

INTERNAL AUDIT SERVICE – ANNUAL AUDIT PLAN 2012/13

1. INTRODUCTION

- 1.1 All principal Local Authorities, including Devon County Council, are subject to the Accounts and Audit Regulations 2003 (as amended), and the Accounts and Audit Regulations 2006 and 2011, which require that the Authority should make provision for Internal Audit in accordance with the CIPFA Code of Practice for Internal Audit in Local Government (the Code).
- 1.2 The Code requires, inter alia, that Internal Audit should prepare an annual risk-based plan for approval by the Audit Committee. In addition the Code requires that the Chief Internal Auditor should provide, annually, an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- 1.3 This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.

2. AUDIT NEEDS ASSESSMENT

- 2.1 The audit plan for 2012/13 plan has been identified by:
 - Adopting a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the "Audit Universe" using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines an initial schedule of priorities for audit attention;
 - Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including the introduction of new systems and corporate initiatives;
 - Taking into account results of previous internal audit reviews;
 - Taking into account Internal Audit's knowledge and experience of the risks facing the Authority, including factors and systems that are key to successful achievement of the Council's delivery plans;
 - Requirements to meet the "managed audit" approach with the external auditors;
 - Consideration of risks identified in the Authority's strategic and operational risk registers.

The resultant Internal Audit Plan for 2012/13 is set out in Appendices 1 and 2.

3. INTERNAL AUDIT PARTNERSHIP

- 3.1 Since 1st April 2009 the Internal Audit Service for Devon County Council has been delivered by the Devon Audit Partnership (DAP). This is a shared service arrangement between Plymouth City, Devon County and Torbay Councils and is constituted under section 20 of the Local Government Act 2000.

- 3.2 Although delivery of each authority's audit requirements is resourced by DAP, each authority's audit plan for 2012/13 has been prepared individually as hitherto, although some cross partner reviews have also been included.

4. INTERNAL AUDIT RESOURCES

- 4.1 Based upon our detailed risk assessment process we consider that 1,714 days of internal audit input will be required for Devon County Council in 2012/13.
- 4.2 In order to provide a cost-effective service and good value for money to all of our clients it is important that emphasis is given to minimising costs, particularly overheads, and maximising the efficiency and effectiveness of the audit processes. There is regular monitoring and management review of performance within the team over the year and we participate in the annual CIPFA benchmarking comparisons with other Internal Audit functions to demonstrate that Devon Audit Partnership provides a cost-effective service.

5. PLANNED AUDIT COVERAGE 2012/13

- 5.1 Appendix 1 shows a summary of planned audit coverage for 2012/13 totalling 1,714 direct days. A more detailed analysis of proposed audit reviews is provided in Appendix 2. It should be borne in mind that, in accordance with CIPFA's Code of Practice for Internal Audit, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority and, to this end, it will be regularly reviewed with directorates, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in 6 months to ensure it continues to reflect the key risks and priorities of the Council given the significant changes across the public sector. In order to allow greater flexibility, the IA Plan includes a contingency to allow for unplanned work.
- 5.2 We have set out our plan based on the current organisational structure for the Authority. However, as this structure continues to bed down, it is possible that there will be changes to where actual areas of work report and we may need to revise our thinking accordingly. Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment – in this way we can ensure that the key risks to the operation or function are considered during our review. The following paragraphs give a brief overview of the focus of proposed audit coverage for the year:-
- 5.3 At the end of the year there will always be part of our work that is "work in progress" – this may require testing to be completed, the working papers to be reviewed by audit management, or the draft / final report to be agreed with management. Time has been allocated to ensure that all planned audits carried over from 2011/12 can be completed to the expected standard.

Material Systems

- 5.4 A key element of the IA Plan for the year is to undertake reviews of the Authority's material systems. The International Standards for Auditing (ISA) require that an annual review is carried out of the effectiveness of controls for each of the Council's systems from which the balances and disclosures in the Authority's accounts are

derived. Under the Managed Audit arrangements, the External Auditor looks to place reliance on the work undertaken by Internal Audit to assist them in determining their opinion as to whether or not the annual accounts provide a true and fair view of the Council's financial position. This framework for co-operation helps to lessen the disruption to staff in the service areas and minimises the external audit fee.

Grant Claims

- 5.5 We will review interim and final grant claims before submission to the grant awarding body. Our work will ensure that claims are accurate, complete and that income opportunities to the council are maximised.

