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**Meeting:** Audit Committee  
**Date:** 2 April 2012  
**Subject:** Internal Audit Strategy and Annual Audit Plan for 2012/13  
**Report of:** Chief Finance Officer  
**Summary:** This report presents the Internal Audit Strategy and the 2012/13 Annual Audit Plan for approval.

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Contact Officer: Kathy Riches, Head of Internal Audit and Risk  
Public/Exempt: Public  
Wards Affected: All  
Function of: Audit Committee

## **CORPORATE IMPLICATIONS**

### **Council Priorities:**

The Internal Audit Strategy, and 2012/13 Annual Audit Plan will support all the Council Priorities.

### **Financial:**

1. Although there are no additional financial implications from the issues identified in the report, the outcome of implementing the Internal Audit Strategy, and the 2012/13 Annual Audit Plan is for the Council to better manage its risk thereby increasing protection from adverse events.

### **Legal:**

2. None.

### **Risk Management:**

3. None specifically. The Audit Plan has been developed from an Audit Needs Assessment using a risk based approach alongside the production of the Strategic, Directorate and Service risk registers.

### **Staffing (including Trades Unions):**

4. None.

### **Equalities/Human Rights:**

5. None.

### **Community Safety:**

6. None.

### **Sustainability:**

7. None.

**RECOMMENDATION:**

**that the Audit Committee approves:**

- (a) the Internal Audit Strategy**
- (b) the 2012/13 Annual Audit Plan**

**Background**

8. The Local Government Act 1972 requires that local authorities have arrangements in place for the proper administration of their financial affairs. More specifically the Accounts and Audit Regulations 2011 requires that a relevant body shall maintain an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper audit practices.

**Internal Audit Strategy**

9. The Internal Audit Strategy is a high level statement of how the Internal Audit service will be delivered to meet these requirements. A Strategy covering the period 2010/2013 was produced in April 2010 and presented to the Committee. This has been refreshed each year to reflect changes in roles and responsibilities since then. There have been no fundamental changes to the Strategy.
10. The strategy sets out the approach for the period 2012/2013 and gives details of the:
- aims and objectives
  - approach to the risk based planning
  - focus of the key areas of work
  - lines of communication with Members
  - reporting and assurance statement
  - links with risk management
  - quality assurance and performance
  - resources to deliver the strategy
11. The Internal Audit Strategy is attached at Appendix A.

**Strategic Audit Plan**

12. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 states that a risk based plan designed to implement the audit strategy should be produced. The detailed plan should be fixed for a period of no longer than one year. However, a comprehensive Audit Needs Assessment should inform audit planning for future years.

13. Following the creation of Central Bedfordshire Council a detailed Audit Needs Assessment was undertaken. From this a three year strategic plan was developed which was presented to the Audit Committee in April 2010. The auditable environment is derived from consultation with Directors, Assistant Directors and Senior Officers of all the service areas, by reference to the Strategic Risk Register, and Internal Audit's analysis of the risk areas.
14. 2012/13 represents the third year of the strategic plan. The plan has been refreshed to reflect changes that have occurred since the original compilation. These changes include:
  - Revisions to Strategic Risk Register
  - Abolition by the Government of the Financial Management Standard in Schools (FMSiS)
  - Introduction of the Children's Services Case Management System.
15. The plan recognises that there is a continued need to ensure that the basic controls are in place across the organisation's systems and establishments, in addition to the following key risk areas:
  - Safeguarding Children
  - Adult Social Care
  - Financial risks, including budgetary constraints, the recession, financial pressures faced by the Council, and fraud
  - Partnerships/programmes and projects
  - Contracts and Commissioning
  - Environmental and sustainability risks
  - Technological /IT
  - Fundamental systems (e.g. payroll, accounts payable, NNDR)
  - Schools
16. There is a continued emphasis in 2012/13 on fundamental system controls. The specific work to be carried out will be considered when scoping the audit work. This will be undertaken following more detailed discussion with senior management to determine the focus of our audit work.
17. Following a discussion with the Audit Commission, an approach to rationalise the level of testing on the fundamental systems was agreed for 2011/12 onwards with the substantive testing being undertaken on a rolling programme. The audit focus in 2012/13 will be on systems that have received a limited assurance opinion in 2011/12 or systems and processes that are likely to change during 2012/13. The walkthrough testing and follow up work will continue to be undertaken each year for each system. It is likely that there will be changes in processes arising from the implementation of the SAP Optimisation project.

18. It is important to recognise the need for flexibility in the approach to our audit work. The approach adopted recognises the continued organisational and business transformation changes that are in progress within Central Bedfordshire and acknowledges that the internal control environment is still developing. Central Bedfordshire Council remains a relatively new authority and some risks may still be emerging. The current economic climate and changes in service delivery may also affect the control environment in the future. A contingency has been included within the 2012-13 plan to ensure that Internal Audit can respond accordingly.
19. The plan presented to the Audit Committee reflects the final year of the Strategic Plan. This will be revisited and refreshed during the year at which stage a further strategic plan will be developed, following a detailed revised audit needs assessment.
20. The Internal Audit Plan for the 2012/13 is attached at Appendix B.

### **Available Resources**

21. It is estimated that there will be 1,300 productive audit days available for 2012/13, a reduction of 270 days over the original plan. The reduced number of days reflects the reduction in available audit resources due to removal of one post within Internal Audit and the temporary secondment of audit staff to support finance with other areas. This is consistent with an assessment of the relative risks and priorities.

### **Conclusion and Next Steps**

22. Approval by the Audit Committee of the Internal Audit Strategy, and the 2012/13 Audit Plan will ensure that Internal Audit can progress its work in line with an agreed approach.
23. The Audit Committee can then use the final plan to monitor the work of internal audit to ensure that appropriate assurance is provided on the Council's systems.

### **Appendices:**

Appendix A – Internal Audit Strategy

Appendix B – Internal Audit Plan 2012/2013

**Background Papers:** None

**Location of papers:** N/A