Taking pride in our communities and town

Slough Borough Council

Internal Audit Plan

First Quarter 2011/2012

DETAIL

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 states that: *The Head of Internal Audit is required to prepare a risk based audit plan designed to implement the audit strategy. In preparing this plan, the HOIA is required to take account of the adequacy and outcomes of the organisations risk management, performance management and other assurance processes. The plan should outline the assignments to be carried out, their respective priorities and the estimated resources needed.*

The plan also needs to be sufficient to enable the annual HOIA report to be issued, providing an opinion on the Council's control environment.

The audit needs assessment focuses internal audit effort on key risk areas while ensuring comprehensive coverage by prioritising its work and considering:
- The Council's risk registers;
- Meetings with individual members of the Corporate Management Team and other senior managers;
- Outcomes from previous audits;
- Known areas of concern at Slough or other boroughs;
- Systems reviewed as part of our agreement with the External Auditor, and
- The frequency that outlying establishments such as schools and residential homes are visited.

In the previous year a strategic audit plan was prepared covering three years. This year to cope with the rapid organisational change and alterations to the Councils risk profiles an annual plan only has been prepared. The plan at this stage is indicative as the Council's new structures in terms of Directorates come into place from the 1st April and the Risk Registers are currently being re-drawn and discussed with Directors and Senior Managers. It is intended that the plan will be agreed on a quarterly basis to allow for arising risks to be accommodated within the plan. Certain audits will however need to be undertaken in order to allow the HOIA to provide an opinion on the Councils control environment.

The Council is also facing a period of unprecedented cuts in public spending and cuts have been made to the budget for 2011/12 and anticipated for future years. The Internal Audit service provision arrangements have been reviewed as part of this process. It was identified that a risk based audit plan needed to be developed and delivered with the minimum number of days required to address the risks facing the Council. Following the consultation on proposals for the re-organisation of the service the audit plan is to be fully outsourced and bids for this are currently been sought.

The number of audit days has been reduced to reflect the ongoing needs of the Council and has been estimated at 750 days comparing to authorities of a similar size and risk profile. The ongoing provision will be reviewed by the HOIA and Director of Resources and Regeneration and revised as necessary.

The first quarter's plan agreed by the Corporate Management Team and other senior managers is shown at appendix A and has been sorted under the following areas:

- Assurance
- Central Financial Systems (including audits undertaken as part of the managed audit arrangements with the external auditor)
- IT Audits

  Directorate Specific Audits:

- Resources & Regeneration;
- Customer & Transactional Services;
- Education & Children's Services; and
- Community & Wellbeing.

The Chief Executive's Policy & Communications team will also be considered as part of the whole plan but is a relatively small team and therefore may not attract internal audit days.

As the investigations team is now part of the Head of Audit and Investigations Service it is expected that fraud contingency work will not fall under the audit plan. A separate Anti-fraud plan will be prepared.

A number of changes in approach have been incorporate into the plan and these are discussed separately below and cover:

- Schools Audits
- Follow ups
- Managed Audit

Schools Audits

The audit of schools has traditionally followed a three year cycle with probity audits and over the last four years a Financial Management Standard in Schools (FMSiS) assessment being undertaken in each Junior, Secondary, Special School (this assessment did not apply to Nursery Schools). This has utilised a significant amount of Internal Audit Days. It is felt that this approach has been disproportionate to the risk faced by the Council and has not taken account of the other Governance arrangements that the Council has with the schools.

FMSiS was scrapped in November 2010 and the Government has reported that it was important to ensure that schools have the right arrangements in place to manage their budgets effectively and intended to develop a new, simpler way of doing this with a new approach in 2011/12. At the time of writing the audit plan the Department for Education have just publicised the replacement initiative.The proposal is for a simple checklist for governing bodies, now to be known as the 'Schools Financial Value Standard' (SFVS).   They are currently running a consultation exercise which closes on 30 April 2011. The proposal is for a self assessment to be undertaken by the Governing Body of each school with an annual return being made to the Council. The first run of the standard should be before September 2012 and in the case of schools that had not attained FMSiS must be before March 2012. At this time there are six schools that have not attained FMSiS three primaries and three secondaries.

In the light of this it is proposed that an audit review is undertaken of the other Governance arrangements within the council particularly the School and Cultural Services Support Service in the first quarter of the year. The intelligence from this will then be used to assess the assurance that can be taken from these arrangements and whether any changes can be made to improve them. Testing of the governance arrangement in place will then be used by the HOIA as part of the assurance for schools. This will be supplemented with themed audits and visits as needed to schools considered to be a high risk as indicated by the schools support services and any other concerns raised via whistle blowing or complaints as an example and then from the SFVS returns. It is proposed that where a full internal audit is either requested by the school or required to investigate financial concerns that the school will be expected to pay for this service.

