



Audit & Business Risk

Internal Audit Strategy and Annual Audit Plan 2011-12

March 2011

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Introduction & Overview

Purpose of this report

1. This document sets out the council's Internal Audit Strategy and Annual Audit Plan for the year 2011/12.
2. The council's internal audit function is provided by Audit & Business Risk, part of the Finance Unit, together with our 'Internal Audit Partner' Deloitte. The updated Internal Audit Terms of Reference are attached at Appendix B.
3. Internal Audit supports and contributes to the achievement of the council's priorities and in particular, *better use of public money*. Also the Finance Unit's Objectives, *to drive better value for money by transforming our services and supporting other services in their transformation* and to *ensure effective governance and management of resources within the council*.
4. Our strategic vision is to continually add value at corporate, departmental and service level by working with management to review and improve internal control, risk management, corporate governance and the achievement of value for money. Our service is customer focussed and our approach and performance standards support this.
5. We continue to innovate and adopt new approaches to ensure that the council receives an efficient and effective internal audit service that adds value. This includes the introduction of continuous auditing and data mining to deliver efficiency savings and safeguard the council from fraud whilst enhancing customer satisfaction.
6. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
 - Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Members, Strategic Leadership Board (SLB) and the Corporate Management Team (CMT);
 - Optimise the use of audit resources available, given that they are limited;
 - Identify the key risks facing the council to achieving its objectives and determine the corresponding level of audit resources;
 - Add value and support senior management in providing effective control and identifying opportunities for improving value for money;
 - Support the Director of Finance in fulfilling obligations as the Council's nominated Section 151 Officer; and
 - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2003, as amended 2006.

Providing Assurance

7. The Internal Audit Strategy and Plan is aimed primarily at providing ongoing and annual assurance to the Council to provide confidence to its stakeholders. This is layered in order to achieve a more focussed and targeted assurance across a wide range of the council's systems and activities. The layers of assurance are spread across the thematic reviews and a mix of corporate, specialist, service and continuous audit reviews.

Key Core Deliverables for 2011/12

The Annual Audit Plan is expected to cover core deliverables as follows:

- To provide ongoing assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- Delivery of the Annual Audit Plan in particular high risk audit reviews;
- To be responsive to transformational change and service demands;
- To continue to meet the requirements of the council's external auditors;
- To continue to develop our partnership working relationships;
- To further embed integration of internal audit work with governance and managing risk to produce a clearly co-ordinated risk-based approach to the audit of business/operational systems across the council;
- To ensure agreed management actions to audit recommendations made are fully implemented, in particular the high priority ones;
- To deliver the statutory requirements of the Accounts and Audit Regulations 2003, as amended 2006;
- To continue to develop and have a lead in the council's corporate governance arrangements including review and production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.;
- To provide an effective reactive corporate counter fraud service in accordance with the council's Counter Fraud Strategy and maximise financial recovery;
- Continue to be proactive in counter fraud including delivery of a comprehensive fraud awareness training programme to assist managers and staff in the prevention and detection of fraud and irregularities;

- To continue to develop our role and work closely with the Audit Committee; and
- To significantly contribute and support the councils Value for Money Programme. In particular by ensuring our audit work is focussed on effective change and delivery of service improvements.

The Role and Purpose of Internal Audit in the Council

8. The statutory basis for internal audit in local government is provided in the Accounts and Audit Regulations 2003, as amended 2006 which states that *a local authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practice*. The Council has recognised this statutory requirement in its financial regulations.
9. In addition to the above, the Director of Finance has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes.
10. The standards for 'proper practice' in relation to internal audit are laid down in CIPFA's Code of Practice for Internal Audit in Local Government (Updated in 2006). We continually ensure compliance with these professional standards and reflected in our terms of reference contained in our Terms of Reference, shown at Appendix B.
11. The standard and quality of internal audit is principally scrutinised in three ways:
 - An annual review of the effectiveness of internal audit required by the Accounts & Audit Regulations 2003, as amended 2006 reported to the Audit Committee
 - The external auditor seeks to place reliance upon the quality and standard of work our work through principally the 'managed audit' process and reports this to the Council in the annual audit and inspection letter
 - Customer feedback and perceptions

Protocol for Audit Reviews

12. For each audit review carried out, the responsible Head of Service, Lead Commissioner or Director (Lead Client) and Service Manager will be consulted in the scoping to ensure appropriately focussed on current key perceived risks and issues. Terms of reference will be produced for each audit review and agreed to ensure the scope, objectives, approach, timetable are understood and agreed.

13. Draft internal audit reports will be issued for discussion with the appropriate levels of management and normally set-out in the terms of reference.
14. Final internal audit reports will be issued after the agreement of draft reports and contain completed management actions plans that will identify those responsible for implementation and timescales. The final reports will always be issued to the 'Lead Client' responsible for the area reviewed.
15. Agreed actions or recommendations will be followed-up, depending on their priority but this will usually be between three to six months from the issue of the final. A report will be completed and distributed in line with the final report.

Key Issues and Priority Areas for 2011/12

16. Having regard to the current risk profile of the council, the following areas have been identified as key issues and priority areas of our work for 2011/12:

Governance Arrangements

17. The council's governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). A number of audits will support this assessment and will take account of the emerging governance arrangements as the council implements its new operating model. The statutory Annual Governance Statement will be produced in June, approved by the Audit Committee and signed by the Leader and Chief Executive.

Intelligent Commissioning

18. The move to an intelligent commissioning operating model results in significant changes to the council's governance and control framework. The Annual Audit Plan contains reviews that will support and inform the change. Examples of review include Performance Compacts & Business Planning, Data Quality, Budget Management and Third Sector Contracts.

