

AUDIT AND GOVERNANCE COMMITTEE

25 March 2011

INTERNAL AUDIT AND COUNTER FRAUD PLAN 2011/2012

Report of the Head of Audit, Risk and Procurement

1. Purpose of Report

- 1.1 To enable the Audit and Governance Committee to consider and comment on the proposed Internal Audit and Counter Fraud Operational Plan for 2011/2012.

2. Background

- 2.1 The Terms of Reference for the Audit and Governance Committee (agreed 12th April 2006) set out the key roles of the Committee including the requirement to *"receive and consider (but not direct) internal audit's strategy, plan, and monitor performance"*.
- 2.2 For completeness, the Plan covers Internal Audit's key performance measures and outlines the proposed internal audit work for the Council and associated bodies for which the Council has a lead responsibility. The content relating to the associated bodies is a matter for the bodies concerned.

3. Recommendation

- 3.1 The Audit and Governance Committee is invited to consider and, if appropriate, make comment on the proposed Plan (attached) and key performance measures for 2011/2012.

4. Background Papers

- 4.1 Internal Audit Strategy – Audit and Governance Committee, 26th March 2010.

Internal Audit and Counter Fraud Operational Plan 2011/2012

1. Introduction

1.1 This document covers the following organisations:

- Sunderland City Council
- Tyne and Wear Fire and Rescue Authority (TWFR)
- Beamish Museum
- Tyne and Wear Development Company (TWDC)
- Tyne and Wear Economic Development Joint Committee (TWEDJC)

2. Resources Available

2.1 During 2010/2011 a review of how the service is structured and operates was undertaken which resulted in the Internal Audit service and the Benefits Investigation Unit merging to form a new Internal Audit and Counter Fraud Unit. Through streamlining the management structure, closer alignment of work with the Corporate Risk Management team, and further improving working practices it has been possible to reduce the overall resource available, and cost of the service, whilst continuing to fulfil the role.

3 Development of the Plan

3.1 The coverage of internal audit work is designed to cover the key risk areas of the organisation(s) over a period of years. To underpin the audit risk assessment and planning methodology, key financial and key non-financial systems are identified and are programmed over a 5 year period, as appropriate. This ensures that coverage of these systems is appropriate and timely.

3.2 As the service undertakes proactive Counter Fraud work and investigates fraud or irregularity resources are set aside in the plan for each organisation based upon previous experience.

3.3 Where individual audits cannot be undertaken as originally planned (e.g. the service is no longer provided) attempts will be made to replace the audit with a suitable replacement in consultation with the Executive Director of Commercial and Corporate Services and the relevant Chief Officer. Where these changes are agreed this shall be considered a variation to this Plan for the purposes of performance reporting.

3.4 As all areas requiring attention cannot be fully planned provision is included within the Plan for this, so as not to adversely affect the delivery of the planned work.

- 3.5 The Table below summarises the planned allocation of resources. This takes account of the level of change planned for 2011/2012.

Allocation of Resources

Activity	Days
<u>Audits</u> <ul style="list-style-type: none"> • Service / Systems Audits (49) • Establishment Audits (39) • Specialist IT Audit Work (5) • Value for Money work (3) • Follow Up Work • Grant Work (3) • Annual Governance Review Sub Total	768.0 66.0 66.5 63.0 146.0 30.0 20.0 1,159.5
<u>Counter Fraud</u> <ul style="list-style-type: none"> • Proactive Counter Fraud work (non Benefits) • Housing Benefit Investigation work • Non Housing Benefit Investigation work Sub Total	214.0 1,858.5 344.0 2,416.5
<u>Systems Development / Advice and Guidance</u> <ul style="list-style-type: none"> • Systems Development • General Advice / Guidance / Liaison Sub Total	316.5 143.0 459.5
<u>Provision for unforeseen risks / work</u>	412.0
Grand Total	4,447.5

- 3.6 Given the increased level of change that will be occurring within the Council within the next year it will be necessary to keep the planned work under review in order to respond to those changes. Any changes considered necessary will be brought to the Committee's attention within the regular update reports.

