Swindon Internal Audit Services

Internal Audit Plan

2016/17

(DRAFT)

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Introduction

Swindon Borough Council, like all organisations providing services to the public, relies on systems that balance flexibility with appropriate internal control in order to manage resources to meet strategic and service objectives, ensuring accountability and minimising the risk of fraud.

The Council has important statutory obligations and is responsible for the proper stewardship of many millions of pounds of public money and must ensure that the highest standards of corporate governance are maintained. Internal Audit help to provide assurances that Council assets and resources are correctly applied and used wisely.

Internal Audit is mandatory in local government. Under the Accounts and Audit Regulations 2015, Section 5, the Council '*must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*'

Internal Auditing is defined as '*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'* (source: Public Sector Internal Audit Standards).

Our aim is to help the Council meet high standards of service delivery, conduct and governance by examining, evaluating and reporting on the risk management, governance and internal control environment.

The Council's External Auditor examines the work of Internal Audit on an annual basis and seeks to place reliance on that work when they come to audit the Council's financial statement of accounts. The Council's External Auditors are Grant Thornton.

The standards of auditing which the Council will receive from Internal Audit and associated performance indicators are also outlined in this plan and meet the requirements of the Public Sector Internal Audit Standards.

I would like to take this opportunity to gratefully acknowledge the support received from Members, Audit and Standards Committees, the Chief Executive, Board Directors, Heads of Service, their management teams and staff during the preparation of the audit plan and during the course of completing our audits.

An Outline of the Planning Process

The level of Internal Audit resources required to examine all the Council's activities far exceeds those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure that maximum benefit is gained from the independent, objective assurance function which internal audit provides. Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on the delivery of the Council's objectives. How regularly systems and processes are reviewed varies depending on the associated risk, materiality and dependency which they carry in relation to achievement of the Council's priorities and pledges.

The plan will look to provide reasonable assurance to Audit Committee, Corporate Board and other stakeholders regarding all key areas within the Council (see diagram on next page – Reasonable Assurance Framework).

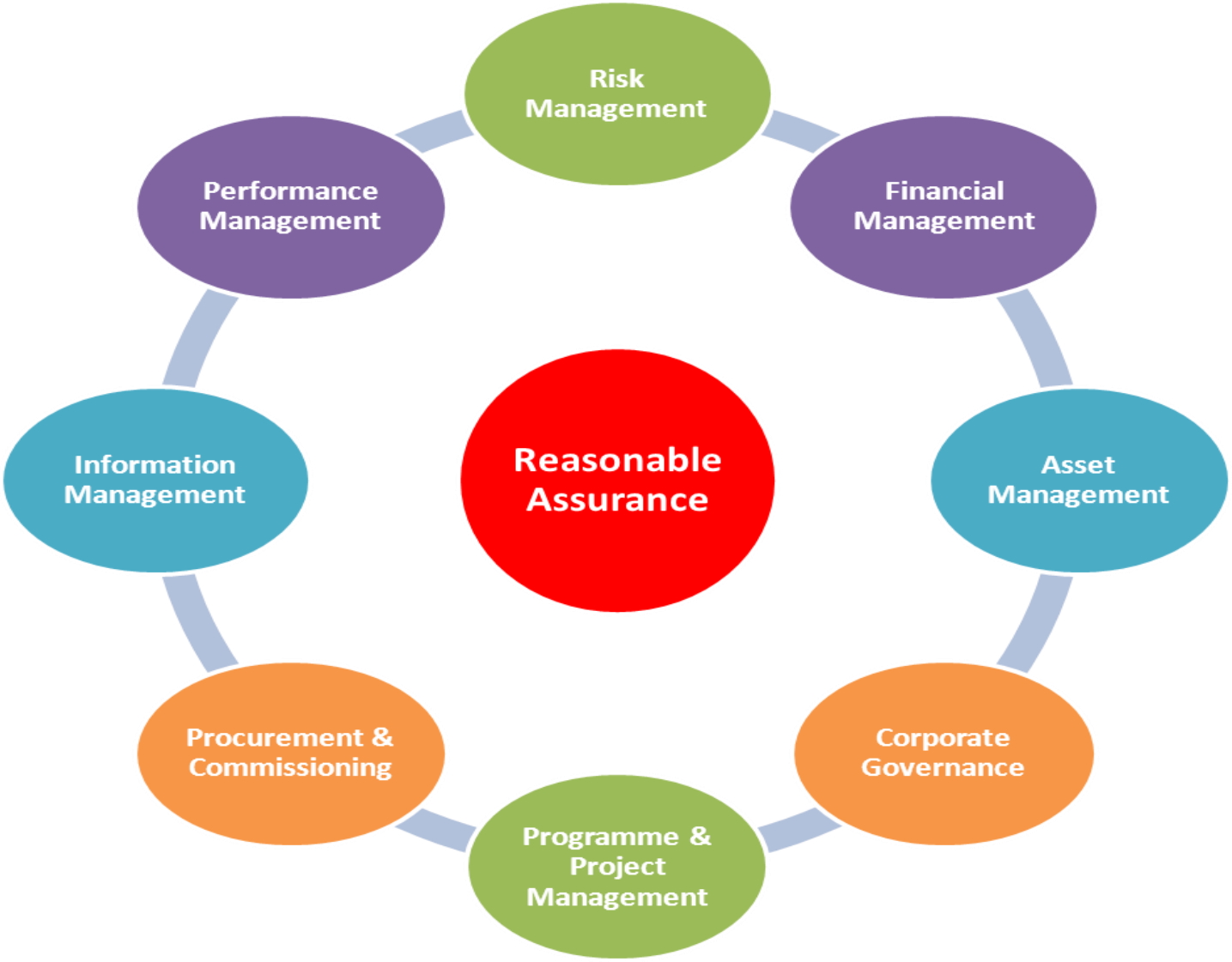
When putting the plan together Internal Audit will take in to account the risk management framework, including risk registers etc. It will also consider the risk maturity of the Council. This year's annual plan has again sought to place reliance on the Corporate and Pillar risk registers and management's identification of key risks in their areas. As part of the planning process for 2016/17 the Head of Internal Audit met with the Chief Executive, Board Directors all tier two officers as well as key finance staff, the Corporate Planning Lead and Risk Manager. These meetings identified management's key priorities and risks for Internal Audit to consider. Issues covered in the Pillar risk registers were also discussed to ensure that all key risks had been identified.