Key Financial Systems

19. The effectiveness of controls and management of risks within key financial systems remains a core part of our audit work. This work is important in providing annual assurance to the council and to meet the requirements of the Audit Commission. We continue to develop our audit approach to give greater assurance and ensuring it meets the Audit Commission's standards for a 'Key Financial Audit'

Business Transformation and Value for Money

20. With the significant financial challenges facing the public sector, the council continuous to deliver a major Value for Money programme for the transformation of services and into Phase 3 for 2011/12. Our Annual Audit Plan will be flexible enough to respond to emerging issues and risks from change.
21. Value for money (VFM) will continue to be an integral part of our risk based audit approach, in particular being alert to opportunities and ensure reporting in issues raised and agreed management actions from audit recommendations. In addition we will support VFM projects, considering changes to the control environment and risk exposure, provide assurance on programme management and realisation of benefits.

Risk Management

22. We will assess the council's risk management arrangements, including risk management strategy, adequacy of strategic and operational risk registers, risk reporting and the extent it is embedded.

ICT and Information Governance

23. Information technology is fundamental to the delivery of the council's services and an area of rapid change. Due to this high risk to the council, providing assurance on the adequacy of systems and controls is a key part of our Annual Audit Plan. Our work recognises the pace of change and adoption of new information technology and as such will be well informed to focus our resources on areas of highest risk and benefit.

Partnerships

24. The council is increasingly operating and delivering services jointly through partnerships. This also brings risks and opportunities to the council and the delivery of services. We will continue to review key partnerships and also work with auditors from partner organisations for effective coverage and providing assurance.
25. A key area of our work on partnerships in 2011/12 will be on the upcoming changes to the NHS and its impact on the council. Specific examples include the emergence of GP Consortia and changes in responsibility for Public Health.

Contracts, Procurement and Major Projects

26. Changing approaches to procurement and contract management are a key part of delivering improved services. This also brings additional inherent risks that need to be managed. Major projects also represent a high risk to the council in terms corporate importance and resources. Our audit work will continue to focus on embedding risk management and controls.

External Audit

27. We work closely with the council's external auditors (currently the Audit Commission) to minimise duplication and maximise the benefits the council receives from total audit resources. We will continue to ensure full reliance is placed on our work and continue to maximise opportunities for minimising the external audit fee.

Counter Fraud

28. We have a lead responsibility for corporate counter fraud and will continue to review and develop the robustness of the council's arrangements. We will continue to work closely, internally with other services involved in investigating fraud and externally with other anti-fraud agencies, Police and the Audit Commission.
29. A recent annual report by the National Fraud Authority gave a headline figure for indicative loss from fraud to the UK economy as £38.4B for 2011. For local government this was reported as £2.1B, an increase from £684M for 2011. In response to these headline figures, we have increased our counter fraud coverage, in particular proactive work to safeguard the council. The days allocated to the Counter Fraud Programme has increased by 27% from 2010/11.

Implementation of Agreed Audit Recommendations

30. At the end of each audit review, an audit report will be produced containing agreed management actions to audit recommendations made. We will ensure these agreed actions to audit recommendations are fully implemented to ensure improvements to the council's control environment and value for money. We will follow-up on all high priority audit recommendations and the majority of medium priority ones. This will confirm from officers responsible for implementation that required actions have taken place
31. During 2011/12 we will be utilising a new action tracking module of our Audit Management System to improve efficiency over monitoring and reporting on implementation.

Developing the Annual Audit Plan 2011/12

32. The methodology used for developing the Annual Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives. Auditable areas have been selected and prioritised on a rational and objective basis following a systematic assessment using the following predictive factors:

- Control and previous assurance;
 - Corporate importance including criticality to the achievement of priorities, legislative and regulatory impact;
 - Materiality;
 - Value for money and service delivery; and
 - Corporate sensitivity and management concern.
33. The predictive factors are used to determine a risk rating of high, medium or low to reflect the inherent risk or vulnerability. We ensure our coverage is proportionate and appropriately aligned and therefore currently only medium and high priority risk reviews are included in the Annual Audit Plan. All low priority review areas are reassessed on an annual basis.
34. Based on past experience and good practice, the Annual Audit Plan includes a contingency for unplanned work requirements to ensure we are able to respond to changing needs and demands.
35. Our internal audit planning is linked to the council's business planning and risk management process. This will continue with the new Performance and Risk Management Framework.
36. The Annual Audit Plan will be indicative and it is inevitable that changes will be made during the year as the risk profile of the City Council changes. This will be achieved through ongoing review and amendment, in consultation with the relevant lead clients and service managers to reflect the changing needs of the council and to add maximum value.
37. The Audit Committee will be kept informed of progress against the Annual Audit Plan and agree any significant changes during the year.

Relationships with other Assurance Providers

38. In formulating the Annual Audit Plan, consideration has been given to the work of other assurance providers, both internal and external. Examples include:
- Operational managers identifying, managing risks and improvement actions;
 - Oversight functions such as Financial Services, Strategic Procurement, Legal, Performance and Health & Safety
 - Independent assurance providers such as external audit, inspectors and internal auditors of the partner organisations such as NHS.