People

- 5.6 Our plan for People Services includes a number of audit reviews linked to the "Improving Peoples Lives" change programme such as the SEND Pathfinder project, reablement project and use of assistive technology project, as well as reviews of Fostering and visits to some residential homes. Reviews to support the External Auditors annual opinion such as Residential Care Payments and Boarding Out / Fostering Payments are also included.
- 5.7 Internal Audit will continue to support the development of the LDP and the ongoing relationship with the joint venture provider as well as supporting the People Services Management in implementing other projects and in embedding a robust commissioning approach to service delivery through framework contracts and other means.
- 5.8 A key piece of work which will continue in 2012/13 is support and challenge in respect of Integrated Children's Services recommissioning, which is a joint project with the local NHS PCT. This is a key project for People Services with a number of complex relationships and a very tight timescale so Internal Audit will be working closely with Peoples Services management to ensure risks are managed effectively and the project successfully delivered.

Place Services

- 5.9 Audit areas included in the audit plan for the service include specific items requested by management in addition to a number of items highlighted within risk registers within the Authority. Significant areas which we plan to cover are the Virtual Joint Venture arrangements with South West Highways, Highway Improvements (which will include coverage of the Kingskerswell By-pass).
- 5.10 There is provision to review section 106 agreements which relate to planning and developments which also includes a new infrastructure levy on developments.
- 5.11 Contract reviews for recycling centres, waste disposal in North Devon and Jacob's will be included either to consider the performance indicators or the management arrangements.

Corporate Services

Finance

- 5.11 Our plan aims to review some of the higher risk areas affecting the Finance Department. Planned reviews include how information is managed and how relevant information is released to meet the requirements of the Freedom of Information Act.
- 5.12 The VAT process, and in particular the preparation of claims and how management ensure completeness and accuracy will be reviewed. VAT arrangements are considered robust at the Authority, however this review will help to ensure that arrangements put in place are being fully adhered to in practice.

Business Strategy and Support

- 5.13 In the area of procurement we intend to test check purchases across all areas to ensure that they comply with the procurement strategy; review the use of corporate contracts and assess how category management has been adopted by the Authority.
- 5.14 The Authority relies on a range of information systems to deliver its diverse and complex business needs. ICT will also be instrumental in delivering significant parts of the proposed Council wide change programme. The ICT audits included in the 2012/13 audit plan have been prioritised using the same risk analysis methodology as the rest of the audit plan and accordingly reflects areas that appear in the strategic and operational risk registers. The proposed plan of activity includes reviews of key business applications and ICT operational processes that support ongoing service delivery and service design and transition to meet future demands. We have prepared a detailed plan for our involvement with ICT arrangements. Some of the highlights from this plan are:-
- Storage Area Network (SAN) – a review of the management, maintenance, capacity, availability and back-up
 - Website and webservices – risks have been identified with regard to performance and downtime of the DCC website and associated web services, including The Source. We shall consider that control in place to limit exposure from these risks.
 - Hosted Services/Cloud Computing – In light of growing popularity, we will assist officers in identifying the benefits and risks associated with the use of externally hosted systems, ensuring that business areas appreciate the technical aspects of such solutions as well as assist in the production of effective procedures that ensure the introduction of such systems does not compromise legal and financial positions or the Authority's corporate information management needs.

In addition, we intend to work with officers in reviewing the Authority's approach to Information Governance, including the retention and security of records in light of recent penalties being handed out to local authorities by the Information Commissioner's Office following information breaches.

Human Resources

- 5.15 Consideration has recently been given to the way in which CRB checks are carried out and the frequency thereof and the portability of checks between posts and services. We shall be reviewing the outcome of this work as part of our plan.
- 5.16 We propose to review managing absence in conjunction with well being at work to determine whether current arrangements have resulted in reduced absences levels.
- 5.17 The payroll team were restructured during the 2011/12 financial year and we will include a review of the new structure to ensure that the review and implementation has not had an adverse impact on the control mechanisms in place within payroll.

County Solicitor

- 5.17 The risk register identifies a potential risk relating to the restructure of the Registrars function and in ensuring that income collection arrangements remain sound and effective. We will work with management to ensure planned changes have taken place in an effective way and have not affected operational performance.