4 Key Points

4.1 The audit plan for 2011/2012 includes 100 planned audits. Each audit is linked to the appropriate key risk area(s) to identify the audit work that will inform the opinion in relation to each key risk area. Appendix 1 to this report shows all of the key risk areas and those audits that will contribute towards the opinion on each area (audits shown are only those in relation to the Council). It should be noted that some audits contribute towards the opinion of more than one key risk area and some key risk areas rely on a number of audits. The results of the audit work will be considered in reporting an opinion on the overall internal control environment within the Internal Audit Annual Report.

4.2 Appendix 2 to this report shows the audit work planned for the associated bodies.

4.3 In relation to the Council, the following key areas of work are planned to be undertaken.

4.3.1 Key Systems

The effectiveness of internal control within the Council's key financial systems and key non-financial systems will continue to be undertaken.

4.3.2 Significant Projects

Significant input will be provided regarding the risks and internal controls to significant projects being delivered through the Business Transformation Programme. The Council is implementing a number of improvement projects across the organisation in order to secure better outcomes, improve the quality of service delivery and achieve significant efficiency savings. This is resulting in significant changes to the way services are delivered and the processes and controls in place to support them. Internal audit work to support managers will continue to take place and will concentrate on proposed changes to systems, procedures and controls to ensure that an appropriate level of internal control is maintained.

Specific pieces of work will be undertaken in relation to the management and redeployment of those employees who are not appointed to posts within new structures, the rationalisation of the Council's property through the Smarter Working project, the implementation of the new shared Administration / Business Support function which is undergoing significant change and will effect all parts of the Council, and access to ICT systems throughout this period of significant change.

4.3.3 System Development

The service will continue to provide input regarding risks and internal controls to significant ICT developments including the Customer Relationship Management system and the Corporate Computing Model.

Support will also be provided for the development of processes and procedures, including in relation to the development of support services for adults in need, early intervention and locality based working in Children's services and the Council's service review methodology.

4.3.4 Grant Work

The Council has a good track record of securing a range of external funding. Greater reliance is now being placed by the providers of the funding on the assurance provided by the head of internal audit as to the validity of grant claims made by the Council. Time has been included to undertake this grant audit work.

4.3.5 Social Care Provision

The Council is engaged in a significant change programme in relation to the provision of adult social care. A number of pieces of Internal Audit work are planned that will support this programme.

4.3.6 Business Continuity/Major Incident Planning

During this period of significant change it is essential that services continue to be delivered on a day to day basis as planned. A review will be undertaken within Children's Services to ensure that appropriate arrangements are in place to continue service provision in key areas. A review of the Council's arrangements for responding to major incidents is also planned.

4.3.7 Counter Fraud

There continues to be a need to raise the profile of the risk of fraud within the Council and to carry out an appropriate level of counter fraud work to ensure that the Council has appropriate arrangements in place. Based upon an assessment of risk, an amount of time has been allowed within the Plan to undertake work specifically aimed at detecting any error, fraud, corruption or other financial wrongdoing that may be occurring. Areas to be covered include:

- Foster Care payments to ensure the consistency of award decisions and that they are genuine and correct.
- Income processing, including cash at the Aquatic Centre, to ensure complete and accurate processing and banking.
- Overtime / honoraria payments to ensure they are legitimate, accurate and appropriately authorised.
- Grant awards to ensure grant monies awarded are used appropriately.
- Gifts and hospitality – review expenditure classified as hospitality. Also review of Code of Conduct forms for declarations of received gifts and hospitality.
- Contract management arrangements – contracts extensions are valid, invoices are accurate and in line with the contract.

- For cash and bank balances, ensure that balances are accounted for and held responsibly.
- Review of security and use of fuel/ vehicles.

Work will also be undertaken to identify the extent, if any, of duplicate payments made through the Council's payment system. This analysis will be done prior to the change in processes which will take place as part of the Business Transformation Programme, and after the processes are changed to identify whether there is any increase in duplicate payments.

Time has been set aside to review the matches returned by the Audit Commission from their National Fraud Initiative exercise. Further investigation will be carried out where appropriate once the matches have been reviewed.

Work will continue to raise awareness of the Council's Anti Fraud and Corruption and Whistle blowing policies, and develop the Council's arrangements to respond to the Bribery Act 2010 which is due to come into force during the year.