Internal Audit Resources and Skills Required

39. In order to achieve the Annual Audit Plan, the appropriate level of resources is made available to Audit & Business Risk and includes the required mix of skills, experience and specialisms required. This includes general audit skills in respect of systems and internal control reviews and appropriate coverage in specialist areas such as ICT, contract audit and counter fraud.
40. The Annual Audit Plan is resourced by calculating the number of productive days available within the Internal Audit Team supplemented by Deloitte LLP our Internal Audit Partner. The Internal Audit Team's establishment for 2011/12 11.2 FTEs comprising the Head of Audit and Business Risk (proportion), Audit Manager, Principal Auditors and Auditors. The projected productive internal audit days available for 2011/12 are 1,840 that include the counter fraud programme. This represents a reduction of 7% from 2010/11.
41. Our professional judgement has been applied in assessing the level of resource required to deliver the Annual Audit Plan. The level of resource applied is a product of:
 - The complexity of the areas to be reviewed;
 - Factors such as number of locations, number and frequency of transactions; and
 - Assurance that can be brought forward from previous audits and other internal and external reviews carried out.
42. Staff development needs are continually assessed to ensure we maintain the level and mix of skills required to deliver a highly professional and added value internal audit service

Annual Audit Plan 2011/12

43. Appendix A shows the detailed Annual Audit Plan and provides a brief summary of each review under thematic areas. The plan also shows the significance of each review in terms of risk (high, medium and low) and where relevant, cross referenced to the council's corporate risks. The allocation of the 1,840 audit days is summarised in Table 1 below together with the number of specific audit reviews.
44. The Counter Fraud Programme is included in the plan and includes both proactive and reactive audit work.
45. Contingency has been provided for unplanned work reactive work. This will be used to respond to emerging issues, risks and to have the capacity to respond to requests from senior managers.

Table 1 – Summary of Annual Audit Plan 2011/12

Thematic Area	Number of Specific Reviews	Audit Days
Corporate Governance Arrangements	9	127
Corporate Cross Cutting Audits	14	189
Fundamental and Key Financial Systems	11	184
Procurement & Contract Management	9	108
Information Technology	14	179
Service Specific	32	330
Counter Fraud Programme	9	325
Corporate Support	-	135
Grants	-	50
Other Direct Audit Activity	-	213
Totals	98	1840

46. The Annual Audit Plan includes the quarter when the audit review is planned to be undertaken. Wherever possible this has been agreed with management during the planning process. There is however flexibility to respond for example to pressures on services audited and audit resource availability.
47. In addition to the Audit Committee receiving regular progress reports against the plan, Corporate Management Team Members will be provided with progress reports as necessary through the year summarising the outcome of reviews and other audit work for the quarter and planned for the quarter ahead. The Head of Audit & Business Risk and/or Audit Manager will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

Our Performance Management

48. To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, we have well established performance targets based on best professional practice and easily comparable with other organisations.
49. Performance indicators and targets are shown at Appendix C for six aspects of our service:
- Cost and quality of input;
 - Productivity and process efficiency;
 - Quality of output;
 - Compliance with professional standards;
 - Outcomes and degree of influence; and
 - Our Staff.

50. We will ensure continuous improvement of the Internal Audit Service and adopt new approaches. It is regularly benchmarked with both other public and private sector providers to ensure efficient, effective and competitive.

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Appendix A

DETAILED ANNUAL AUDIT PLAN 2011/12

Governance Arrangements

This part of the Annual Audit Plan covers key areas of the council's governance arrangements and part of the wider review to produce the Annual Governance Statement.

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A026	Business Continuity Management	High	5	Follow-up to 2010/11 review on the effectiveness of arrangements in place for how the council prepares for recovery from a major incidence to ensure continuity of services.	Head of Service Planning & Public Protection	Quarter 4
A181	Risk Management	Medium	12	Assessment of the effectiveness of risk management arrangements throughout the council. This will include both the management of strategic and operational risks and the level of risk maturity of the council.	Director of Finance	Quarter 2
A007	Annual Governance Statement	High	20	Annual review of overall governance to assess the adequacy across the council. To produce Annual Governance Statement with action plan.	Chief Executive	Quarters 1 - 4
A053	Corporate Framework Governance	High	20	To review the council's corporate governance framework with the changes from the new operating model. To include comparison to new standards and partnership	Director of Finance	Quarter 2
A304	Health Partnerships	High	20	In response to changes to the NHS due in 2011/12, this review will examine the impact to the council and partnership working. Particular areas include GP Consortia and the transfer of Public Health.	Director of Finance	Quarters 1-4
A027	Performance Compacts & Business Planning	Medium	25	To review the effectiveness of controls in the new framework and achievement of objectives.	Head of Policy, Performance & Analysis	Quarter 3

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A054	Corporate Health & Safety	Medium	8	This function is high profile and of corporate importance. The review will include overall management and compliance with health and safety requirements including the new safety management system.	Head of HR and Organisational Development	Quarter 4
A068	Declarations of Interest, Gifts & Hospitality	Medium	12	To review processes to ensure robust, clearly communicated and complied with. This will include effective approval and monitoring of registering declarations of interest, gifts and hospitality. The review will include both officers and members.	Head of Legal & Democratic Services	Quarter 3
A305	Corporate Complaints Management	Medium	5	To review the effectiveness of controls in managing complaints.	Head of Policy, Performance & Analysis	Quarter 2
			127			

Corporate Cross Cutting Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A306	Workforce Planning & Pay Modelling	Medium	30	To review the effectiveness of controls including project management and job families.	Head of HR and Organisational Development	Quarter 1
A162	Payrolls	Medium	10	To review the operation and efficiency of payrolls to the council.	Head of HR and Organisational Development	Quarter 2
A002	Attendance/Absence Management	Medium	8	Post implementation review of the operation of the new policy and Trent for effective control and management.	Head of HR and Organisational Development	Quarter 2
A202	Transport Fleet Management	Medium	10	Review of the robustness for new arrangements for procurement, utilisation and general management of the council's transport fleet.	Head of Service City Infrastructure	Quarter 2
A022	Budget Management	Medium	20	To review the effectiveness of controls for budget management and in particular for the council's new operating model. The review will include budget setting, monitoring, reporting and include budget holder's "self serve" ,	Director of Finance	Quarter 3
A206	Value for Money Programme – Realisation of Benefits	Medium	10	To review the monitoring and reporting of financial savings and other efficiencies achieved from value for money projects.	Director of Finance	Quarter 3
A248	Energy Management	Medium	12	To review the controls over energy management, including carbon management (i.e. meeting obligations under the Commitment), tariffs and billing.	Director of Finance	Quarter 3

