

## Report for Resolution

**Report to** Audit Committee  
8 June 2010  
**Report of** Audit Manager  
**Subject** Internal Audit and Counter Fraud Plans 2010/11

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### Purpose

To approve the internal audit and counter fraud plans for 2010/11.

### Recommendations

That members approve the internal audit and counter fraud plans for 2010/11.

### Financial Consequences

The financial consequences of this report are none directly.

### Risk Management

The audit plan is informed by the council's strategic risk register and departmental risk registers, together with other assurance processes.

### Strategic Objective/Service Priorities

The report helps to achieve the strategic priority "One council:

- customer focus – putting customers at the heart of everything we do;
- continuous improvement of our services; and
- cost conscious – efficient and effective service delivery "

### Contact Officers

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### Background Documents

Audit Committee 13 May 2010 – "Internal Audit Planning for 2010/11

# Report

## Background

1. The terms of reference for the Audit Committee include “Reviewing and considering the proposed ... internal audit coverage and whether this provides adequate assurance on the organisation’s main business risks...”
2. Internal audit provides an independent assurance function which reviews and reports on the adequacy and effectiveness of the council’s risk management, governance and internal control processes.
3. The CIPFA Code of Practice for Internal Audit requires the audit manager to ‘prepare a risk-based audit plan designed to implement the audit strategy.’ In preparing the plan, s/he should ‘take account of the adequacy and outcomes of the organisation’s risk management, performance management and other assurance processes.’ Further details of the factors informing the plan can be found in paragraphs 14 to 20.
4. The CIPFA Code also states that:
  - The audit manager should ‘consult stakeholders on the draft plan and revise the plan if appropriate’
  - ‘The audit plan should be fixed for a period of no longer than one year’
  - ‘The plan should outline the assignments to be carried out, their respective priorities and the estimated resources needed’
  - ‘The plan should differentiate between assurance and other work’
  - ‘The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation’
5. At your meeting on 13 May 2010 the audit manager report on the process for preparing the audit plan, together with the draft plan for 2010/11.
6. During April and May the audit manager attended departmental management teams to explain the audit planning process, and invite comments on the draft audit plan and the respective priorities of assignments.
7. In addition, the audit manager has reviewed departmental risk registers to ensure that the plan takes account of ‘auditable’ areas of high risk.
8. No new audits have been added to the draft plan as a result of the above, but priorities have been added.
9. The internal audit plan, shown at annex 1, is being presented to Audit Committee for members’ approval.
10. The plan will be kept under review in conjunction with the council’s assurance processes. Any changes to the plan during the year as a result of changing risks or priorities will be reported to members.

11. At this stage it is estimated that 605 days are required in 2010/11 to complete the plan.

### **Factors informing the plan**

12. In accordance with International Standards on Auditing (ISA 315) the Audit Commission requires internal audit to review annually the main information systems that inform the entries in the financial statements.
13. Emerging risks during the year may also require amendment to the plan.
14. Some areas of audit work are included in the plan based on the latest Audit Commission inspections, governance reports and use of resources assessment.
15. The risk of fraud and corruption has been reviewed and a draft counter fraud plan was presented to your May meeting. No amendments have been made as a result of the review process and the plan, shown at annex 2, is also being presented for your approval.
16. A contingency allowance has been built into the plan to allow for internal audit's involvement in any ad-hoc or disciplinary investigations.
17. Time has been allowed to complete unfinished audit reviews and follow-ups of completed audits to ensure that satisfactory progress has been made.
18. There are some areas of a mainly corporate and consultancy nature which on the whole do not change much from year to year. These are shown at the end of the plan under the heading of *Non-audit and consultancy work*.

### **Resources**

19. The final section of annex 1 shows how the available number of internal audit staff days is arrived at.
20. After taking account of "lost" time (management, training, administration, etc.) the available number of staff days for 2010/11 is projected as 555.
21. Internal audit resources will be kept under constant review and any issues will be reported to members as necessary.
22. The plan and resource analysis results in a projected deficit of 50 days. Although there are some contingency amounts built into the plan, it is likely that some normal audit work will need to be outsourced during the year, in addition to technical IT audits as in previous years.

### **Conclusion**

23. The audit planning process and audit plans for 2010/11 should provide members with adequate assurance on the main risks to the council's objectives and priorities. Any amendments to the plan, including resourcing implications, will be reported to members for your approval.