Anti Fraud and Investigations

- 5.18 Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Internal Audit will continue to investigate instances of potential fraud and irregularities referred to it by managers, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud. In recognition of the guidance expected in the new Fraud Strategy for Local Government and the recent Audit Commission publication "Protecting the Public Purse" greater audit resource will be allocated to this area to allow more focus on identifying and preventing fraud before it happens.
- 5.19 The Audit Commission runs a national data matching exercise (National Fraud Initiative) every two years. The next exercise is due to be undertaken in the coming year and Internal Audit will work with relevant departments to ensure that the required data sets are extracted from the appropriate Council systems as required by the Audit Commission, in accordance with their data specifications. These are due to be uploaded to the NFI web application in October 2012.

Consultancy / Advice

- 5.20 Internal Audit will continue to be consulted by all departments throughout the Authority on many and varied topics including, for example, interpretation of Financial Regulations/Standing Orders, corporate governance, internal controls, legislation (e.g. Data Protection), security, letting of contracts, PC/network access

etc. The pro-active involvement of Internal Audit in risk and control issues, relating to new systems and changes, assists in protecting the Authority from loss, fraud and abuse.

- 5.21. In addition Internal Audit will continue to support major projects throughout the Council providing advice and input into key developments and initiatives such as the revised payroll system and several procurement exercises.

Chargeable non productive

- 5.22 An element of our work is classified as “chargeable non-productive” – this is work that ensures effective and efficient services are provided to the Council and the internal audit function continues to meet statutory responsibilities. In some instances this work will result in a direct output (i.e. an audit report) but in other circumstances the output may simply be advice or guidance. Some of the areas that are considered to be chargeable non productive include:-

- Preparing and monitoring the internal audit plan
- Preparing and presenting monitoring reports to senior management and committee
- Liaison with other inspection bodies (e.g. Audit Commission)
- Annual governance statement
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during 2012/13
- Technical and process developments within the Partnership. Investment in these developments is expected to deliver greater efficiencies in the future.

Work for other related bodies

- 5.23 Devon Audit Partnership provides internal audit services for a number of organisations that can be seen as “related bodies” Of these, by far the most significant element (459 days) is the schools audits that are funded from their delegated budgets (see notes below). We also have a number of others external clients, generally organisations that have close associations with the County Council, and this includes Devon Pensions Service and Dartmoor National Park.

Schools Audits

- 5.24 The Financial Management Standard in Schools (FMSiS) has now been abolished and replaced by the Schools Financial Value Standard (SFVS). The revised standard was developed by Department for Education (DfE) to replace the FMSiS to help governors, in particular, in self-evaluating the quality of their financial management and to aid in improving schools financial management. The Standard is intended to cover standards and processes that should already be in place in schools, and reduce the bureaucracy of the former FMSiS.
- 5.25 The DfE announced an implementation date of 1st September 2011 and have set 2 key deadlines for achievement. All schools that were not accredited to FMSiS were required to submit their SFVS Self-assessment to their LA by the 31st March 2012

and those schools that were accredited will need to submit their SFVS Self-assessment before the 31st March 2013. The purpose of the SFVS is to make the best use of resources in the education system, to achieve the best possible outcomes for children. DfE have made this a mandatory requirement for all schools and are changing the scheme of delegation to fit this requirement.

- 5.26 Audit of the control and governance arrangements within schools will continue to be carried out on a three year cyclical basis and all the key elements that were in FMSiS and now in SFVS, and which were formerly audited by us, will continue to be covered. We were part of the DfE consultation and pilot study on the SFVS and we have incorporated the SFVS into the school audit programme. Our Audit Programme has been tailored to fit with the SFVS standard. We have also developed support through our webpages with:
- model answers;
 - key timelines guidance;
 - training programme to be delivered through Autumn and Spring.
- 5.27 The Government's drive to encourage schools to become academies is firmly in place and, to date 45 schools have become (or are just about to become) academies and leave the LA control. There is no requirement for academy schools to have internal audit although there is a need for "responsible officer" work; we have agreements in place with 26 Devon Schools to provide such a service. The majority of non-academy schools (still within LA control) currently buy back Internal Audit services from DAP.
- 5.28 Based on our current understanding we expect that we will provide in the region of 459 days of schools audit including 92 days for SFVS support and co-ordination.– however the audit plan will be subject to ongoing change to meet individual school needs.