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A267	Financial Regulations	Medium	5	Review for the new operating model	Director of Finance	Quarter 3
A061	Data Quality	High	25	For Intelligent Commissioning. Including policy and specific areas such as Children's Services and Adult Social Care.	Strategic Director of Resources	Quarter 2
A172	Property Management	Medium	15	To review the effectiveness of controls over the council's management of its property including the move to a corporate landlord function.	Head of Property & Design	Quarter 3
A193	Staff Expenses	Medium	12	To review the systems and processes for the claiming and disbursement.	Head of HR & Organisational Development	Quarter 2
A162	Staff Overtime & Allowances	Medium	12	To review the effectiveness of system processes and controls over staff overtime and allowances focussing on risk areas across the council.	Head of HR & Organisational Development	Quarter 1
A277	Grants to Voluntary Organisations	Medium	12	To review the effectiveness of controls including rationale for giving grants and how usage and compliance with grant conditions are monitored. The review will include the corporate recording of all grants to ensure no duplication.	Director of Finance	Quarter 2
A169	Provision of Print Facilities	Medium	8	To review the control and effectiveness of the council's print facilities and service, in particular expenditure.	Head of Communication	Quarter 2
			189			

Fundamental and Key Financial System Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A146	Main Accounting System/General Ledger	High	12	Systems based audit to document, evaluate and test key system controls including controls to ensure all expenditure is correctly stated, suspense accounts are being managed effectively, controls around the use of journal transfer, operation of key interfaces and key account reconciliations between the feeder systems and general ledger.	Director of Finance	Quarter 4
A056	Creditors/Accounts Payable	High	25	Systems based approach considering key risk exposures and including process mapping of key controls. Controls testing to provide assurance those accurate, timely payments are made only to legitimate creditors for goods and services provided to the council. The approach will include continuous auditing of key controls through the year using techniques such as data mining.	Director of Finance	Quarter 1 - 4
A067	Debtors/Accounts Receivable	High	20	Systems based approach considering key risk exposures and including process mapping of key controls. Control testing to provide assurance that accurate, timely debtor's invoices are raised and there is effective collection and recovery of income due.	Director of Finance	Quarter 3
A034	Cash Collection and Banking	High	10	Systems based approach considering key risk exposures, including process mapping of key controls and compliance testing to provide assurance.	Director of Finance	Quarter 4
A204	Treasury Management	Medium	10	Systems based approach considering key risk exposures, including process mapping of key controls and compliance testing to provide assurance. The review will also include the Council's compliance with recent Audit Commission Guidance.	Director of Finance	Quarter 4
A154	NNDR (Business Rates)	Medium	10	Systems based audit to document, evaluate and test key system controls and risk exposures. To include liability, charging, billing, collection and recovery.	Head Service City Services	Quarter 4

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A115	Housing & Council Tax Benefits	High	25	Systems based audit to document, evaluate and test key system controls and risk exposures. In particular verification of claimant data and assessment of entitlement to benefits, reconciliation and management reporting to reduce the risk of fraud, error and inefficiency. The approach will include continuous auditing of key controls through the year using techniques such as data mining.	Head of Service City Services	Quarter 1-4
A117	Housing Rent Collection and Debt Management	High	18	Systems based audit to document, evaluate and test process, key controls and risk exposures.	Head of Service Housing & Social Inclusion	Quarter 4
A029	Capital Accounting and Expenditure	High	12	Systems based approach considering key risk exposures and including process mapping of key controls. The review will include the accuracy of forecasting, performance reports identifying slippage and cost overruns accurately, project outcomes and lessons learnt for future projects. The audit will include the system for the management of fixed assets, recording and mechanisms for valuing and depreciating.	Director of Finance	Quarter 4
A011	Management of Fixed Assets	Medium	12	Review of the system operating for the handling, recording and accounting for fixed assets including the verification and valuation processes. The scope will include the recently implemented IT system, disposals and changes in valuations.	Director of Finance	Quarter 3
A162	Payroll/HR	High	30	Systems based approach considering key risk exposures and controls. The review will examine HR records to ensure the completeness and accuracy of the establishment, HR records and contractual evidence. The approach will include continuous auditing of key controls through the year using techniques such as data mining.	Head of HR & Organisational Development	Quarter 1-4
			184			

Procurement and Contract Management Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A131	Integrated Waste Management Contract (IWMC)	High	20	The specific scope of coverage to be agreed as part of a joint audit plan with East Sussex County Council and the IWMC Project Board.	Head of Service City Infrastructure	Quarter 3
A174	Category Management	Medium	12	Post implementation review on the effectiveness and Controls to mitigate the risks.	Director of Finance	Quarter 3
A206	Value for Money – Procurement	Medium	8	To review the robustness of the value for money project and outcomes.	Director of Finance	Quarter 3
A185	School Meals Contract	Medium	8	Review the effectiveness of contract management arrangements and processes including testing the accuracy and validity of contract payments. This will be part of a rolling programme of audits for the council's major contracts.	Lead Commissioner Schools, Skills and Learning	Quarter 3
A110	Home to School Transport Contract	Medium	8	Review the effectiveness of new contract management processes. This will be part of a rolling programme of audits for the council's major contracts.	Lead Commissioner Schools, Skills and Learning	Quarter 3
A142	Leisure Management Contract	Medium	8	Review the effectiveness of new contract management processes. This will be part of a rolling programme of audits for the council's major contracts.	Lead Commissioner Communities	Quarter 3
A118	Housing Repairs Contract	High	20	To review the adequacy of controls and management of risks in the new contract procurement arrangements for housing repairs.	Lead Commissioner Housing	Quarter 3
A050	Contract Compliance	High	12	Including compliance with Contract Standing Orders	Director of Finance	Quarter 4
A306	Commissioning and contract management with the Third Sector	Medium	12	To review the effectiveness of controls to ensure value for money is achieved.	Director of Finance	Quarter 3
			108			

