

**COMMITTEE: AUDIT AND GOVERNANCE**

**DATE: 13 MARCH 2013**

**SUBJECT: INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2013/14**

**REPORT BY: AUDIT MANAGER**

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**IMPLICATIONS:**

**LEGAL**

**COMMUNITY**

**SAFETY**

**EQUALITIES**

**ENVIRONMENT**

**FINANCIAL**

**OTHER**

**STAFFING**

**WARDS AFFECTED: NONE**

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### **PURPOSE**

1. To provide an opportunity for the Audit and Governance Committee to consider the Internal Audit Strategy and Annual Audit Plan for 2013/14.

### **RECOMMENDATION**

2. **The Audit and Governance Committee to approve the Internal Audit Strategy and Annual Audit Plan for 2013/14.**

### **BACKGROUND**

3. All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2011. The latter states that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.
4. The Council’s Internal Audit Strategy and Annual Audit Plan (Appendix i) sets out how the Council will meet its statutory requirements for internal audit. The strategy proposes an approach based on focussing audit resources in those areas where the highest risks to the achievement of the Council’s objectives lies. These

areas have been identified and prioritised based on the Council's own risk assessment processes and following consultation with Senior Management.

- 5 The Internal Audit Strategy and Annual Audit Plan will be delivered in line with proper internal audit practices as set out in the Code of Practice for Internal Audit in Local Government and the requirements of our managed audit arrangements with our external auditors.

## **REPORT**

- 6 The Internal Audit Service has evolved during the last few years to provide a full internal audit service that not only covers the essential assurance work but also undertakes pro-active and reactive consultancy work, provision of advice, fraud related work and risk management work.
- 7 In line with External Audit requirements the Annual Audit Plan has been devised with a more focused approach on the strategic risks facing the Council. We have reviewed the Corporate Risk Registers and have consulted with Senior Managers in order to understand the risks.
- 8 By directing the Audit resource in this manner the level of coverage will enable Internal Audit to fulfil its statutory assurance and scrutiny function and for the Council and the External Auditor to place full reliance on the work of Internal Audit.
- 9 The Council needs to ensure there is a robust system of internal audit and for the service to maintain the current standards and depth and quality of audit review. There are a number of monitoring and consultation roles for audit which includes:-
  - Audit plan – prepared in consultation with management, the External Auditor, the Audit and Governance Committee and approved by Executive. The review of the Audit Plan by the External Auditor helps to ensure the plan is robust and covers all main systems and areas of risk.
  - Monitoring - the CIPFA Code of Practice for Internal Audit details the standards that have to be met and ensures the Council can place full reliance on its internal audit service. Monitoring of performance and quality of the audit service is by the Section 151 Officer and the Audit and Governance Committee. There is also an annual review of the work and quality of internal audit by the Council's External Auditors. This ensures internal audit work is in compliance with the CIPFA Code and of the standard required so the External Auditor can place reliance on the work and does not have to undertake extensive audits themselves. This helps to contain the cost of External Audit.

- 10 The Internal Audit Service reports to the Head of Finance although independence is maintained by a direct reporting line to the Chief Executive, Leader of the Council and the Audit & Governance Committee. This meets the CIPFA regulations and has the support of the Head of Finance and the External Auditor.
- 11 The Audit Manager will report to the Audit & Governance Committee on a quarterly basis. Each quarterly report will include a discussion of areas which have been given an opinion of 'limited assurance' on the control environment. Internal Audit will follow up on recommendations made during the year and will report back to Audit & Governance Committee on the level and degree of implementation.

### **RISK IMPLICATIONS**

- 12 There are no risk implications to this report other than those set out in the body of the report.

### **FINANCIAL IMPLICATIONS**

- 13 The cost of implementing the audit plan has been included in the 2013/14 budget. This has been agreed by the Head of Finance on 22 February 2013

### **LEGAL IMPLICATIONS**

- 14 There are no direct legal implications to this report save for those set out in the body of the report. This has been agreed with the Head of HR and Monitoring Officer on 22 February 2013.

### **APPENDICES**

- 15 The following appendices are attached to this report:-

Appendix (i) - Audit Strategy and Annual Audit Plan 2013/14.

### **LIST OF BACKGROUND PAPERS** **LOCAL GOVERNMENT ACT 1972, SECTION 100D**

- (a) The Accounts and Audit Regulations 2011.
- (b) The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

# **Internal Audit Strategy & Annual Audit Plan 2013/14**

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## **1. Forward**

The Internal Audit Service at Luton Borough Council plays an essential role in supporting the Council to achieve its objectives and outcomes. The Annual Audit Plan for 2013/14 is thus derived from an Audit Risk Assessment and focuses on areas where we can add the most value and provide assurance that the Council's risks are being properly managed.

Our objective is to promote and champion sound governance throughout the Council and provide objective assurance to add value to management by ensuring key business controls are operating, risks managed and value for money is achieved.

We continue to innovate and adopt new approaches to ensure that the Council receives an efficient and effective internal audit service that adds value. This includes for 2013/14 combining the Audit Strategy, Annual Audit Plan and Terms of Reference.

The Council's internal audit function is provided by the Audit, Risk and Investigations service, which reports to the Head of Finance. The updated Audit Terms of Reference is attached at Appendix B.

## **2. Introduction**

### **2.1 Purpose of this report**

This document sets out the Internal Audit Strategy and Annual Audit Plan for Luton Borough Council for the financial year 2013/14.

The Audit Strategy is designed to be a high level statement of how the Internal Audit Service will be delivered and developed.

The purpose of the Internal Audit Strategy and Annual Audit Plan is to:

- Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Members, the External Auditor and the Head of Finance;
- Optimise the use of audit resources available, given that they are limited;
- Identify key risks facing the council to achieving its objectives and determine the corresponding level of audit resources;
- Add value and support senior management in providing effective control and identifying opportunities for improving value for money;
- Support the Head of Finance in fulfilling obligations as the Council's nominated Section 151 Officer; and

- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2011.

## 2.2 Providing Assurance

The Internal Audit Strategy and Plan is aimed primarily at providing ongoing and annual assurance to the Council and to provide confidence to its stakeholders. This is layered in order to achieve a more focused and targeted assurance across a wide range of the council's systems and activities. The layers of assurance are spread across the thematic reviews and a mix of corporate, cross cutting departmental and core financial systems audit reviews.

## 3. Key Core Deliverables for 2013/14

The Annual Audit Plan is expected to cover core deliverables as follows:

- To provide ongoing assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- Delivery of the Annual Audit Plan in particular high risk audit reviews;
- To be responsive to transformational change and service demands;
- To continue to meet the requirements of the Council's external auditors and reliance placed on our audit work;
- To further embed integration of internal audit work with governance and managing risk to produce a clearly co-ordinated risk-based approach to the audit of business/operational systems across the council;
- To ensure agreed management actions to audit recommendations made are fully implemented, in particular the high priority ones;
- To deliver the statutory requirements of the Accounts and Audit Regulations 2011;
- To continue to develop the council's corporate governance arrangements including review of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement;
- To provide an effective reactive Corporate Counter Fraud Service in accordance with the Council's Counter Fraud Strategy and the Local Government Fraud Strategy "Fighting Fraud Locally".
- Continue to be proactive in counter fraud including delivery of a comprehensive fraud awareness training programme to assist managers and staff in the prevention and detection of fraud and irregularities;

- To continue to develop our lead role and to work closely with the Audit & Governance Committee; and
- To support the council's transformation programme, in particular by ensuring our work is focused on effective change and delivery of service improvements.

#### **4. The Role and Purpose of Internal Audit**

The statutory basis for internal audit in local government is provided in the Accounts and Audit Regulations 2011 which states that a *“local authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practice.”* The Council has recognised this statutory requirement in its financial regulations.

In addition to the above, the Head of Finance has a statutory duty under section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform the duty of the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes.

The standards of 'proper practice' in relation to internal audit are laid down in CIPFA's Code of Practice for Internal Audit in Local Government (last updated in 2006). We continually ensure compliance with these professional standards and these are reflected in our Terms of Reference, shown in Appendix B.

The standard and quality of internal audit is principally scrutinised in three ways:

- An annual review of the effectiveness of internal audit required by the Accounts & Audit Regulations 2011;
- Our External Auditors seek to place reliance upon the quality and standard of our work through principally the 'managed audit' process and reports this to the Council in the annual audit and inspection letter; and
- Customer feedback and perceptions.

#### **5. Protocol for Audit Reviews**

For each audit review carried out, the responsible Head of Service will be consulted in the scoping to ensure the review is appropriately focussed on current key perceived risks and issues. Terms of reference will be produced for each audit review and agreed to ensure the scope, objectives, approach and timetable are understood and agreed.

Draft internal audit reports will be issued for discussion with the appropriate levels of management and as set out in the terms of reference.

Final Internal Audit reports will be issued after the agreement of the draft reports which contain completed management action plans that will identify those responsible for implementation and timescales. The final reports will always be issued to the Head of Service responsible for the area reviewed.

Final Internal Audit reports will contain an executive summary that includes an audit opinion on controls. The opinion can be one of four categories:-

<b>Substantial Assurance</b>	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
<b>Adequate Assurance</b>	While there is a basically sound system, there are weaknesses that put a minority of the system objectives at risk and/or there is evidence that the level of non-compliance with some of the controls may put a minority of the system objectives at risk.
<b>Limited Assurance</b>	Weaknesses in the system of controls are such as to put most or all of the system objectives at risk and/or the level of non-compliance puts most or all of the system objectives at risk.
<b>No Assurance</b>	Control is poor, leaving the system open to significant error or abuse and/or significant non-compliance with basic controls.

Agreed actions or recommendations will be followed-up, depending on their priority but this will usually be between three to six months from the issue of the final report.

## 6. Approach to developing the Annual Audit Plan

Our approach used is primarily developing a risk assessment to identify areas for inclusion in the Annual Audit Plan. A summary of the approach is set out below.

<p>Step 1</p> <p>Understand the strategic and operational priorities together with risk</p>	<ul style="list-style-type: none"> <li>• Understand Council structure and service areas including planned changes during 2013/14</li> <li>• Quantifying risks associated with achieving corporate and service level objectives</li> <li>• Obtain information from for example strategic and operational risk registers</li> <li>• Identify corporate level objectives and risks</li> <li>• Utilise local and national knowledge</li> <li>• Consultation with Heads of Service and other key managers.</li> </ul>
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Step 2  Define the audit universe	<ul style="list-style-type: none"> <li>Identify all the auditable entities within the Council. Auditable entities can be functions, systems, establishments, locations or applications.</li> </ul>
Step 3  Assess the inherent risk	<ul style="list-style-type: none"> <li>Assess the inherent risk of each auditable entity based on impact and likelihood criteria so the plan is focussed on the most risky areas.</li> </ul>
Step 4  Assess the strength of the control environment	<ul style="list-style-type: none"> <li>Assess the strength of the control environment within each auditable entity.</li> <li>Assessment based on: <ul style="list-style-type: none"> <li>Knowledge of the control environment</li> <li>Information obtained from other assurance providers</li> <li>Materiality</li> <li>Corporate importance and sensitivity</li> <li>Outcomes and timings of previous audit coverage</li> <li>Management concerns</li> </ul> </li> </ul>
Step 5.  Calculate the audit requirement rating	<ul style="list-style-type: none"> <li>Calculate the audit requirement rating taking into account the inherent risk assessment and the strengths of the control environment for each auditable entity.</li> </ul>
Step 6.  Determine the annual audit plan	<ul style="list-style-type: none"> <li>Determine the timing and overview for each audit review</li> <li>Consider additional requests for audit reviews, for example regulatory driven audits, grants audits and consultancy reviews.</li> </ul>

The Annual Audit Plan will be indicative and it is inevitable that changes will be made during the year as the risk profile of the Council changes. This will be achieved through ongoing review and amendment, in consultation with the relevant Heads of Service and service managers to reflect the changing needs of the council and to add maximum value.

The Audit & Governance Committee will be kept informed of progress against the Annual Audit Plan and agree any significant changes during the year.

## **7. Internal Audit Resources and Skills required**

In order to achieve the Annual Audit Plan, the appropriate level of resources is made available to Audit, Risk and Investigations and includes the required mix of skills, experience and specialisms required. This includes general audit skills in respect of systems and internal control reviews and appropriate coverage in specialist areas such as contract audit and counter fraud.

The Annual Audit Plan is resourced by calculating the number of productive days available within the Internal Audit Team supplemented by a resource from the Fraud Team. The Internal Audit team's establishment for 2013/14 is 6.6 FTEs comprising the Audit Manager, Principal Auditors and Auditors. The projected productive internal audit days available for 2013/14 including the Counter Fraud programme is 1,300 days. This is an increase from the 2012/13 plan due to inclusion of the Fraud team resources.

The Internal Audit Service is delivered by a range of skilled and experienced staff. A number of staff within the service are professionally qualified CCAB Accountants or have qualified with the Institute of Internal Auditors. Other staff are actively studying for the Institute of Internal Auditors (IIA) qualification.

Our professional judgement has been applied in assessing the level of resource required to deliver the Annual Audit Plan. The level of resource applied is a product of:

- The complexity of the areas to be reviewed;
- Factors such as number of locations, number and frequency of transactions; and
- Assurance that can be brought forward from previous audits and other internal and external reviews carried out.

Staff development needs are continually assessed to ensure we maintain the level and mix of skills required to deliver a highly professional and added value internal audit service. Key areas for development for 2013/14 will include ICT, procurement and contract management, and counter fraud.

## **8. Annual Audit Plan 2012/13**

Appendix A shows the detailed Annual Audit Plan and provides a brief summary of each review under thematic areas.

The plan shows the significance of each review in terms of risk and where relevant, cross referenced to the Council's corporate risks. The allocation of the 1,300 audit days is summarised in table 1 below.

A small amount of contingency has been provided for unplanned or reactive work. This will be used to respond to emerging issues, risks and to requests from senior managers.

**Table 1 – summary of Annual Audit Plan 2013/14**

Thematic Area	Audit	
	Days	Page
1. Corporate Governance	125	13
2. Corporate cross cutting reviews	90	14
3. Key Financial Systems	210	15
4. Procurement and Contract Management	100	16
5. ICT audit	50	17
6. Work to Prevent and Pursue Fraud and Corruption	150	18
7. Service Specific Reviews	260	19
8. Corporate Support	125	21
9. Grant Certification	50	22
10. Other Direct Audit Activity	770	22
11. Trusts	70	23
<b>Total Days</b>	<b>1300</b>	

## **9. Key Issues and Priority Areas for 2013/14**

Having regard to the current risk profile of the council, the following areas have been identified as key issues and priority areas of our work for 2013/14;

### **9.1 Governance Arrangements**

The council's governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework (Delivering Good Governance in Local Government 2007). We also provide proactive advice on improving governance arrangements and disseminating best practice information.

A number of audits will support this assessment of governance arrangements. These include the Corporate Governance framework, the Risk Management Framework, Performance and data quality and Business Continuity management. The statutory Annual Governance Statement will be produced in June and approved by the Audit & Governance Committee

### **9.2 Key financial systems**

The effectiveness of controls and management of risks within key or fundamental financial systems remains a core part of our audit work. This work is important in providing annual assurance to the Council and to meet the requirements of our External Auditors. We continue to develop our audit approach to give greater assurance and ensuring it meets the requirements of the International Auditing Standards.

### **9.3 Business Transformation and Value for Money**

With the significant financial challenges facing the public sector, the council continues to deliver a major value for money programme for the transformation of services. Our annual audit plan will be flexible enough to respond to emerging issues and risks from changes from this programme.

Value for money (VFM) will continue to be an integral part of our risk based approach, in particular being alert to opportunities for improved efficiency, effectiveness and economy. A key part of achieving good VFM and improved services is procurement and a number of audits will review this to provide assurance.

### **9.4 ICT and Information Governance**

Information Technology is fundamental to the delivery of the Council's services and an area of rapid change. Due to this high risk to the council, providing assurance on the adequacy of systems and controls is a key part of our Annual Audit Plan. Our work recognises the pace of change and adoption of new information technology and as such will be well informed to focus our resources on areas of highest risk and benefit.

### **9.5 Schools**

The audit of schools absorbs a significant audit resource, in addition to a significant commitment from the schools and it is important that our work is focussed on the areas of highest risk together with providing assurance to governing bodies. Our approach this year therefore is to undertake thematic reviews to optimise the deployment of resources and obtain a proportionate level of assurance.

As a result of changes to the risk environment, there will be occasions when it is beneficial to carry out reactive audit reviews at individual schools. We will liaise closely with management to identify these changes and programme audit reviews accordingly. Changes could include budget deficits, control failures, fraud or changes of key staff.

We will consider requests from schools to undertake audit reviews for assurance purposes where there has been no demonstrable change to the risk environment but the schools may be expected to meet the costs of the audits.

### **9.6 Counter Fraud**

We are responsible within the Council for Corporate Counter Fraud and will continue to review and develop the robustness of the Council's arrangements. We will continue to work closely both internally and externally with bodies such as the Police, DWP and National Fraud Authority.

A recent annual report by the National Fraud Authority gave a headline figure for indicative loss to fraud in local government of £2.1 billion, an increase of £684m

from 2010. In response to these headline figures we have increased our counter fraud coverage, in particular proactive work to safeguard the council.

## **9.7 Implementation of Agreed Audit Recommendations**

At the end of each audit review, an audit report will be produced containing agreed management actions to audit recommendations made. We will ensure these agreed actions to audit recommendations are fully implemented to ensure improvements to the council's control environment and value for money. We will focus on high and medium priority audit recommendations.

## **10 Our Performance Management**

To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, we have well established performance targets based on best professional practice and easily comparable with other organisations.

Performance indicators and targets are shown in Appendix C for six aspects of our service:

- Cost and quality of input;
- Productivity and process efficiency;
- Quality of output
- Compliance with professional standards
- Outcomes and degree of influence; and
- Our staff

We will ensure continuous improvement of the Internal Audit Service and adopt new approaches. It is regularly benchmarked with other unitary authorities to ensure we remain efficient, effective and competitive.

# **Audit, Risk and Investigations Service Annual Audit Plan 2013/14**

# 1. Corporate Governance

To provide assurance on core aspects of governance authority wide

Audit Review/Activity	Risk Register Ref:	Risk Assessment	Overview	Indicative Days
Annual Governance Statement	LBC0023	High	Annual review of overall governance to assess the adequacy across the council.	15
Quarterly Statements of Governance		Medium	To issue and co-ordinate the returns of the quarterly Statements of Governance and to report on any significant issues	15
Corporate Governance Framework (including a review of the Constitution).		High	This audit will carry out a gap analysis of the Council's arrangements with the new standard and actions required	20
Neighbourhood Governance		Medium	This audit will examine the effectiveness of controls around new forms of neighbourhood governance and the Localism Act.	10
Schemes of delegation		Medium	To review whether the schemes of delegation continue to be fit for purpose	10
Risk management framework		Medium	To assess the effectiveness of risk management arrangements throughout the council.	20
Performance & Data Quality (including Benchmarking)		High	This review will examine the effectiveness of controls to manage and monitor the quality of data produced at various levels across the council.	20
Business continuity management	LBC0013 LBC0058	High	Review of the effectiveness of the arrangements in place for how the council prepares for recovery from a major incident to ensure the continuity of services. This will include IT disaster recovery and Supplier Management arrangements.	10
Emergency Planning		Medium	To review the arrangements for dealing with emergencies	5
<b>Total days</b>				<b>125</b>

## 2. Corporate cross cutting reviews

To provide assurance on core aspects of strategy & financial control

Audit Review/Activity	Risk Register Ref:	Risk Assessment	Overview	Indicative Days
Public Health		High	This audit will assess the management arrangements to ensure a successful transition of the PCT to the local authority.	10
Project Management (including Major Projects Board)	LBC0057	High	To ensure processes and controls are in place and that risks have been identified so that major projects are effectively managed and deliver the required outcomes	15
Transformation Programme	LBC0007 LBC0031	High	A review of the overall change management strategy and programme.	10
Corporate Health & Safety	LBC0026	Medium	The review will include overall management strategy and compliance with health and safety requirements.	10
Declarations of interests, gifts & hospitality		Medium	To ensure processes are robust, clearly communicated and complied with.	10
Insurance	LBC0009	High	This audit will review the current arrangements that the council has in place for insurance.	10
Communications Strategy	LBC0003	High	Review of the Council's communications strategy	10
Financial Regulations		Medium	The Council's Financial Regulations are regularly reviewed and updated. This audit will examine their operation including awareness and compliance across the council.	5
Management of grants		High	This audit will review the management process over grant claims and retention of supporting evidence	10
<b>Total days</b>				<b>90</b>

### 3. Key Financial Systems

To provide assurance on core aspects of key financial systems

Audit Review/Activity	Risk Register Ref:	Risk Assessment	Overview	Indicative Days
Local Government Funding 2013/14		High	This audit will review the impact that local government funding has on the Council	10
Main accounting/general ledger	Key system	High	Systems based audit to evaluate and test key system controls	10
Creditors (Accounts payable)/procurement	Key system	High	To ensure adequate controls exists over the procure to pay process.	25
Debtors (Accounts receivable)	Key system	High	To provide assurance that income due is properly identified, collected and accounted for.	10
Budgetary control/ Management	LBC0006	High	A strategic review of budgetary control.	15
Cash, Bank and cash collection arrangements	Key system	High	The audit will review cash collection, banking arrangements and reconciliations.	15
Treasury Management	LBC0034	High	To assess the adequacy of the councils strategy on treasury management and cash flow forecasting	10
Capital accounting Expenditure & Programming		High	A review of the accuracy of forecasting, performance reports identifying slippage and cost overruns, project outcomes and lessons learnt for future projects.	10
Fixed assets	Key system	Medium	Review of the system operating for the handling recording and accounting for fixed assets including the verification and valuation processes.	10
Council Tax/NNDR	Key system	Medium	To evaluate and test key system controls	20
Housing & Council Tax Benefits	Key system	High	To evaluate and test key system controls	20

Housing Rents	Key system	High	To evaluate and test key controls in the Housing Rents system	15
Payroll/HR	Key system	High	A review of HR records to ensure completeness and accuracy of the establishment and to ensure staff are paid correctly.	20
Management of VAT		Medium	To examine the effectiveness of systems and controls for the management of VAT	10
BACS controls		High	This audit will review the effectiveness of BACS within the council's key applications	10
<b>Total days</b>				<b>210</b>

## 4. Procurement and Contract Management

To provide assurance that successful outcomes and value for money is achieved from contracts

