BUCKINGHAMSHIRE COUNTY COUNCIL

AUDIT & RISK MANAGEMENT SERVICES

STRATEGY 2013/14

Ian Dyson
Chief Internal Auditor

March 2013

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1. Introduction

1.1 This paper details the Internal Audit Strategy, including the resources available and how we will be delivering our service in 2013/14. Detailed work plans will be prepared on a quarterly basis and will be presented to the Regulatory and Audit Committee for approval. The Quarter 1 work-plan for 2013/14 is attached as appendix 2 to this Strategy.

2. Internal Audit Strategy

2.1 The Accounts and Audit Regulations 2011 (S6) state that the Council needs to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with the proper internal audit practices. In 2013, the Institute if Internal Audit (IIA) in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA) published a combined Public Sector Internal Auditing Standards. In April 2013, we are expecting CIPFA to publish a Local Government Practice Note to accompany these standards. Together they will become the "proper practice" referred to in the Accounts and Audit Regulations 2011. In Quarter 1 the Chief Internal Auditor will undertake a self assessment against the revised Local Government standards, and will report back on the findings to the Regulatory and Audit Committee.

2.2 The Public Sector Internal Auditing Standards defines "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

2.3 The Chief Internal Auditor is required to provide an annual report on the System of Internal Control which is used to inform the Council's Annual Governance Statement. In providing this opinion we are required to review annually the financial management, risk management and governance processes operating within the Council. This includes reviewing internal control systems for key processes on a risk basis. The methodology for identifying areas for audit is detailed in section 3 of this report.

2.4 The Internal Audit Service is delivered in collaboration with Oxfordshire County Council, with resources shared between the two Councils.

2.5   A key part of the strategy is ensuring the right skills mix and resources exist to deliver an effective service. There are some changes to the resources for 2013/14:

- The shared post of Risk and Performance Officer will be undertaking risk assurance activity in addition to the technical support on the risk management system and the Integrated Reporting Project. This assurance based work will therefore contribute to the Chief Internal Auditors annual opinion.

- The shared post of Risk and Insurance Officer will also be undertaking risk assurance activity in addition to the technical support, and will therefore also be contributing to the annual opinion.

- The Senior IT Auditor is retiring in April 2013. This is a specialist area of audit, therefore in 2013/14 these days will be procured externally. A needs assessment will be undertaken by the contracted IT Auditor at Oxfordshire, once the need is determined, a procurement exercise will be undertaken. Initially this will be for a year only as at the end of 2013/14 the current IT Audit contract at Oxfordshire ends, presenting an opportunity to consider either recruiting an IT Auditor to operate across both, or to go out to tender for a combined IT Audit provision.

- In 2012/13 an Auditor, part of the BCC establishment, left the organisation. He was not directly replaced. In 2013/14 the allocation of resources has been changed reflecting the complexity of audit activity. We have subsequently increased the Principal Auditor provision in 2013/14 to overall 205 days. This breaks down as 130 days on operation and strategic risk assurance, and 75 days on contract audit.

- The Principal Auditor post (130 days) is currently vacant; as a result to cover a reasonable period for recruitment, we have secured a Principal Auditor on secondment for 6 months from Deloittes, with whom we have extended the call off contract for a further 12 months.

2.6   As reported previously there is relationship within the Internal Audit Team which presents a potential conflict of interest. The Chief Internal Audit is related to the Senior Auditor who leads on counter-fraud. The conflict is being managed; the Senior Auditor's line manager, the Audit Manager, has a direct reporting line to the Deputy Chief Finance Officer (The CIA's line manager), on any performance related issues, including appraisals; Counter-fraud activity is managed in collaboration with Wokingham Borough Council, where the Investigations Manager, manages to counter-fraud activity undertaken by the Senior Auditor, and liaises with line manager on any performance matters. There is no direct management between the CIA and the Senior Auditor.

2.7   There will remain a significant emphasis for internal audit activity reviewing financial systems and compliance with the governance framework; however, a key priority for 2013/14 will be to complete assurance mapping

for all critical services across the Council. This was part of the 2012/13 strategy, but we were unable to deliver it. This year it will be a priority, and the resource structure has been adjusted to ensure it is achievable. Internal Audit will support with the assurance mapping, and testing the effectiveness of the defined assurance procedures. To ensure we are directing audit resources to key risk areas we will be operating on a quarterly planning cycle.

3.   Audit Planning Methodology

3.1   The quarterly internal audit and risk assurance plan will be produced, in consultation with the Risk and Insurance Manager and with consideration to the risk registers. This will be agreed with the Directors and their Leadership Teams during quarterly meetings.