Transparency Agenda

- 4.3.8 As part of the government's "transparency" agenda local authorities are required to publish details of their spending where the individual spend is greater than £500. Over recent months the Council has received intelligence from the National Anti Fraud Network and the Audit Commission that local authorities have reported an increase in attempted and actual fraud using details from the published data. The fraud cases identified by authorities have usually involved the submission of false invoices or a request to change supplier bank account details so that payments might be made to bank accounts set up by the fraudsters.

In view of this information a review has been undertaken of the controls in place to prevent the Council being the victim to these types of attempted fraud. It was found that appropriate controls were in place and audit work is ongoing and planned to ensure these controls continue to be effective in practice. In addition, relevant Council employees involved in the payment of invoices have been and will continue to be made aware of these heightened risks to ensure they remain vigilant.

5. Reporting Protocols

- 5.1 At the conclusion of each individual audit a Draft Report and proposed Action Plan will be forwarded to the appropriate manager within the client Directorate. Once agreement has been reached a Final Report and Action Plan will be forwarded to the relevant Chief Officer. Where audits highlight issues which need to be brought to the attention of the Executive Director of Commercial and Corporate Services they will be raised as and when necessary.

- 5.2 A quarterly progress report will be presented to each Executive Director in relation to the audit activity within their Directorate. This will indicate the level of achievement against agreed targets and any major findings arising from the audit work undertaken.
- 5.3 The Audit and Governance Committee will be updated on progress against the audit plan at each committee meeting.
- 5.4 An Internal Audit Annual Report will be prepared for Cabinet and the Audit and Governance Committee in order to provide assurance, or otherwise.

6. Performance Management

- 6.1 All work undertaken will be in accordance with internal audit's policies and procedures, which are based upon the professional standards required by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA-UK).
- 6.2 The Key Performance Indicators which will be used to measure the performance of the service throughout the year, are shown in Appendix 3.

7 Variations to the Plan

- 7.1 Where there is a request or need to undertake additional work, and this cannot be accommodated without affecting other planned work, an assessment will be carried out to determine whether this additional work should be undertaken, based on the impact upon the delivery of the plan and the risks associated with the work requested. Variations will be reported to the Committee within the regular update reports.

Detailed Audit Coverage

Key Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Overall Opinion from Previous 3 years work	Audits Planned 2011/12
Corporate Governance	14%	Low frequency. Rely on Annual Governance Review and external inspections	Good	Annual Corporate Governance Review
Service / Business Planning	29%	Low frequency – Corporate Arrangements Review of service planning during audits of service areas	Satisfactory	Responsive Local Services Facilities Management Reablement at Home - Adults Business Support
Partnerships	43%	Sample of key individual partnerships to be reviewed in co-ordination with Risk Management	Satisfactory	Non Planned
Financial Management	45%	Focus on budgetary control and management of reductions. Periodic review of corporate systems as agreed with the s151 officer	Satisfactory	Corporate Budget Setting and Management Adoption Allowances Social Care Resource Agency Personal Budgets - Adults Port Governance Arrangements Treasury Management 1 Leisure Centre Accounts Payable Accounts Receivable - Collection Periodic Income - Recovery and Enforcement Cash Receipting - Central System Council Tax - Setting Council Tax - Billing Council Tax - Valuation Council Tax - Recovery Business Rates – Recovery & Enforcement BACS Arrangements Management of employees in SWITCH Charging for Services - HHA Stroke Care Grant Future Jobs Fund Grant Deprived Areas Fund Grant

Key Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Overall Opinion from Previous 3 years work	Audits Planned 2011/12
Risk Management	20%	Corporate arrangements review completed 2010/2011. Closer working with Risk Management will mean a co-ordinated approach to reviewing risk management practices	Satisfactory	Port Governance Arrangements 1 Leisure Centre Insurance Policies
Programme and Project Management	53%	Corporate and workstream audits undertaken for Business Transformation Programme (BTP) and Internal Audit involved in ongoing support for the BTP. Work proposed in relation to the rollout of Project Server to assist with resource management	Good	Project Management Information Governance (Project Server)
Local Taxation	14%	Review standard procedures on a periodic basis as agreed with the s151 officer	Good	Council Tax - Setting Council Tax - Billing Council Tax Valuation Council Tax - Recovery Business Rates - Recovery and Enforcement
Procurement and Contract Management	50%	Procurement strategy already reviewed. Review of purchase card arrangements to be undertaken. Support time to be available for new corporate contract management framework	Satisfactory	Procurement of ICT Equipment Purchasing Card Arrangements Capital Procurement Revenue Procurement
Human Resource Management	57%	Review of centralised provision of training and development and redeployment and management of employees not appointed to posts in new structures (SWITCH)	Satisfactory	Corporate Training and Development Arrangements Personnel Administration Arrangements Management of Employees in SWITCH
Asset Management	52%	Implementation of property rationalisation through the Smarter Working Project to be considered. Review of property asset database and management information to be undertaken	Satisfactory	Asset Management (including property asset database) Asset Register/Capital Accounting