Follow Ups

In previous years a follow up has been undertaken on each internal audit undertaken. Experience shows that the implementation rate for recommendations at the Council is generally good and actions completed within at least 6 months of the audit being finalised. The results of limited audit opinions follow ups and recommendations not completed as expected have been reported to the audit committee.

This approach is resource intensive and it is the managers' responsibility to ensure that recommendations are implemented. It is therefore proposed that:
- A system to monitor high and medium risks will be developed with a view to a central data base being held of recommendations,
- Implementation rates with regard to completed action and within agreed time scales will be reported to directorates and then the audit committee.
- As is currently in place the audit committee can then decide on whether it wants to call in a manager to discuss why recommendations are not being implemented.
- That an allowance of 2 days is made for each audit with a limited opinion to be followed up. Follow ups will be undertaken either:
  - When management report that all high and medium recommendations have been implemented; or
  - Within 6 months of the final report or earlier if the risks are considered critical.

Managed Audits

As part of our work with the external auditor a number of key financial systems audits are relied upon them. These have tended to be undertaken in the final quarter and result in visits by both sets of auditors within a short space of time and potentially when year routines are being undertaken.

It has been discussed and agreed with the external auditor to change this approach. In future:

- Internal audit will update systems documentations supported with a walk through test and then undertake agreed substantive testing;

- The results will be reported to the external auditor and management via a management letter;
- Testing will take place in the 3rd quarter so that transactions for the first six months are tested; and
- Testing of the final six months transactions will take place in April and May in the following financial year.

The advantages of this are:
- Undertaking testing at a less busy time for the services;
- Management are alerted at an earlier stage if the testing shows that controls are not operating effectively; and
- The external auditor will receive the half year results prior to starting their year end work.

PERFORMANCE INDICATORS

Part of the Head of Audit and Investigations function is to monitor the quality of the contractors work. It is proposed that formal monthly meetings will be held with the providers Contract Manager and as part of the quarterly reporting to the Audit Committee an update on progress and a review of performance against key performance indicators.

The proposed performance targets are provided below:

Ref	Performance Indicators	Target	Comments
1	% of deliverables completed by 31/3/2012	95%	Deliverables include management letters, summary reports and draft audit reports
2	% of agreed audit briefs issued no less than 10 working days before the start of the audit	95%	This is to allow managers sufficient notice and time to consider the proposed work. Any exemptions due to urgency or management request will be agreed by the HOIA
3	% of planned audit days delivered by 31/12/2012	95%	It is intended that as far as possible the audit plan will be delivered evenly through the year.
4	% of draft reports issued within 10 working days of exit meeting	95%	This is ensure that management actions can be undertaken on a timely basis

Internal Audit Plan 2011/12 – 1ˢᵗ Quarter

Auditable area	Estimated Days		Type of Audit	Risk	Brief scope	Comments
ANNUAL ASSURANCES						
Annual Governance Statement	5	Q1	Verification	N/A	To verify Directors, Assistant Directors, Process Owner and Project Owner Annual Governance Statements in accordance with the requirements of the Accounts and Audit Regulations 2006; also to confirm that the declared risk mitigating activity is effective.	
Total Annual Assurances – ¼ 1	5					
CENTRAL FINANCIAL SYSTEMS						
Housing Rents	10	Q1	Key	High	To assess effectiveness of key controls in this area	
Debtors Management	10	Q1	Key	**High**	Review of processes and procedures at the stage before the invoice enters the Hub. Are invoices raised on a timely basis? How do service manage debt collection and disputes	
Total Central financial systems – ¼ 1	**20**					
CORPORATE ISSUES						
Business Continuity	10	Q1	Key	High	To assess the Council's business continuity arrangements.	This is shown as high risk on departmental risk registers
Quarterly Reconciliation Checks	5	Q1	**Key**	**High**	To confirm that key systems reconciliations are undertaken on a timely basis, evidenced appropriately and that actions arising undertaken as required.	Management letter output. These will take place each quarter.
Virement within Directorate Budgets	15	Q1	**Key**	**High**	Review by Directorates on virements made and processes and procedures supporting these	
Total Corporate Issues – ¼ 1	**30**					
IT AUDITS					An audit needs assessment has been undertaken with the Head of IT	
GIS	8	Q1	**Systems**	**High**	The Council has a number of GIS systems in place linked to existing systems within services. There is currently no Corporate GIS system in place. Our audit will include the overall GIS Strategy within the Council, Layer Control, Data Use, Change Control, Access Controls, Output Controls and Backup and Recovery.	"
Off Site Working	10	Q1	**Systems**	**High**	This will also look at the policies in place for the delivery of offsite working functionality. The use of laptops and portable devices also increase the risk of Council data being lost or compromised by poor IT Security. This audit will look at the policies and procedures for remote working and also include how Council data is secured on portable data devices and laptops and include checks on laptops to help ensure that data is adequately secured.	"
DR and Back Up	10	Q1	**Systems**	**High**	System back up is closely aligned with ICT Disaster Recovery and the Infrastructure Project is tasked with delivering improved disaster recovery and implementation of a backup and archiving solution. ICT System Continuity is also ranked as a one of the top five risks in the ICT Risk Register included in the ICT Business Plan 2009-10. The	The 2008/09 IT Audit identified some significant weaknesses with the ICT Back up arrangements and made 32 recommendations

Internal Audit Plan 2011/12 – 1st Quarter

Auditable area	Estimated Days		Type of Audit	Risk	Brief scope	Comments
					Audit will look at the formation of the plan, escalation and emergency procedures and procedures for testing Disaster Recovery arrangements. Audit of the backup arrangements will include the procedures for system back up, back up testing, system resilience and back up storage.	to improve internal control.
IT Strategy	8	Q1	Systems	High	The Council is currently going through some IT restructure and a new IT Strategy was recently written by a external Consultant Our audit will look at the processes undertaken to create the strategy and help identify how departmental requirements were identified and translated in the strategy.	This system has not been previously audited "
Total IT Audits – ¼ 1	**36**					
RESOURCES AND REGENERATION DIRECTORATE						
Slough Enterprise	5	Q1	Key	High	Gap Analysis review of controls in place and to assess adequacy of segregation of duties	
Total Resources and regeneration Directorate – ¼ 1	**5**					
CUSTOMER AND TRANSACTIONAL						
None due to take place in 1st quarter	0	**Q1**				
Total Customer and Transactional – ¼ 1						
EDUCATION & CHILDREN'S SERVICES						
Contingency Budget for high risk schools	0	As Required			In conjunction with the Schools and Cultural Services Support team reactive audits to targeted schools where there are issues identified in respect of financial management.	This will also cover any issues arising from whistle blowing, head teacher or Governing Body requests.
Schools Financial Support	15	Q1	Systems	High	To provide assurance that the central monitoring and control over schools delegated budgets is effective.	
Review of effectiveness of recruitment appointment procedures of schools where HR support is outsourced and internally by the council.	15	Q1	System	High	Visit a sample of school to provide assurance that the legislation affecting appointments is understood and that there is evidence and the necessary checks being undertaken.	
Total Education & Children's Services – ¼ 1	30					
COMMUNITY AND WELL BEING						
None due to take place in 1st quarter	0					
Total Community and Well Being - ¼ 1	**0**					

FOLLOW UPS				
Follow Ups	6	Follow Up	A follow up system to monitor the implementation of high and medium recommendations by managers to be developed and introduced. Recommendations will be included on an ongoing basis as well as bringing forward those outstanding from 2009/10 and 10/11. In addition all audits that have resulted in an opinion of "limited" assurance will receive a full follow up within 6 months or when all the recommendations are reported as implemented.	Based on approximately 10 audits having a limited or Nil assurance opinion in 2010/11. Time has also been allocated to set up a recommendations data base , monitoring and reports for directorate management meetings and the Audit Committee meetings
Management Days	25		Preparation of reports for Directorates and Audit committee, prepare next quarter plans, attend directorates team meetings. Preparation of annual audit plan, quarterly progress reports and annual assurance statement. Contract management.	These days will be provided by the HA&I
Total Days	157		Approx 20% of plan	
Total Reports/Management Letters (Estimated)	16			

Note 1: Types of Audit Approach - The audit techniques to be used will be selected from the following, depending on which is considered to be the most effective for delivering the audit objectives:

Risk Based Audit (Risk)

A full audit which focuses on key risks in relation to system objectives. Audit work will be structured to direct audit resource in proportion to risk exposures.

Systems Based Audit (Systems)

A "full" audit in which every aspect and stage of the audited subject is fully considered. It includes review of both the design and operation of controls. Undertaken from a systems perspective with a 'cradle to grave approach'

Key Controls Testing (Key)

Clearly focussed on a small number of material or key controls.

Systems Development Audit (SDA)

Ongoing review of developing plans and designs for new systems and processes aimed at identifying potential weaknesses in control if the plans and designs go ahead as they are.

Verification Audit (Verification)

Where there is pre-existing confidence that controls are well designed, but compliance is a material issue, audits which test only for compliance with controls can be appropriate. Audit undertaken to verify key outcomes. This work normally takes the form of checking data and management actions to confirm accuracy and appropriateness and does not consider controls or risks in the wider sense.

Follow Up

Work undertaken to assess the extent to which management action plans have been implemented. This may be following up our own recommendations from previous years or through follow up of other assurance provider outcomes (e.g. OfSTED or External Audit).