3.2   The Quarterly plans will be presented to the Regulatory and Audit Committee for consideration and comment.

3.3   The Audit Plans will continue to be influenced by external organisations and statutory bodies we work with and provide assurance to. We will be developing a joint working protocol with Grant Thornton that will enable us to review our approach to the auditing of key financial systems without affecting the assurance we can give.

3.4   Counter-fraud will continue to be a significant part of the planned audit activity. The Senior Auditor leading on counter-fraud activity has recently completed training on using data interrogation software (Idea) which will be put into practice by undertaking a series of proactive reviews of fraud risks. We will continue to respond to whistleblowing and reports of fraud or financial irregularity. Where an investigation is required this will be a charged back service, and the income used to back fill, or procure the services as required. We are not directly resourced to undertake investigations; however we have a working arrangement with Wokingham Borough Council (WBC) to provide investigation expertise as required. A separate counter-fraud plan will be prepared for the approval of the Committee.

3.5   Maintaining the risk management system is a key function of the Audit and Risk Management Team. The Risk and Insurance Officer works directly with COMT in the risk assessment, mitigation planning and monitoring of the strategic risk register; and the team work closely with the Service Managers in the development and monitoring of service based risk registers. The Risk and Insurance Manager is a member of the Risk Management Group and routinely reports on key risks and emerging issues to that Group.

4. Resources

4.1 The Audit and Risk Management Service is resourced as follows:

In House Team	2012/13 FTE	Chargeable Days available	Planned BCC Assurance days 2013/14	Planned External days 2013/14	Other
Chief Internal Auditor	OCC	92	50	2	40 FCSMT / Corporate
Risk and Insurance Manger	1.0	184	104	10	30 Risk Management 40 Insurance
Risk and Performance Officer	0.5	100	60		40 days Risk Management system and Integrated Reporting
Risk & Insurance Officer	0.5	100	50	0	50 Risk Management
Audit Manager	OCC	60	60		
Principal Auditors (1 vacancy)	OCC	130	130		
Contract Auditor	OCC	75	75		
IT Auditor (Contract)	Contract	80	80		
Senior Auditor	1.0	200	170	30	

Senior Auditor	OCC	40	0	40	
Senior Auditor (Counter – Fraud)	OCC	75	75		
Auditors	1.0	200	180	20	
Total	**4.0 + 2.4 OCC + 0.4 contracted**	**1336**	**1034**	**102**	**200**

Analysis of auditor days

	2012/13
Gross days – In house team	1043
OCC/Contract Staff	552
Total Gross days	1595
Overheads	203
Non Chargeable Days	56
Total Chargeable days available	1336
Chargeable Days – non assignment (including Strategic Insurance / Strategic Risk Management)	200
Chargeable days – External Clients	102
Chargeable days – assurance based	1034

4.2 It is planned that Internal Audit Services will deliver a minimum of 1034 days on Audit Assignments that will be designed to provide reasonable assurance on the system of internal control. This is reduction of 39 days on the assurance based chargeable days in 2012/13.

4.3 As outlined above the quarterly plans will be presented to the Regulatory and Audit Committee, with Q1 attached as appendix 2 to this report. The type of audit activity will be:

Key Financial Systems	We will test any changes to the existing systems, and will undertake walkthrough test to confirm the system. We will agree with External Audit the key controls to be tested, and undertake the compliance/substantive testing. We will also complete our assurance work through analytical review using the audit interrogation software on identified areas of fraud risk and error.
Governance	We will undertake testing across Directorates of compliance against the governance and regulatory framework, including the key control processes covering HR, ICT, Financial Management, Risk Management, Project Management, Performance, and Procurement. This will provide evidence to the Directors for completion of their annual assurance statement.
Schools	We will seek assurance through analytical review and with targeted visits and thematic reviews as required.
IT Audit	We will undertake a needs assessment for 2013/14 providing assurance on the adequacy and effectiveness of ICT systems and processes
Contract Audit	Contract Management will continue to be the key focus of our audit activity. We will also review major procurement projects.
Operational Risk	Performance systems for key operational risks ascertained through the risk management process and in consultation

	with Strategic and Service Directors will be reviewed and tested.
Strategic Risk	Performance systems for the management of strategic risk, for example major procurement and projects will be reviewed and tested.
Counter Fraud	A programme of Counter-Fraud work will be produced, including raising awareness, and proactive fraud testing using the Audit Interrogation software. This will include reviewing the outcomes of the 2012 NFI data matching exercise.
Follow Up	We will continue to monitor and report on the implementation of agreed management action.