Key Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Overall Opinion from Previous 3 years work	Audits Planned 2011/12
ICT Strategy and Delivery	50%	Arrangements to deliver ICT corporately being reviewed. Internal Audit involved in key IT projects.	Satisfactory	Implementation of the ICT Strategy ICT Remote Access Threats Information Technology Infrastructure Library
Fraud and Corruption	30%	Development work required to enhance current arrangements. Counter fraud testing to be completed based on fraud risk assessment	Satisfactory	Counter Fraud Testing (including in schools) Access to IT systems - with movement of employees Social Care Resource Agency 1 Leisure Centre Asset Management - ICT Equipment
Information Governance	43%	Audits completed in the last 2 years, further work planned for 2011/12 to ensure arrangements continue to be developed	Satisfactory	Corporate Information Governance (including procedures for remote working) Email Security Smarter Working - Employees Working Remotely within Children's Services Document Management
Business Continuity and Emergency Planning	32%	Corporate arrangements reviewed. Service continuity arrangements to be audited for a sample of critical systems through the changes that are ongoing. Major Incident Planning arrangements to be reviewed	Satisfactory	Major Incident Planning Business Continuity Planning - Children's Services
Performance Management	35%	Corporate arrangements to be included within the audit plan for 2011/12. Sample of service areas to be reviewed	Satisfactory	Responsive Local Services Corporate Performance Management Facilities Management Port Governance Arrangements Customer Services Network Reablement at Home - Adults Social Care Resource Agency
Payroll	23%	Periodic frequency of central systems and annual substantive testing of transactions / counter fraud work	Satisfactory	Payroll Processing and Payment

Key Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Overall Opinion from Previous 3 years work	Audits Planned 2011/12
Housing Benefits	25%	Periodic reviews of systems as agreed with the s151 officer	Satisfactory	Housing Benefit Administration
Schools	17%	High level audit work to be carried out to gain assurance over the monies spend in schools. Themed work in addition to cover specific areas each year.	Good	38 school audits plus specific counter fraud work

Associated Bodies

Tyne and Wear Fire and Rescue Authority	Days
PFI Contract Monitoring	12.0
Payroll	12.0
Project Management Arrangements	15.0
Implementation of the Data Handling Guidelines	12.0
Counter Fraud Checks	15.0
Action Plan Implementation	10.0
Advice and Guidance	15.0
Investigation Contingency	9.0
Project Work / Other Contingency	20.0
Total	120.0
Beamish Museum	Days
Information Governance	12.0
Catering Income	8.0
On-line Admissions Income	8.0
Action Plan Implementation	2.0
Advice and Guidance	5.0
Investigations Contingency	10.0
Project Work / Other Contingency	4.0
Total	49.0
Tyne and Wear Development Company	Days
Information Governance	12.0
Arrangements to prevent Bribery and Corruption	4.0
Action Plan Implementation	2.0
Advice and Guidance Contingency	3.0
Total	21.0
Tyne and Wear Development Joint Committee	Days
Certification Work	5.0
Total	5.0

Appendix 3

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012		
Efficiency and Effectiveness		
Objectives	KPI's	Targets
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council	1) All key risk areas covered over a 3 year period
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 80%
	4) Number of sanctions and prosecutions for housing benefit investigations	4) 155
	5) Value of overpayments identified during housing benefit investigations	5) £1m

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012

Quality		
Objectives	KPI's	Targets
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant. 90% for medium risk
Client Satisfaction		
Objectives	KPI's	Targets
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)
	2) Results of other Questionnaires	2) Results classed as 'Good'
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported