



INDICATIVE DRAFT INTERNAL AUDIT PLAN

(2015/2016)

Internal Audit Strategy & Approach

1. Purpose

- 1.1 The overall purpose of the Internal Audit work plan is to provide the framework for the use of audit resources and a yardstick for measuring audit performance.

2. Audit Strategy

- 2.1 In the context of the Council's financial position, the vision of the Council is to ensure we continue to prioritise all we do to help narrow the gaps within Reading.

- 2.2 To demonstrate this, there is a strong focus in the Council's Corporate Plan to ensure that the Council will live within its means, reducing costs wherever possible and investing scarce resources wisely so that service pressures and priorities are recognised and can be funded accordingly.

- 2.3 To support this aim, Internal Audit will provide independent, objective assurance and consulting activities designed to add value and improve the Council's operations. It will help the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

- 2.4 Specifically, the Internal Audit strategy is to:

- Provide assurance that both strategic and key operational risks are being managed,
- Review corporate and service arrangements for risk management.
- Carry out auditing of significant core financial systems such as payroll and accounts payable etc and to verify financial control.
- Carry out reviews of service systems and developments to provide management with assurance as to the adequacy of the control environment and the systems in place for ensuring proper economic, efficient and effective use of resources.
- Verification that the Council's Contract Standing Orders and Financial Regulations are being observed.
- Carry out periodic visits to all LA maintained schools throughout the borough to verify, by means of testing and review, that good financial control is practised. Regularity of visits will be determined on a risk basis including assessment of submitted SFVS returns and may be supplemented by thematic reviews across a number of other establishments such as primary schools, dependent on available resource.
- To promote the Council's anti-fraud and corruption strategy and to carry out investigations of suspected frauds and irregularities.
- To provide advice and support to managers as required.

- 2.5 The effectiveness of Internal Audit in delivering the strategy through the annual audit plan will be monitored by the Audit and Governance Committee. This Committee will receive reports from the Chief Auditor detailing key issues and a summary of the audit findings. The progress of audit recommendations implemented by each Directorate will be reviewed by Audit & Governance Committee as part of the annual audit report submitted by the Chief Auditor.

3. The Risk Assessment Process

- 3.1 The information which has been used to prepare our risk assessment and proposed internal audit plan has been collected and collated from a number of different sources. The starting point for a risk based audit approach is an understanding of the Council's objectives and risks. This has been achieved by reviewing the Council's Strategic risk registers and interviewing Directors and Head of Service asking where they perceive to be the 'headline' risks within their individual areas and where they would require internal audit to provide assurance that such risks are being effectively mitigated and managed. This information is used to inform and design the audit plan. The plan is based on an underlying risk assessment. The inherent risks existing within each area are then identified for audit as part of the audit planning process. The audits which make up the plan have been assessed on priority.

4. The Internal Audit Plan

- 4.1 An annual plan is derived following the audit risk assessment, whereby audits will be selected based on the greatest perceived inherent risk. We will ensure that most effort is focused on inherently high risk areas while, at the same time, not totally ignoring the potential for problems to materialise in other areas.
- 4.2 Whilst Internal Audit will adopt a risk based approach to determine relative risk, there will remain areas where a purely cyclical approach will still be required, i.e. the audit of key financial systems. Such audits will be undertaken on an annual basis, largely to satisfy the requirements of the external auditors who seek to place reliance on the work of internal audit.
- 4.3 The Chief Auditor in liaison with the Head of Finance will keep progress against the audit plan, and the content of the plan itself, under review. The Corporate Management Team and the Audit and Governance Committee will also be advised of performance against the Audit Plan and be kept informed of the audits undertaken.

5. Resources

Resource Requirements

- 5.1 Resource requirements are reviewed each year as part of the audit planning process and are discussed with the Head of Finance. The impacts of the financial pressures with the requirements to generate efficiencies and hard savings have seen internal audit resources reduce over the last few years from ten to six staff (including the Chief Auditor); in addition 100 days is to be provided to Bracknell Forest Council under a shared agreement and support is being offered to manage the Council's insurance programme. This effectively equates to resources of 4 audit staff to cover RBC arrangements.
- 5.2 Achievement of the audit plan is based on the assumption that the current internal audit structure will remain essentially unaltered and intact throughout the year. An indicative audit plan can be found in appendix A.

Contingencies

- 5.5 The internal audit plan needs to be fluid and flexible enough to enable the internal audit service to be reactive as required to situations arising during the course of the period covered by the plan. A contingency reserve element has been built in, to assist in dealing with any such matters arising and/or for internal audits to assist in any investigations. The contingency equates to approximately 14% of the audit plan.