5   Performance Monitoring / Reporting

5.1   The proposed performance indicators for 2012/13 are attached as appendix 1 to this report.

5.2   The Regulatory and Audit Committee will receive a quarterly report, including the next quarters plan for approval, a status update on the approved work plans, and a summary of the outcomes of completed audits.

6. Recommendation

The Committee are **RECOMMENDED** to approve the Internal Audit Strategy

Ian Dyson

Chief Internal Auditor

March 2013

APPENDIX 1   Proposed PERFORMANCE INDICATORS 2013/14

	Performance Measure	Target	Frequency of reporting	Method
1	Elapsed time between start of the audit (opening meeting) and Exit Meeting.	Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc)	Quarterly report to R&A Committee.	Internal Audit Performance Monitoring System
2	Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 Days	Quarterly report to R&A Committee.	Internal Audit Performance Monitoring System
3	Elapsed Time between issue of Draft report and issue of Final Report	15 Days	Quarterly report to R&A Committee.	Internal Audit Performance Monitoring System
4	% of planned audit activity completed by 30 April 2013	100%	Quarterly report to R&A Committee.	Internal Audit Performance Monitoring System
5	% of management actions implemented	90% of all management actions	Quarterly report to R&A Committee.	Action Management Tracking System

APPENDIX 2 – Audit and Risk Management Plan Quarter 1 2013/14

Governance	
Annual Governance Statement	We will be analysing the self assessment Annual Governance Statement questionnaires returned from Service Directors. This will form key evidence for the production of the Annual Governance Statement. The Chief Internal Auditor will also be liaising with the Corporate Leads on the key control processes in compiling the AGS
Governance Audits	Throughout 2013/14 we are planning on testing compliance with the key control processes across directorates including undertaking a series of "establishment" based audits. The detailed plan will not be established until 12/13 is completed. This will be presented with a future progress report.
Review of Charges (Financial Management/Legislation)	As part of the governance audits we will undertake for the first time an audit of a review of charges made by the Council. The audit will consider the charges made in accordance with the legislation/regulations that underpin them, and how those charges are aligned to the income generation strategy. At an operational level the audit will consider the application of those charges and for a sample the systems for collection.
Health and Safety (Legislation)	Carried forward from 2012/13 this audit will review the system for ensuring statutory responsibility for Health and Safety is being effectively managed.
Financial Systems	
Income Collection (Zipporah System)	Following an investigation by Internal Audit in 2012/13, an audit of income generation managed through use of the Zipporah, e-bookings software used across the Council for web based activity will be undertaken.
Operational Risks	
CYP - Admissions Service	This audit was scoped in 2012/13, but will be completed in 2013/14. The audit will review the systems and procedures

	that support the Admissions Service
Assurance Mapping	During Q1 the methodology and plan for undertaking the assurance mapping exercise will be determined.
Strategic Risk	
AFW - Local Authority Trading Company	The Audit and Risk Management Team will continue to review the governance arrangements through the life of this project, including reviewing the operational systems and procedures being designed for the operation and management of the contract with the LATC.
Bucks Learning Trust	The Audit and Risk Management Team will continue to review the governance arrangements through the life of this project, including reviewing the operational systems and procedures being designed for the operation and management of the contract with the LATC.
Contract Audit	
Contract Audit Plan	In quarter 1 we will develop the plan for reviewing major contracts and contract management.
Place Service - contract management arrangements	This audit commenced in Q4 looking initially at the Amey contract (Client Transport). In Q1 we will be reviewing the contract management arrangements for the Ringway Jacobs contract and following up on the audit of Property Services completed during 2011/12.
Schools	
Budget Setting and Budget Monitoring	The audit will review the adequacy and effectiveness of the management control within central finance and CYP, over budget setting, including those schools in surplus and deficit, and the routine budget monitoring returns submitted by schools.
Schools Audit Plan	During Q1 we will be developing the schools plan based on an analytical review of financial and performance data. This will be used to determine the format of schools audits for the year, which could be thematic reviews, or targeted audits of

	specific schools.
IT Audit	
IT Audit Needs Assessment	A needs assessment has been commissioned. Once the outcome of that needs assessment is determined, and an annual plan formed, we with then procure the services to deliver that planned activity.
Counter-Fraud	
NFI Data Matching	We will be continuing to work through the data matches identified in the NFI 2012 reports, investigating irregularities where appropriate.
Fraud risk assessment	A fraud risk assessment will be undertaken and presented to the Regulatory and Audit Committee, along with a plan of proactive audits looking specifically at the fraud risk areas.