Main Financial Systems: Strong controls in these systems are fundamental to our overall audit opinion. The audit of these systems gives the Council's Section 151 Officer assurance as to whether there are *'arrangements for the proper administration of their financial affairs'*. These systems are covered in some respect every year and include a review of anti-fraud and corruption controls. The Council's External Auditor will review Internal Audit's work in this area as part of their assessment of the reliability of the Council's financial systems. If no work was carried out in these areas then additional work may be required by External Audit that may result in additional fees being charged to the Council.

Also included in the plan are audits highlighted as priority areas by Internal Audit following previous year reviews i.e. where a significant level of risk had been identified in a key system a follow up audit has been specifically planned; areas identified by colleagues in other councils as a risk; and national issues such as changes in legislation.

The Internal Audit plan is reviewed regularly by the Head of Internal Audit during the year. He reports progress against the plan quarterly to senior leadership teams. As part of this process he will ensure that audits planned for the next quarter are still a priority and to establish whether there are any emerging risks that require audit attention.

Reasonable Assurance Framework



Annual Governance Statement

The outcome of the audits within this year's plan will inform the Head of Internal Audit's overall opinion on the adequacy of the Council's system of internal control, risk management and governance arrangements. This in turn will feed in to the review of effectiveness of governance arrangements that forms part of the Council's Annual Governance Statement.