Information Technology Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A307	CITRIX Implementation	Medium	12	To review the effectiveness of controls over the implementation and use for remote working.	Head of ICT	Quarter 1
A148	Mobile & Portable Devices	High	12	To evaluate the security in relation to mobile devices for remote working including protecting data held.	Head of ICT	Quarter 2
A077	Email	Medium	5	To review the effectiveness of controls over email including compliance with the council's policy, usage (e.g. electronic authorisation) and ability to maximum the benefits.	Head of ICT	Quarter 3
A124	ICT Governance	High	18	To review the effectiveness of management and security arrangements over in particular critical/sensitive data, including testing to validate controls in place and review of existing and required guidance to staff on acceptable practice for data handling. The review will also include controls around data sharing in particular with the council's partners, use of crest and compliance with standards for connectivity e.g. N3.	Head of ICT	Quarter 4
A153	Network Security & Infrastructure	High	12	To review the council's network security including consideration of perimeter security, network architecture, network performance and monitoring. The review will include network penetration testing by a third party provider and compliance to meet existing Government Code of Connection Standards (CoCo) and additional ones for 2011/12.	Head of ICT	Quarter 1
A134	Internet Security	High	15	Review of robustness of the council's firewall shielding and firewall management, and internet protection against malicious cyber attacks. Testing of the adequacy and effectiveness of incident response plans to ensure system integrity is promptly maintained.	Head of ICT	Quarter 3

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A074	Disaster Planning and Recovery	High	12	To review the effectiveness of disaster recovery arrangements in particular for business critical systems. The review will include back-up and off-site storage arrangements to ensure security of the council's data.	Head of ICT	Quarter 3
A189	Software Licensing Management	Medium	8	To review the effectiveness of controls and protection of the council.	Head of ICT	Quarter 2
A060	Data Protection	Medium	8	To review the council's arrangement and ensure compliance with the current Data Protection Act and planning for the revised one in particular data sharing.	Head of ICT	Quarter 2
A308	Financial Model for ICT	Medium	15	To review the financial model operating including cost identification and recharging to ensure incentivise optimal use of ICT.	Head of ICT	Quarter 2
A247	Human Resource Implementation (iTrent)	High	30	Post implementation review of Phase 1 implementation of the new HR and Payroll System (iTrent) including data migration and error rectification and reconciliation from parallel. The review will further examine the effectiveness of controls in Phase 2 of the implementation in particular self-serve..	Head of HR & Organisational Development	Quarter 1-2
A262	Recruitment System (iGrasp)	High	6	Post implementation of the recruitment system (iGrasp) in terms of controls and fulfilling the business needs of the council.	Head of HR & Organisational Development	Quarter 1
A309	CIVICA Financials	Medium	14	To review the effectiveness of the application controls This will include security around the application including access control, security of data sets, segregation of duties, change control and admin user access.	Head of Financial Services	Quarter 2
A155	Northgate Revenues & Benefits	Medium	12	To review the effectiveness of the application controls This will include security around the application including access control, security of data sets, segregation of duties, change control and admin user access.	Head of City Services	Quarter 3
			179			

Service Specific Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A197	Supporting People	Medium	15	To review the financial management and controls operating to ensure in line with the supporting people programme.	Lead Commissioner Housing	Quarter 2
A209	Youth Service	Medium	12	The review will evaluate the control framework and effectiveness for the delivery of commissioning for the service. This will include the process and how the council ensures that services of an appropriate quality are obtained.	Lead Commissioner Children's, Youth and Families	Quarter 3
A139	Learning Disabilities	Medium	15	To review the effectiveness of controls in particular for assessing clients for mitigating high unit costs of both in-house and private sector provision.	Head of Service Adults' Provider	Quarter 2
A265	Personalisation/Self Directed Support	High	18	To seek to provide early assurance on the robustness of systems to be developed and embedded during 2011/12. This review will include the Resource Allocations System (RAS) for the effectiveness of controls for resource allocations to clients.	Lead Commissioner People	Quarter 1-4
A250	Residential Care Homes – Private and Local Authority	Medium	15	To review the effectiveness of controls over placements including assessment, contracts and payments.	Lead Commissioner People	Quarter 3
A072	Personal Budgets & Direct Payments	High	10	This to include those to have personal budgets, the allocation of funds based on authorised need and monitoring the use of funds to ensure they are used for intended purpose.	Lead Commissioner People	Quarter 2
A113	Housing Local Delivery Vehicle	Medium	5	Follow-up to the 2010/11 audit and include review of current control issues and emerging risks.	Lead Commissioner Housing	Quarter 1
A181	Schools Thematic Review – Application of Risk Management Arrangements	Medium	12	To review the effectiveness of risk management arrangements across a number of schools.	Lead Commissioner Schools, Skills & Learning	Quarter 3

