days

4.7.1 Certain tasks are carried out by the Internal Audit Section that do not technically fall within the precise definition of internal auditing, but for ease of administration and corporate benefit are, at the present time, carried out by internal audit staff.

4.7.2 The following list is indicative of those tasks:

- Co-ordination / monitoring of anonymous letters received.
- Returned cheques - control and administration.

4.7.3 A total of 145 days have been allocated to these tasks.

5. Summary

- 5.1 The report has dealt with the allocation of audit resources and highlighted the main areas of coverage.
- 5.2 The plan continues to reflect a proactive and constructive approach to Audit matters.
- 5.3 The desire to “continually improve” will have an impact on the way audit functions in that there is a continuous need to ensure that we provide a service of the highest quality at the most competitive cost.
- 5.4 In the coming months there is also a need to consider the impact of the new auditing standards on both service delivery and coverage and the service will be working with the Audit Committee to reset the focus of the audit coverage and realign the direction of travel to improve the service to meet the constantly changes demands placed upon it.
- 5.5 Additionally consultation will take place with audit “clients” and our External Auditors throughout the year and their views and future requirements will be taken on board in the ongoing development of audit service provision.
- 5.6 Audits which due to unforeseen reasons were not carried out in the previous year have been re-assessed and prioritised and if considered appropriate have been included in the Plan. Similarly, areas for audit included in the 2014/15 Annual Plan which, due to unforeseen circumstances, are not audited within the forthcoming year will be assessed for inclusion in future year plans. The Plan must therefore be viewed as a fluid document which is able to respond to new or emerging issues.

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