<b>Internal Audit Plan 2010/11</b>			
	<b>2010/11</b>		
<b>Audit Assurance Work</b>	<b>Estimated Days</b>	<b>Priority</b>	<b>Reason for inclusion in plan</b>
<b>Fundamental Systems</b>			
Purchasing & payments	15	H	In accordance with the International Standards on Auditing (ISA 315), the Audit Commission seeks to place reliance on the work of internal audit in evaluating and testing the main systems that drive the balances and disclosures in the financial statements.
Debtors/recovery	15	H	
Payroll	15	H	
Housing rents	15	H	
Income/cash receipting	15	H	
Treasury & cashflow management	15	H	
Housing/c tax benefits, incl. fraud team	15	H	
Council tax/NDR	15	H	
Asset management - non-housing	10	H	
<b>Sub-total</b>	<b>130</b>		
<b>Corporate Resources</b>			
Customer contact	20	H	Cyclical
General ledger	10	H	Issues in annual governance report
Licensing	15	H	Cyclical
HR - recruitment	15	H	From counter fraud plan
Procurement	15	H	From counter fraud plan
<b>Sub-total</b>	<b>75</b>		
<b>Regeneration &amp; Development</b>			
Private sector leasing	10	H	From counter fraud plan
Housing repairs/decent homes	10	H	Cyclical
Car parks - MSCP/P&D	15	H	Cyclical
Homes & Communities Agency contract	10	H	From strategic risk register
Neighbourhood teams	10	H	From corporate plan
Care & repair	10	M	
Choice based lettings	10	H	
Sports facilities	5	M	Cyclical
<b>Sub-total</b>	<b>80</b>		
<b>Cultural Services</b>			
Leisure Centre	5	M	Cyclical
<b>Sub-total</b>	<b>5</b>		
<b>Corporate</b>			
Ad-hoc investigations	20	M	Contingency allowance
Probity	10	H	Anti-fraud measure
Perf. mgt. system/national indicators	10	H	Cyclical
Business continuity/emergency mgt.	10	H	From strategic risk register
Capital programme/major contracts	20	H	From strategic risk register
Grants - various services	10	H	Cyclical
Outsourced IT audits	10	H	IT security - client role
<b>Sub-total</b>	<b>90</b>		
<b>To complete 2009/10 plan:</b>			
AR & AP	10		
Community alarm service	0	H	Outsourced
Right to buy	10	H	
HR - leavers	10	H	
Land searches	10	H	
Cemetery	5	H	
The Halls	5	H	
Norman Centre	5	H	
<b>Sub-total</b>	<b>55</b>		

Internal Audit Plan 2010/2011 (cont.)	2010/11		
	Estimated Days	Priority	
Follow-ups	15	H	Follow ups required by Code of Practice
<b>Sub-total</b>	<b>15</b>		
<b>Total for audit assurance work</b>	<b>450</b>		
<b>Non-audit &amp; consultancy work</b>			
New Deal - grant claims	30	H	Ongoing involvement of audit staff
Corporate governance	30	H	Review policies; use of resources
Fraud plan, incl. NFI	40	H	Fraud risks & wider scope of NFI
Risk management	10	H	Corporate issue
Financial appraisals/tenders/final a/cs	10	L	Contingency
Advice, unplanned work, requests	35	M	Contingency
<b>Total for non-audit/consultancy work</b>	<b>155</b>		
<b>Total Allocated Days</b>	<b>605</b>		
<b>Audit Resources Available 2009/10:</b>			
Total available days (after allowance for holidays and sickness)		790	
<u>Less</u> Allowance for non-chargeable days:			
Management/Administration	175		
Training	20		
Other	40	235	
<b>Planned Chargeable Days</b>		<b>555</b>	
Resources needed for Audit Plan		605	
<b>Projected Surplus/(Deficit)</b>		<b>(50)</b>	

## Internal Audit

### Counter Fraud Plan 2010/11

Area	Comments	Resourcing
Housing – unlawful subletting	Highlighted as a risk in 'Protecting the Public Purse'. This risk is the subject of a national initiative – the council received a grant for participating. Pilot data matching already carried out, results currently being evaluated. Depending on results, may extend data matching in 2010/11. We also receive potential matches from NFI results, and these will be investigated.	Fraud team in conjunction with housing staff
Council tax – single person discounts	Highlighted as a risk in 'Protecting the Public Purse'. We also receive potential matches from NFI results, and these will be investigated. Joint funding to help with the resourcing of investigations will be explored.	Fraud team and council tax staff. Possibility of joint funding for extra resources
Recruitment	Highlighted as a risk in 'Protecting the Public Purse'. Included in draft internal audit plan for 2010/11.	Internal audit
Housing and council tax benefit	Highlighted as a risk in 'Protecting the Public Purse'. Experience shows that this continues to be an area with a high risk of fraud, and is the main target for the work of the fraud team. We also receive potential matches from NFI results, and these will be investigated.	Fraud team
Procurement	Highlighted as a risk in 'Protecting the Public Purse'. Included in draft internal audit plan for 2010/11.	Internal audit
Insurance claims	Highlighted as a risk in 'Protecting the Public Purse'. Our insurance arrangements were included in the internal audit plan for 2009/10, and a final report was issued which gave adequate assurance. The report findings will be followed up in 2010/11. We also receive potential matches from NFI results, and these will be investigated.	Internal audit
Purchase cards	Potential for over £1m. spend annually, with further roll out possible	Internal audit
Private sector leasing – payments to landlords	Large number of landlords paid on a regular basis, many of whom are individuals	Internal audit