6. PARTNERSHIP WORKING WITH OTHER AUDITORS

- 6.1 We will continue to work towards the development of effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We will participate in a range of internal audit networks, both locally and nationally, which provide for a beneficial exchange of information and practices. This often improves the effectiveness and efficiency of the audit process, through avoidance of instances of "re-inventing the wheel" in new areas of work which have been covered in other authorities.
- 6.2 The most significant partnership working arrangement that we currently have with other auditors continues to be that with the Audit Commission, the Council's external auditors. This is well established over many years and is formalised in the annual Joint Audit Protocol with Internal Audit issued by the Audit Commission.
- 6.3 As well as carrying out work which the external auditors rely on in respect of the Fundamental Systems described earlier, Devon Audit Partnership carries out further work on their behalf in the audits of grant claims. We are committed to continuing to improve the effectiveness of these arrangements, which aim to avoid duplication and minimise the overall cost of audit to the Council.

7. RECOMMENDATIONS

7.1 It is recommended that:-

- (i) The report be noted.
- (ii) The proposed Internal Audit plan for 2012/13 at Appendix 1 be approved.

Devon County Council Internal Audit Plan 2012/13**Appendix 1**

| | |
|--|-------------|
| Material Systems - Potential Audit Commission elements | 77 |
| Material Systems - from Risk Matrix | 106 |
| Grant Work | 51 |
| People | 440 |
| Place | 200 |
| Corporate Services | 455 |
| Anti fraud (including NFI) | 230 |
| Other Chargeable Activities | 155 |
| Total days for DCC Internal Audit Plan 12/13 plan | 1714 |
| Other related bodies | 592 |

Devon County Council Internal Audit Plan 2012/13
Appendix 2

Material Systems - Potential Audit Commission elements

| | |
|--|-----------|
| Main Accounting System (Corporate Services) Full control programme | 20 |
| Debtors (Corporate Services) | 15 |
| Income allocation | 10 |
| Creditor (Corporate Services) Full control programme | 17 |
| RMS System (Place) | 15 |
| | 77 |

Material Systems - from Risk Matrix

| | |
|---|------------|
| Payroll general and claims testing Full control programme including starters, leavers and payroll variances | 35 |
| Bank Reconciliation (DFS/Payroll) | 5 |
| Salary overpayments | 10 |
| Fixed Asset Register | 10 |
| Duplicate payments | 10 |
| Treasury Management | 10 |
| <i>Advice</i> | 5 |
| <i>Reports</i> | 5 |
| <i>Contingency</i> | 8 |
| <i>Audit Planning and monitoring</i> | 8 |
| | 106 |

Grant Work

| | |
|-------------------------------------|-----------|
| Teachers Pensions TR17 | 8 |
| Sure Start | 15 |
| SCITT x 3 | 8 |
| Active Devon | 10 |
| Adult and Community Learning Skills | 10 |
| | 51 |

People

| | |
|---|----|
| Child and Adult Protection | 30 |
| Education and Learning | 70 |
| ICS (Integrated Children's Services) | 40 |
| Social Care Commissioning | 80 |
| Social Care Provision | 90 |
| Public Health | 10 |
| Health & Wellbeing Board | 10 |
| Follow Ups - 2011/12 Audit Recommendations | 30 |
| Residential Care Payments (Ext Audit) | 15 |
| Boarding Out / Fostering Payments (Ext Audit) | 15 |
| Savings plans in People | 20 |

| | |
|------------------------|------------|
| <i>Advice</i> | 10 |
| <i>Contingency etc</i> | 20 |
| | 440 |

Place

| | | |
|---|---|------------|
| Climate Change | Follow up | 5 |
| Deviant Purchasing | | 10 |
| Highway Improvements including KKW by pass | | 15 |
| Fuel Cards | | 10 |
| Exeter EfW Project | | 10 |
| Recycling centre contract | | 10 |
| Waste disposal in North of County | | 15 |
| Jacobs Contract KPI's | | 10 |
| Virtual Joint Partnership | | 15 |
| Dangerous Trees | Follow up | 5 |
| SWH Invoicing | | 10 |
| Section 106 community and infrastructure levy | | 15 |
| Making IT Local | | 15 |
| Body Removal Contract | | 5 |
| Libraries | | 10 |
| Follow up/completion | Concessionary bus fares, SCP, Highway deterioration | 10 |
| <i>Advice</i> | | 10 |
| <i>Annual reports</i> | | 5 |
| <i>Contingency</i> | | 5 |
| <i>Audit Planning/monitoring</i> | | 10 |
| | | |
| | | 200 |