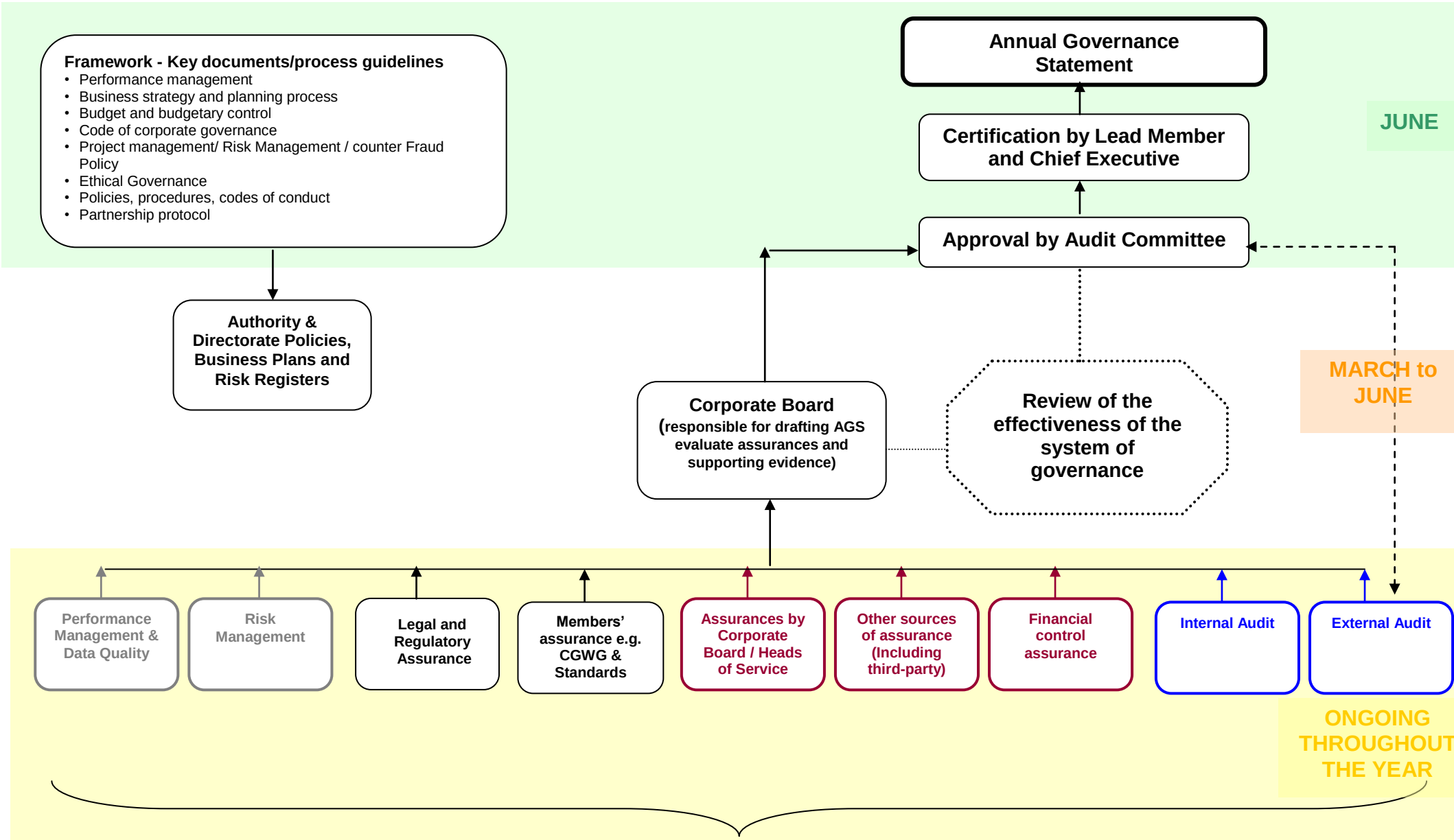
Internal Audit is only one of a number of areas of assurance that contribute to the Council's Assurance Framework (see copy of the framework on page 6).

The Accounts and Audit Regulations 2015 for local government bodies in England require an Annual Governance Statement (AGS) to be prepared. The AGS is required to include the following disclosures:

- An acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control).
- An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.
- A brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.
- A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of:
  - the authority
  - the executive
  - the audit committee/overview and scrutiny function/risk management committee/standards committee
  - internal audit
  - other explicit review/assurance mechanisms
- An outline of the actions taken, or proposed to deal with significant governance issues, including an agreed action plan.

The AGS must be seen as a Council wide document and not just the responsibility of the S.151 Officer or Head of Internal Audit. Corporate Board agrees the AGS before being reviewed and approved by the Audit Committee. The Leader of the Council and the Chief Executive will sign off the AGS, which is then published with the Council's statement of accounts.

ANNUAL GOVERNANCE STATEMENT FRAMEWORK (FLOWCHART)



Audit Committee

It is important to ensure that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's governance arrangements, management of risk, maintenance of an effective control environment, and reporting on financial and non-financial performance. In turn Internal Audit provides a key source of assurance to the Committee as to whether controls are operating effectively.

Audit Committees are not just the concern of auditors; they are about the governance, financial reporting and financial performance of the whole authority.

Effective corporate governance depends, in part, on a systematic strategy, framework and process for managing risk. Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting. This in turn depends upon assurance that issues raised in preparing and auditing annual accounts and other reports have been dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

The existence of an independent and effective Audit Committee helps to convey to staff and to the public the importance Members and Officers attach to internal control.

The Council has adopted best practice in implementing an Audit Committee. Members promote the need for internal control and risk management. Board Directors, Heads of Service and other relevant officers have attended meetings of the Committee to update Members on the progress in implementing audit recommendations, thereby helping to raise the profile of the work of Internal Audit.

The Committee has also agreed a set of terms of reference that encompass the latest guidance issued by CIPFA in their publication, *Audit Committees – Practical Guidance for Local Authorities and Police – 2013*.

The Audit Committee's terms of reference set out the following core functions of the Audit Committee:

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- Oversee Internal Audit's independence, objectivity, performance and professionalism; support the effectiveness of the internal audit process and promote the effective use of Internal Audit within the assurance framework.
- Consider the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to fraud and corruption.

- Consider the reports and recommendations of Internal Audit, External Audit and inspection agencies and their implications for governance, risk management or control.
- Review the Council's financial statements, the External Auditor's opinion and report to members, and monitor management action in response to the issues raised.
- Review and monitor treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.
- Advise upon and/or review the effectiveness of any other matters referred to the Audit Committee by the Cabinet, the Overview and Scrutiny, Regulatory Committees or the Head of Internal Audit.

Fraud and Corruption

Unfortunately, fraud and corruption is an increasing feature nationally. Responsibility for prevention and detection rests with management but Internal Audit will identify high-risk areas, test for the existence of fraud and recommend improved internal controls where necessary.

Internal Audit will promote an anti-fraud culture and encourage staff to raise legitimate concerns with the confidence that they will be thoroughly investigated. Information on frauds elsewhere will continue to be widely disseminated and audit staff will consider whether procedures are operating which would prevent these particular activities occurring in this Council. A Fraud Bulletin that provides details of recent frauds and scams that have been committed in both the public and private sector is produced on a regular basis and distributed to all staff.

Swindon Internal Audit Services will make use of computer audit techniques to compare and test data across different systems, as well as co-ordinating involvement in national data matching exercises enabling the Council to identify and tackle any potential fraud.

Internal Audit also operates the Council's Whistleblowing procedure in conjunction with the Director of Law and Democratic Services. A confidential phone/fax line is provided. Any calls received are reported to the Director of Law and Democratic Services who then appoints an investigating officer to investigate the allegations made. This will normally be Internal Audit.

The results of any investigation are reported to the Head of Service along with any other relevant officer i.e. Board Director etc. The details of any person using the whistleblowing service are kept confidential unless the nature of the call is found to be malicious etc. where separate disciplinary action may be taken.

Summaries of investigations are provided to the Council's Standards Committee who also has responsibility for approving the Council's Anti-Fraud and Corruption Strategy (including the Whistleblowing Policy).

Internal Audit have compiled a Fraud Response plan that sets out what managers/employees should do if they become aware of a potential fraud. Internal Audit has also prepared a Fraud Awareness Guide for managers.

Areas particularly susceptible to fraud are identified by:

- Reviewing publications such as the Audit Commission's '*Protecting the Public Purse*' and their '*National Fraud Initiative National Report'* that indicated areas of actual and potential fraud.
- Discussions with Heads of Service
- Previous audits / experience
- Information exchanged with colleagues from other local authorities i.e. at the West of England Fraud sub-group.
- Fraud Awareness bulletins issued by the National Anti-Fraud Network (NAFN)

These areas are then considered for inclusion in the audit plan. Time is also included for ad-hoc-fraud investigations.

Corporate Fraud Team

Internal Audit was successful in bidding for Counter Fraud funding from the Government. This funding enabled the setting up of a Corporate Fraud Team with the appointment of two officers, a Corporate Fraud Investigator and a Corporate Fraud Intelligence Officer. The initial grant funding ran until March 2016 but additional funding has been gained from the Housing Revenue Account for 2016/17.