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A302	Schools - Probity Reviews and , Control Risk Self Assessments.	Medium	50	Financial and Governance reviews of a sample of eight schools selected based on risk methodology. Controls Risk Assessments (CRSA) will be also be used to increase efficiency and coverage.	Lead Commissioner Schools, Skills & Learning	Quarter 1 -4
A099	DFES Standard for Schools Financial Management	Medium	12	To embed the replacement standard for the new DFES standard replacing the former FMSIS.	Director of Finance	Quarter 2
A310	Fostering & Adoption	Medium	15	To review the effectiveness of controls in particular payments made.	Head of Service Children & Families	Quarter 3
A031	On-Street and Off Street Parking Income	High	20	To review the systems for collecting, controlling and monitoring of parking income from on-street pay and display machines and car parks. The review will include new management arrangements for car parks.	Head of Service City Infrastructure	Quarter 4
A202	Council Transport Fuel	Medium	8	To review the controls over the management of fuel. The review will include the recently implemented fuel management information system.	Head of Service City Infrastructure	Quarter 1
A201	Regulatory /Enforcement Services	Medium	10	To review the effectiveness of controls including where applicable trading accounts.	Head of Service Planning & Public Protection	Quarter 3
A070	Development Control	Medium	7	To review the effectiveness of system processes and procedures introduced for customer service improvement.	Head of Service Planning & Public Protection	Quarter 1

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A310	Community Safety	Medium	8	To review the control framework operating for the service, in particular the councils partnership arrangements, grant funding and associated risks to the council.	Head of Service Planning & Public Protection	Quarter 1
A019	Brighton Centre	Medium	10	To review adequacy of systems for income and expenditure, in particular for events.	Head of Service Tourism & Leisure	Quarter 4
A021	Royal Pavilion	Medium	8	To review adequacy of systems for income, expenditure and trading systems.	Head of Service Tourism & Leisure	Quarter 4
A311	Management of Events	Medium	10	To review the adequacy of systems and control for management of events including over external providers.	Head of Service Tourism & Leisure	Quarter 1 (June)
A312	Concessionary Bus Fares	Medium	7	This review will review the effectiveness of controls in the scheme including out of City users.	Director of Finance	Quarter 3
A272	Seafront Services	Medium	8	Property management issues and maximising income	Head of Service Tourism & Leisure	Quarter 3
A312	Housing Revenue Account	Medium	12	This review will examine the impact and control issues around the impact and changes from self financing.	Head of Service Housing & Social Inclusion	Quarter 1

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A313	Election Expenses	Medium	5	To review the effectiveness and adequacy of the system and controls. The review will include any reimbursement of expenses from the Electoral Commission/Home Office and identification of full costs.	Chief Executive/Returning Officer	Quarter 1
A143	Libraries Service	Medium	12	To review controls operating at a sample of libraries including stock control, income, expenditure and usage.	Head of Service City Services	Quarter 3
A059	Council Tax Single Persons Discounts	Medium	12	To review the system controls and robustness of validation checks regarding entitlement to single persons discounts from Council Tax Bills. It will further make comparisons with best practice and where applicable use third part data sources to test for abuse and fraud.	Head of Service City Services	Quarter 1
A274	Bereavement Services	Medium	10	This review will follow-up the 2009/10 review on the controls in operation over the service.	Head of Service City Services	Quarter 2
A176	Registrars Service	High	5	Follow-up to 2010-11 audit and review the effectiveness of control improvements.	Head of Service City Services	Quarter 1
			330			

Counter Fraud Programme

The counter fraud programme includes reactive investigations into suspected fraud and corruption and proactive reviews.

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		Lead Client	Timing
				Overview			
F001	Investigations into Fraud & Corruption (Reactive)	High	120	Carrying out investigations as and when required into referrals received into suspected cases of fraud and irregularities. Referrals may be received: <ul style="list-style-type: none"> ▪ From management ▪ Received via the confidential anti fraud hotline and website ▪ Found from internal audit reviews carried out ▪ Received under the Whistleblowing Policy Referrals will be risk assessed and investigated accordingly.	Director of Finance	Quarters 1 - 4	
F277	Fraud Risk Assessment and Loss Measurement	High	8	Follow-up to the review carried out in 2010/11 to embed fraud risk registers, measurement, reporting and actions resulting.	Director of Finance	Quarter 3	
F278	Counter Fraud Strategy, Fraud Response Plan, and other Protocols and Guidance.	High	20	Ongoing review of policies, protocols and guidance to ensure effective and current. Where considered necessary appropriate ones will be revised, approved and implemented.	Director of Finance	Quarters 1 - 4	
F314	Bribery Act 2010	Medium	15	To examine the implications for the council of the Bribery Act and review the adequacy of compliance with the defined 'adequate procedures'. The review will further identify higher risk areas and provide awareness and actions required.	Director of Finance	Quarter 2	
F280	National Fraud Initiative (NFI) 2010/11	High	50	To lead on the National Fraud Initiative exercise for the council. This will include co-ordinating, investigating significant data matches, where applicable instigating sanctions and financial recovery. To further consider improvement to controls to mitigate future fraud risk.	Director of Finance	Quarter 1-4	
F281	Data Mining	Medium	12	This review will use data mining tools for example data matching and exception reporting to monitor effectiveness of system controls and identify potential fraud and error.	Director of Finance	Quarter 1	

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		Timing
				Overview	Lead Client	
F282	Money Laundering Strategy and Arrangements	Medium	8	Review of money laundering arrangements (including Policy) and compliance with 2007 regulations. Further guidance is expected during 2011/12.	Director of Finance	Quarter 3
F283	Fraud Awareness Training	-	12	To provide awareness training across the council using e-learning modules developed for staff and managers.	Director of Finance	Quarters 2-3
F284	Agency Liaison and intelligence exchange	-	8	Liaison and information exchange with Police and other Anti Fraud Agencies including Police, DWP, NHS and UK Borders Agency.	Director of Finance	Quarters 1 - 4
F279	RIPA/Surveillance Compliance	Medium	8	To review the adequacy of compliance, comparison to good practice and the implications of the forthcoming Freedom Act for the council.	Head of Services Planning & Public Protection	Quarter 2
F285	Employee vetting and Recruitment Process	Medium	10	To review the robustness of the council's employee vetting procedures and recruitment process making comparison with best practice and third party data sources. The review will include compliance with the Information Safeguarding Authority's requirements and employees rights to work in the UK..	Head of HR & Organisational Development	Quarter 1
F396	Blue Badges	High	10	To review the controls over the blue badge scheme and undertake proactive fraud tests. The review will also consider implications and system changes required with the introduction of a national scheme.	Head of Service City Infrastructure	Quarter 3
F175	Residents' Parking Permits	Medium	6	This review will be a follow-up to the 2010/11 review to ensure control improvements introduced are effective in particularly eligibility criteria and reduce the risk of fraud.	Head of Service City Infrastructure	Quarter 4
A275	Housing Tenancy Management	High	30	This review will use data matching for the identification of unauthorised occupancy including subletting. It will further investigate suspected cases and work with Housing Management on actions required. The review will also be part of a National Fraud Authority's Pathfinder.	Head of Housing & Social Inclusion	Quarters 1 - 2

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
F216	Whistleblowing	Medium	8	To review the effectiveness of the council's whistleblowing arrangements following the improvement introduced in 2009.	Director of Finance	Quarter 3
			325			

Corporate Support

This area of work provides support to both key officers and members.

Ref.	Audit/Area	Risk Assessment	Audit Days	Audit Details		
				Broad Scope	Lead Client	Timing
A286	Audit Committee Support	-	20	Providing support including advice and reporting to Audit Committee.	Audit Committee	Quarters 1 - 4
A287	Section 151 Officer Support	-	20	To provide the necessary assurance and evidence that will allow the Director of Finance and Property to discharge her statutory 151 responsibilities. The support will include that given to the Finance & Resources Management Team.	Director of Finance	Quarters 1 - 4
A288	Committee/Members Support General	-	15	Providing support to other members of executive, regulatory and overview and scrutiny functions..	Various	Quarters 1 - 4
A206	Value for Money Programme Support	-	30	Providing support including advice.	Director of Finance	Quarters 1 - 4
A289	Advice & Information to Directorates	-	50	To provide ad hoc advice and information to directorates as required, including participation in programme boards and working groups.	Various	Quarters 1 - 4
			135			

Grants Received Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A115	Housing Benefit Subsidy	-	20	Auditing the grant claim to ensure the accuracy and completeness of the subsidy claimed. In particular the robustness of information on the housing benefit system and subsidy claim.	Director of Finance	Quarter 2
A291	Contingency for other Grants	-	30	Auditing other grants as required for certification purposes.	Director of Finance	Quarters 1 - 4
			50			

Other Direct Audit Activity

Ref.	Audit Review	Risk Rating	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A293	External Liaison	-	8	External liaison with partners and other public sector organisations to share and compare information on best practice and areas of significant risk.	None	Quarters 1 - 4
A294	Audit Commission Liaison	-	10	Liaison and support to external audit including ISAs impact, CPA, Anti Fraud & Corruption.	None	Quarters 1 - 4
A126	Implementation Reviews	-	45	This work will assess the progress made in implementation agreed audit recommendations, in particular high priority.	Various	Quarters 1 - 4
-	Contingency for unplanned audit work	-	120	Contingency for reactive work not planned, in response to emerging risks and issues.	Various	Quarters 1 - 4
-	Residual audits brought forward from 2010/11	-	30	Contingency to cover the completion of reviews brought forward to agreement and issue of final audit reports.	Various	Quarter 1
			213			

Appendix B

Terms of Reference for the provision of Internal Audit Services

1. Purpose

- 1.1 The Terms of Reference is for the provision of Internal Audit Service within Brighton & Hove City Council. It is reviewed and approved on an annual basis to ensure that current needs are met.

2. Role and Function

- 2.1 Internal audit is an assurance function that primarily provides an independent and objective opinion and adds value to the council on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The service is delivered by Audit & Business Risk within the Finance Unit.
- 2.2 The control environment comprises the systems of governance, risk management and internal control.

3. Reporting Lines & Relationships

- 3.1 Audit & Business Risk provide the council's internal audit function and are part of the Finance Unit. The Head of Audit & Business Risk reports functionally to the Chief Executive, Director of Finance (Section 151 Officer), other Strategic Directors and members of the Audit Committee. Administratively the Head of Audit & Business Risk also reports to the Director of Finance.
- 3.1 The Audit Committee is responsible for approving the Internal Audit Strategy and Annual Audit Plan. The Head of Audit & Business Risk reports regularly to the Audit Committee on progress against the Annual Audit Plan and key issues arising.

4. Independence and Accountability

- 4.1 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibility.
- 4.2 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. Internal Audit has unrestricted access to officers, members, council records and to report in its own name.

- 4.3 The existence of an internal audit function within the council does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well ordered manner.

5. Statutory Role

- 5.1 Internal auditing is provided as a statutory service in the context of the Accounts & Audit Regulations 2003, as amended 2006, which states that a relevant body shall maintain an adequate and effective system of internal audit of its accounting systems and its system of internal control in accordance with the proper Internal audit practices.

- 5.2 The statutory role is recognised and endorsed within the council's Financial Regulations, which provides the authority for unlimited access to officers, Members, documents and records and to require information and explanation necessary.