Corporate Services

| | | |
|---|--|----|
| Corporate – Strategic Intelligence | FOI | 10 |
| Corporate Services – Strategic Intelligence | Information governance | 15 |
| Corporate – Legal Services | Registrars Income / restructure | 10 |
| Corporate Services – Finance | VAT – Claim preparation accuracy and completeness | 10 |
| Corporate Services – Finance | ASH Debt Management realisation of efficiency savings | 15 |
| Corporate Services – Finance | Lodged Purchase Cards | 10 |
| Corporate Services – Finance | Direct Debit Process and procedures | 10 |
| Corporate Services – Finance | Financial workforce planning | 10 |
| Corporate Services – Finance | Barclaycard/Procurement cards Follow up – to include site visits to | 10 |

| | | |
|--|---|------------|
| | spot check | |
| Corporate Services – Finance | Financial performance of PLUS (work not completed in 11/12) | 5 |
| Corporate Services – BS&S Procurement | Car Hire booking system | 5 |
| Corporate Services – BS&S Procurement | Failure of supply market – probably will not be achieved in 11/12 | 10 |
| Corporate Services – HR | Payroll restructure and operational implications | 15 |
| Corporate Services - HR | Managing Absence include well being at work factors | 20 |
| Corporate Services - HR | Replacement of Carplan | 10 |
| Corporate Services – HR | Implications of ICT response on efficiency savings | 10 |
| Corporate Services – HR | Payroll runs separation multiple run management | 10 |
| Corporate Services – HR | CRB Central record | 20 |
| Corporate Services – HR | Recruitment temp solutions cost benefit analysis | 10 |
| Corporate Services - Partnership Registers | | 15 |
| Corporate Services - Emergency Planning | | 20 |
| Corporate Services | Risk Management | 15 |
| Completion of 2011/12 Audits | | 10 |
| Storage Area Network (SAN) | | 15 |
| Finest Application | | 5 |
| Website and Web Services | | 20 |
| Telephony | | 15 |
| Database Administration | | 20 |
| Hosted Services | | 5 |
| Upgrade to Devon Pensions System (Axise) | | 10 |
| Replacement of PRISM with FUSION | | 5 |
| Internet Banking | | 5 |
| Windows 7 rollout | | 10 |
| IT Backups | | 5 |
| Procurements | | 20 |
| Health & Safety | | 10 |
| Anti Fraud & Irregularities | | 200 |
| National Fraud Initiative | | 30 |
| <i>Corporate Services</i> | <i>Advice</i> | <i>10</i> |
| <i>Corporate Services</i> | <i>Annual/Half year reports</i> | <i>5</i> |
| <i>Corporate Services</i> | <i>Contingency</i> | <i>10</i> |
| <i>Audit Planning/monitoring</i> | | <i>10</i> |
| | | 685 |

Other Chargeable Activities

| | | |
|-----------------------------|--|----|
| Support for Audit Committee | | 15 |
|-----------------------------|--|----|

| | | |
|--|--|------------|
| Corporate Governance | | 15 |
| CSE | | 15 |
| Other Various | | 10 |
| Liaison with External Auditors | | 10 |
| Coordination School Financial Value Statements | | 80 |
| Audit Development | | 10 |
| | | 155 |

Total days for DCC Internal Audit Plan 12/13 plan **1714**

Other related bodies

| | | |
|---------------------------|-------------------|-----|
| Schools | | 459 |
| Devon Pensions Service | See details below | 42 |
| Externally funded schemes | SEACS | 20 |
| | Cordiale | 30 |
| Coaver Club | | 10 |
| Devon & Severn IFCA | | 6 |
| Dartmoor National Park | | 25 |
| | | |

Devon Pensions Service – Externally Funded

| | | |
|------------------------|--|-----------|
| Strain payments | | 7 |
| Bank Reconciliation | | 4 |
| Funds Transfers | | 6 |
| Employer Contributions | | 5 |
| Document Imaging | | 5 |
| Death of Pensioners | | 7 |
| Overpayment recoveries | | 8 |
| | | 42 |