The main focus of the Corporate Fraud team is on external fraud committed against the Council. Areas of focus during 2016/17 will include:

- Housing tenancy fraud
- Right to buy applications
- Council tax exemptions and discounts including Single Person Discount; student exemptions
- Council tax reduction scheme, etc.

Swindon Internal Audit Services

1. *Audit Charter*

The Internal Audit Charter, approved by Audit Committee, defines the purpose, authority and responsibility of Internal Audit within Swindon Borough Council and outlines the scope of Internal Audit's work. The Charter also covers the following areas:

- Role
- Professionalism
- Accountability
- Responsibility of statutory officers
- Independence and objectivity
- Internal Audit plan and resource
- Reporting and monitoring
- Periodic assessment and approval

2. *Scope and Service Priorities*

The scope of the internal audit function covers the entire internal control system of Swindon Borough Council, including its risk management and governance arrangements. Our audit reviews can therefore cover all financial and non-financial activities of the Council. These reviews advise and support the:

(a) Audit Committee in discharging its responsibilities for:

- advising on the adequacy and effectiveness of the Authority's internal control environment in accordance with the requirements of The Accounts and Audit Regulations 2015;
- supporting the Director of Finance with his delegated responsibility for ensuring arrangements for the provision of an adequate and effective internal audit;
- Monitoring the adequacy and effectiveness of the Internal Audit Service and Directors' responsibility for ensuring an adequate control environment.

(b) Leader and Chief Executive in their annual certification of the Annual Governance Statement.

(c) Board Director: Resources in discharging his statutory responsibilities under Section 151 of the Local Government Act 1972.

The Council's own corporate risk register supported by individual Pillar risk registers drives a large part of the annual audit plan.

We will also carry out audits of the Council's main financial systems to provide assurance to the Council's S.151 Officer that arrangements are in place for the proper administration of the Council's financial affairs and help to promote an anti-fraud and corruption culture by

targeting areas of high risk of fraud, investigating suspected cases of fraud/irregularity and being the main contact for the Council's whistleblowing hotline.

3. Auditing Standards

The Relevant Internal Audit Standard Setters have adopted a common set of Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors International Professional Practice Framework, as follows:

- Definition of Internal Auditing
- Code of Ethics
  - Integrity; Objectivity; Confidentiality; Competency
- International Standards for the Professional Practice of Internal Auditing
  - Purpose, authority and responsibility; Independence and objectivity; Proficiency and due professional care; Quality assurance and improvement programme; Managing the Internal Audit activity; Nature of work; Engagement planning; Performing the engagement; Communicating the results; Monitoring progress

Swindon Internal Audit Services applies the above standards providing a quality, professional, internal audit and management review service which helps the Council discharge its statutory duties regarding accountability, risk management, securing value for money and the application of high standards of governance in the stewardship of public funds.

Adopting a constructive and supportive approach, working in partnership with officers throughout the Council, Swindon Internal Audit Services also promote good management practice and helps ensure that the Council's corporate policies and objectives are being realised.

4. Quality Standards

Swindon Internal Audit Services will:

- Undertake audit assignments with competence, diligence, integrity and objectivity utilising skills and judgement developed through experience and training.
- Act impartially and objectively to provide a reliable opinion, pursuing all issues either reported or found.
- Encourage approaches from Members and employees regarding any matters of concern, or simply to obtain advice and assistance.
- Fully involve Services in order to develop dynamic strategic and operational plans that are relevant to their needs and recognise service priorities.

- Plan and conduct our assignments in accordance with auditing standards.
- Fully brief Managers, prior to commencing each audit review, concerning the objectives and scope of the work and invite them to identify particular matters that would benefit from an independent evaluation.
- Adopt a risk-based approach.
- Emphasise the positive as well as where improvements can be made and take account of the culture of Services, available resources and possible constraints when making recommendations. Fully discuss findings with Managers concerned and issue draft reports on major audit assignments.
- Reach agreement on recommendations and how they can be implemented.
- Include an action plan in all reports incorporating agreed implementation dates for the recommendations made.
- Review the successful implementation of recommendations.
- Deal with enquiries concerning suspected fraud or malpractice immediately.
- Staff the office within the Council's normal working hours, answering telephone calls within four rings.
- Work closely with the External Auditor to eliminate any duplication of effort and ensure a cost-effective audit process.
- Constantly monitor and communicate standards of good practice.
- Treat all information gathered with the utmost confidentiality.
- Be polite, courteous, helpful and understanding in the approach adopted.
- Commit to Health and Safety, Equal Opportunities, Sustainability and other policies of the Council.