Fraud & Irregularities

- 5.6 As part of Welfare Reform, the Government created a Single Fraud Investigation Service (SFIS) nationally and our investigation work on Housing and Council Tax Benefit was transferred across to the Department for Work and Pensions (DWP) along with some of our staff on the 1st December 2014.
- 5.7 The Reshape of the Audit & Investigations Team as a consequence of the Single Fraud Investigation Service led to a reduction of 6 FTE posts, including one senior internal auditor post. The Council agreed to retain a small investigations resource, which has merged with the Internal Audit team.
- 5.8 The longer term plan is for the team to become more generic, but this needs to be undertaken with sufficient training and support, but in the meantime internal audits will assist in investigations as and when needed.
- 5.9 Any time allocated for investigations or in the unlikely event that the contingency reserve is not required; it could and would be reallocated to specific audit tasks as subsequently agreed with clients and the Corporate Management Team.

6. Delivering the Audit

- 6.1 All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement. Any key (serious) issues arising during the course of the audit review will be promptly reported to the Chief Auditor to determine impact on the scope of the review. Key issues will also be promptly brought to management's attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.
- 6.2 The auditor will draft a report and arrange to meet with management, to ensure factual accuracy of the audit observations and findings and to ensure a proper understanding of the risks to which any action plan relates. These meetings should take place in accordance with dates agreed in the terms of reference or within two weeks of completion of the audit fieldwork, whichever is the sooner.
- 7.4 Management will be required to provide a response to the action plans. Any areas of disagreement between the auditor and management, regarding audit's observations and/or the auditor's assessment of current risk exposure, which cannot be resolved by discussion, will be recorded in the action plans.
- 7.5 Following discussion of the draft report the auditor will draft a clear, concise and constructive report, following a standard format, outlining:
- the overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance;
 - audit recommendations, along with management response and implementation date
 - an executive summary of the key findings and conclusions
 - Details of findings, to include an explanation of the risk and the identified control weaknesses.
 - The final report will be issued in the names of the auditor conducting the review and the Chief Auditor.

7. 2015/2016 Assurance Ratings

7.1 The 'level' of opinion provided in the formal report will be based on a simple traffic light system, as follows:

Substantial		<p>Substantial assurance can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with low impact on residual risk exposure.</p>
Reasonable		<p>We can give reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with low to moderate impact on residual risk exposure until resolved.</p>
Limited		<p>Limited assurance can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with moderate impact on residual risk exposure until resolved.</p>
No assurance		<p>There is no assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with high impact on residual risk exposure until resolved.</p>

8. Prioritisation of Recommendations

8.1 In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Priority rating		Current Risk	Action required
Priority 1	●	Poor key control design OR widespread non-compliance with key controls. PLUS significant risk to achievement of a system objective OR evidence present of material loss, error or mis-statement.	Immediate*
Priority 2	●	Minor weakness in control design OR limited non-compliance with established controls. PLUS some risk to achievement of a system objective	Within one month*
Priority 3	●	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration	Within three months*

9. Follow up Reviews

9.1 Whether or not and audit review is scheduled for a follow up is reliant on the assurance opinion given at the time of the audit. Where significant gaps in the control environment have been identified then the audit will be subject to a follow up. The timing of the follow up is very much dependent on available resources, but our aim to complete the follow up within six to twelve months of completion of the audit.

10. Reports to CMT and the Audit & Governance Committee

10.1 A status report on internal audit work will be presented to CMT and the Audit and Governance Committee on a quarterly basis (approximately). The purpose of these reports is to provide an update on the progress made against the delivery of the Internal Audit Plan. The report will provide details of audits completed to date, the assurance opinions given and the number and type of recommendations made. The report will also provide a summary of internal audit performance, planning and resourcing issues.

11. Annual Assurance Report

11.1 A formal annual report to the Audit & Governance Committee and CMT, presenting the Chief Auditor's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, will be published to enable it to be taken into account within the annual review of the effectiveness of the system of internal audit and in preparing the Corporate Annual Governance Statement. The format of the Chief Auditor's report will follow that set out in the Public Sectors Standards for Internal Audit and will include:

- an opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance;
- disclose any qualifications to that opinion, together with the reasons for qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- any issues considered by the Chief Auditor to be particularly relevant to the Annual Governance Statement;
- A comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and
- Comment on compliance with the Public Sector Standards on Internal Audit and internal audit's quality assurance programme.

Safeguarding and protecting those that are most vulnerable

Better Care Fund	This audit will consider the key risks and issues around the set-up (e.g. governance, contractual agreements etc.), implementation (e.g. potential novation of contracts, accounting arrangements etc.), and the ongoing governance and internal control arrangements of the Better Care Fund.
Foster Carer & Adoption (Allowances)	Review allowances and decision book agreement and test to see that they are being applied consistently. This is directly linked to specific actions in the Children's Services action plan.
Child Protection - visiting and recording	IA to test progress on Child Protection plan visiting and look for evidence to confirm it is being kept up to date and is being recorded accurately as per DFE definition in Purple book. Verify children being visited and in line with the definition of the indicator. Ensure audit and exit plan has been developed for children who have been on an exit plan or 15 months. Have they had an audit?
Children Services Performance (Information) Management	We will review selected performance reports and ensure statistics and performance information are aligned with the requirements as defined in the Purple Book and Government returns. Ensuring that these are in place and functioning gives the base point for understanding what performance is expected and how it will be reported to government bodies and to bodies with governance responsibilities. Review records (held within framework), storage and presentation of data. We will look to ensure that reports meet what is needed for government returns.
Nursing & Residential Care Packages	This audit will review the reassessment/review process for care packages of clients in nursing and residential care to ensure that proposed savings are being delivered.
Learning Disability Reassessment/review process	Review progress on implementing plans with a view to make savings to encourage service users to choose to move from non-Supported Living Accreditation Select List (SLASL) providers to SLASL providers. Are savings being delivered? Review the processes and controls supporting the assessment of individuals in order to determine appropriate care packages.