6. Consultancy and Advisory Role

- 6.1 Audit & Business Risk also perform a consultancy or advisory role on an ad hoc basis or as part of the Annual Audit Plan, as commissioned by management. Reports from this type of work contain findings and recommendations particularly to add value to the council's services in achieving value for money in its use of resources. Any consultancy and advisory work carried out shall not jeopardise the Internal Audit independence.

7. Internal Audit Standards

- 7.1 There is a statutory requirement for Audit & Business Risk to work in accordance with the 'proper audit practices'. These are effectively the CIPFA Code of Practice for Internal Audit in Local Government that accompanies the Accounts & Audit Regulations 2003 (as amended 2006).

8. Internal audit Scope

- 8.1 The scope for Audit & Business Risk is 'the control environment comprising risk management, control and governance'. This means that the scope of Audit & Business Risk includes all of the council's operations, resources, services and responsibilities in relation to associated partner organisations. The priorities for Audit & Business Risk will be determined by a process of risk assessment.

9 Internal Audit Skills and Resources

- 9.1 Audit & Business Risk will ensure as far as possible that it appropriately staffed in terms of numbers, skills and experience. The Head of Audit & Business Risk is responsible for appointing of staff and will ensure these are made in order to achieve the appropriate mix of qualifications, experience and skills.

- 9.2 The Head of Audit & Business Risk is responsible for ensuring that the resources of Audit & Business Risk are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he concluded that resources were insufficient, he must formally report this to the Director of Finance (Section 151 Officer) and the Audit Committee.
- 9.3 Where necessary to provide an adequate, effective and professional service the Head of Audit & Business Risk will outsource internal audit work to supplement internal resources but will ensure quality is not compromised.
- 9.4 If Internal auditors are appointed from operational roles elsewhere within the council, they do not undertake an audit in that area directly within one year unless by prior agreement.
- 9.5 In line with the CIPFA Statement on the Role of the Head of Internal Audit (2010), the Head of Audit & Business Risk is a professional qualified CIPFA Accountant. In addition there is a high mix of professionally qualified staff throughout the Internal Audit Team to meet delivery requirements of the service.

10. Fraud and Corruption

- 10.1 Managing the risk of fraud and corruption is the responsibility of management. Internal audit reviews alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Audit & Business Risk will, however be alert in all their work to risks and exposures that could allow fraud or corruption.
- 10.2 The Head of Audit & Business Risk has lead responsibility for corporate counter fraud activities including proactive initiatives, maintaining and developing an effective framework, and advising management.

11. Reporting Accountabilities

- 11.1 The majority of audit reviews include a formal audit report being produced and issued to management. The primary purpose of the audit report is:
- To provide an opinion on the effectiveness of the control framework operating for the mitigation of risks;
 - To make practical audit recommendations and agree management actions;
 - To prompt management action to implement audit recommendations for change leading to improvements in control and where applicable value for money and performance; and
 - To provide a formal record of points arising from an audit review and agreement with management.
- 11.2 Management are expected to implement all agreed recommendations within a reasonable timeframe. Each internal audit will be followed up normally within six months of issue, in order to ascertain whether agreed actions have been implemented effectively.

- 11.3 The Head of Audit & Business Risk reports regularly to the Audit Committee on progress made against the Annual Audit Plan and the summarised outcomes of individual audits.
- 11.4 The Head of Audit & Business Risk provides an Annual Internal Audit Report to the Audit Committee that includes an opinion on the adequacy and effectiveness of the control environment.

12. Responsibilities

- 12.1 In meeting its responsibilities, the activities of Audit & Business Risk will be conducted in accordance with the council's objectives, established policies and procedures. In addition, internal auditors comply with the Code of Practice for Internal Audit in Local Government (CIPFA).
- 12.2 Audit & Business Risk will co-ordinate effectively with the Audit Commission (as the council's appointed external auditors) for optimal audit coverage and to ensure that appropriate reliance can be placed on internal audit work.
- 12.3 Audit & Business Risk will work the internal audit functions of the council's partner organisations to ensure the robustness of controls and risk management arrangements, to protect the council's interests.

Appendix C

Service Performance Targets

Aspect of Service	Performance Indicators	Target
Cost and Quality of Input	<ul style="list-style-type: none"> • Service costs • Productive/direct time as % of total time 	<ul style="list-style-type: none"> • Within budget • 71%
Productivity and Process Efficiency	<ul style="list-style-type: none"> • Achievement of annual plan by 30th April 2012 (%) • Issue of draft report after completion of fieldwork • Client responses received to draft audit reports from issue • Issue of final report after agreement with client of draft • Time between start of audit (entry meeting) and exit meeting • Audit reviews delivered within budgeted time 	<ul style="list-style-type: none"> • 100% • Within 10 Days • Within 15 Days • Within 10 Days • Days not exceeding 3 X total planned time for audit review • 100%
Quality of Output	<ul style="list-style-type: none"> • Client satisfaction levels (including added value from audit recommendations), source customer satisfaction questionnaires • External audit reliance on work of internal audit 	<ul style="list-style-type: none"> • 90% of scores within good to very good • Reliance placed
Compliance with Professional Standards	<ul style="list-style-type: none"> • CIPFA Code of Practice for Internal Audit in Local Government (2006) 	<ul style="list-style-type: none"> • 100% compliant
Outcomes and degree of influence	<ul style="list-style-type: none"> • Implementation of agreed recommendations 	<ul style="list-style-type: none"> • 98% of High Priority Recommendation • 85% of Medium Priority Recommendations
Our Staff	<ul style="list-style-type: none"> • Professionally Qualified and Undertaking CPD • Annual Training & Development Received (Minimum) 	<ul style="list-style-type: none"> • 80% • 5 Days