5. Service Outputs

For planned work service outputs are:

Detailed reports arising from reviews of the whole system of internal control, financial and otherwise, containing recommendations which help to:

- Develop key management, financial and information systems
- Secure value for money
- Review performance
- Ensure adherence to legislative requirements, management policies and directives
- Ensure compliance with best practice
- Safeguard assets
- Ensure completeness and accuracy of records

- Secure effectiveness, economy and efficiency in the use of resources
- Ensure the reliability and integrity of information

For irregularity work service outputs are:

Comprehensive fraud prevention measures and raised awareness of the special responsibility the Council has for maintaining the highest possible standards in its management of public funds. In particular, this involves:

- Monitoring compliance with Standing Orders and Financial Regulations
- Coordinating corporate fraud prevention action
- Investigating reported irregularities and supporting any Police enquiries
- Coordinating participation in local and national anti-fraud initiatives
- Providing immediate notification of frauds reported elsewhere together with advice on avoidance measures

For unplanned, ad hoc, work service outputs are:

Advice and assistance during the development of current corporate initiatives.

Other general advice and assistance to officers throughout the Council regarding best management practice, probity issues, system development and internal control. Points of practice are communicated to Members and Service Managers through the issue of reports and notification of work carried out by the Audit Commission, External Audit and other Government Agencies that may help them improve the services they provide.

6. Feedback and Performance Measurement

The opinion of Members, Managers and staff is highly valued as it enables the Service to maintain high standards and quickly respond to changing client needs. Opportunities for feedback are provided through regular meetings with Senior Management teams, 1:1's between the Head of Internal Audit and both the Council's Monitoring Officers and Section 151 Officer, relevant Finance Managers and the issue of Customer Feedback Forms that accompany final audit reports. These forms provide a means for clients to make constructive comments on the services received.

Feedback is also welcomed directly to the Head of Internal Audit regarding any audit work that has been completed, is in progress or is planned. We are also keen to assist where possible with queries regarding internal control issues and react to changes in priorities and reacting to requests for audits in areas where there are new or increased risk.

7. Performance Indicators

The section has three key performance indicators. These are:

- Overall completion of the number of audits in the audit plan: Target 90%
- Completion of the main financial system audits: Target: 100%.
- Customer Satisfaction Feedback: Target of at least 86% of clients scoring the audit as 'Good' or 'Excellent'.

Performance against these targets is reported to each meeting of the Council's Audit Committee and included in the Head of internal Audit's Annual report.

Allocation of Resources

The annual audit plan for 2016/17 has been drafted on the basis of current planned available days within the section. The plan was produced on the basis of the requirements of meeting the Board Director: Resources' Section 151 responsibilities, the requirements of External Audit, key risk areas identified by individual Board Directors, Heads of Service.

Not all issues/areas raised by management and Internal Audit have been included in the plan due to the level of audit resources available. These audits were discussed with both Corporate Board and Audit Committee and management were prepared to bear the risk and not increase the audit resource to meet the additional requirement. Therefore, the annual audit plan had to be trimmed so that it could be delivered from existing current resources. The reduction in the audits was in agreement with Corporate Board, the Board Director: Resources and the Audit Committee – those audits that were considered to be of a lower risk were removed from the plan.

The detail of our allocation of resources is shown in Appendix 1 attached. However, it should be noted that the plan is flexible enough to consider new areas of significant risk that occur during the course of the year. External Audit has stated that they are happy for the plan to be changed to reflect an increased risk in a particular area as long as it can be properly justified.

Individual audits will be allocated from the annual plan on the basis of matching the auditor's expertise and experience to the assignment requirements. Currently the section has both Information Technology and Contract specialists in the section if an additional specialist resource was required to complete an assignment this would be discussed with the relevant manager(s).

Internal Audit obtains assurance from other assurance providers within the Council i.e. Health and Safety, Risk Management etc. when developing the audit plan and carrying out individual assignments.