Providing the best life through education, early help and healthy living

School Places Capital programme	This is a continuous review the management of school construction and expansion programmes. A consolidated update report will be provided to CMT & A&G Committee in Q4.
School Audits	Visit a sample of maintained schools to give the Head of Finance adequate assurance over their standards of financial management and the regularity and propriety of their spending.

Providing homes for those in most need

Homelessness	Review the impact of changes on the level of requests being made to the homelessness section following the introduction of welfare reform. Review progress on strategy to mitigate the impact and how the service is sourcing cost effective solutions to meet the demand for emergency accommodation.
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Keeping the town clean, safe, green and active

Refuse & Recycling Collections	Review collection performance, arrangements in place for increasing levels of recycling, how we deal with customer complaints, as well as monitoring costs and collecting income (trade waste). The service has undergone a reshaping exercise and has a new service manager and there is a new fleet of refuse vehicles. Scope needs to be agreed with the new interim head of service.
Waste PFI contract	Complex reconciliations required to ensure all payments balance to Oracle and to the number and value of those made to WRG and those received from BFC and WDC. The following broad areas have been identified for review as part of this audit: Finance, Facilities, Governance, Contract monitoring

Providing infrastructure to support the economy

LSTF - Grant Sign Off	This audit will provide assurance to the Managing Director and Head of Finance who are required to confirm to the DfT that, in all significant respects, the conditions of the specific grant determination have been complied with. As part of this work we will undertake a procurement and contract review of the Park & Ride Scheme and/or Reading Cycle Bridge (Q3). Grant sign off in Q4.
Local Pinch Point Funding (Grant Certification) in Local Transport Capital Settlement	This audit will provide assurance to the Managing Director and Head of Finance who are required to confirm to the DfT that, in all significant respects, the conditions of the specific grant determination have been complied with. As part of this work we will undertake a procurement and contract review of a scheme under pinch point funding to support the grant sign off (Reading Bridge). Scheme review and sign off need to be completed in Q2.

Remaining financially sustainable to deliver these service priorities

Business Rates	Annual systems audit focusing on key controls and any systems changes (not reviewed in 2014/2015)
Debtors system & debt management	The review will examine controls in place to verify that income due is properly identified, collected and accounted for and management receives timely and adequate information to confirm this and provides a sound basis for control and decision making (include social care debt). The review will also assess the level of debt monitoring and reporting arrangements. We will review compliance with the debt write off process, in particular whether write offs are approved correctly.
General Ledger (inc Budget management)	Review the appropriateness of transactions within the general ledger accounting system. The audit will include a review of the processing of journals and virement, reconciliation of control, suspense accounts and feeder systems. We will also look at the creation and maintenance of the coding structure given the Council's reshaping programme.
Creditors (Accounts Payable)	The review will examine and sample test the controls in place to ensure that orders for goods and services are properly authorised and placed, correctly accounted for and comply with Financial Regulations and Procedures. We will sample test a selection of payments to substantiate that payments are correctly coded, made in full and only in respect of authorised invoices. We will also test that controls around the processing of amendments to supplier (bank details) details are robust.
Payroll (iTrent)	The HR/Payroll service has been streamlining services with the introduction of iTrent. This review will look at some of the process changes and review the adequacy of the controls in place to ensure that they are operating as intended.
Framework/MOSAIC (Finance Payments)	To review the process for setting up service providers on the system and accurately of payments made. Ensure financial controls are appropriate in relation to payments to providers
Adult Social Care Income & Charging	This is a follow up of internal audit recommendations made in 2014/15 internal audit review. To review how fees and charges are set, and in particular how these take into account the cost of providing services or the requirement to make a specific contribution. Review whether processes are sufficiently robust and clear around Adult Social Care charging and income collection.
Atrium	Evaluate Atrium in terms of its confidentiality, integrity and availability how the system is to be maintained as a corporate wide system. Particular focus to be given to the quality of the data in the system and how data has been transferred to confirm validity and accuracy.

Asset Management/compliance & condition work (non-housing)

This review will provide assurance on progress of condition survey including asbestos and legionella management schemes in place for each building and the program for fire risk assessments. Review the systems in place to monitor progress.