Audit Review/Activity	Risk Register Ref:	Risk Assessment	Overview	Indicative Days
Major Contracts	LBC0025	High	Strategic review of the council's contract management and monitoring arrangements.	15
Commissioning and contract management with the third sector		Medium	To review the effectiveness of controls to ensure value for money is achieved	15
Procurement - Selection of contractors and tendering		Medium	To review the effectiveness of the councils tendering arrangements	10
Highways Maintenance Contract		Medium	This audit will review the highways maintenance contract to ensure that key targets are being met and payments are made in accordance with the contract.	10
Waste Management Contract		Medium	This audit will review the Waste management contract to ensure that key targets are being met and payments are being made in accordance with the contract	10

Cleansing & Grounds Maintenance Contract		Medium	This audit will review the Cleansing & grounds maintenance contract to ensure that key targets are being met and payments are made in accordance with the contract.	10
Housing repairs contract		Medium	To review the adequacy of controls and management of risks for the housing repairs contract	15
Carlisle contract		Medium	To review the contract for the supply of Agency staff	15
<b>Total days</b>				<b>100</b>

## 5. ICT audit

**To provide assurance that risks in relation to ICT are being managed appropriately**

<b>Audit Review/Activity</b>	<b>Risk Register Ref:</b>	<b>Risk Assessment</b>	<b>Overview</b>	<b>Indicative Days</b>
Computer Audits	LBC0013	High	Various - to be determined (will include IT Business continuity)	50
<b>Total days</b>				<b>50</b>

## 6. Work to Prevent and Pursue Fraud and Corruption

To provide assurance that fraud risks are being adequately and effectively managed

Audit Review/Activity	Risk Register Ref:	Risk Assessment	Overview	Indicative Days
<b>Anti fraud work – to raise awareness</b>				
Fraud & Audit Awareness Training		-	To raise the level of fraud awareness and create a zero tolerance culture towards fraud and corruption and encouraging staff to report their concerns	10
Fraud & Audit Awareness Campaign		-	Undertake both internal and external publicity campaigns to promote the work of the teams focusing on the fraud hotline and online fraud reporting systems.	10
<b>Fraud prevention work – to remove weaknesses that could be exploited</b>				
Money Laundering		-	Review of money laundering arrangements and compliance with regulations.	5
Anti-Bribery & Corruption		-	To review the effectiveness of the council's anti-bribery and corruption policy and to update the policy as required	5
Whistleblowing		-	To review the effectiveness of the council's whistleblowing arrangements	5
Counter Fraud Strategy, Fraud response plan and other protocols and guidance		-	Ongoing review of policies and guidance to ensure they are effective and current.	5
Fraud Resilience Modelling		-	This review will use the Fraud Resilience Model developed by PKF and NAFN to determine the level of Fraud Resilience by the council and comparison with similar organisations	5
Local Government Fraud Strategy		-	This review is to undertake a gap analysis against the actions recommended in the Fighting Fraud Locally strategy	5

<b>Investigation work - to detect fraud in high risk areas or systems that may be vulnerable</b>				
NFI		High	To lead on the National Fraud Initiative exercise for the council. This will including co-ordinating and investigating significant data matches	50
Housing Tenancy Fraud		-	This proactive review will use intelligence to investigate and take action with Housing management over illegal subletting by housing tenants	20
Agency Liaison and Intelligence exchange		-	Liaison and information exchange with anti-fraud agencies including Police, DWP, NHS and UK Borders Agency	10
<b>Reactive Investigation work</b>				
Reactive fraud & corruption		High	Carrying out investigations as and when required into referrals received into suspected cases of fraud and irregularities.	20
<b>Total days</b>				<b>150</b>

## 7. Service Specific Reviews

To provide assurance on areas in relation to Corporate Objectives

<b>Audit Review/Activity</b>	<b>Risk Register Ref:</b>	<b>Risk Assessment</b>	<b>Overview</b>	<b>Indicative Days</b>
<b>Empower, support and protect the vulnerable</b>				
Welfare Reform	LBC0061	High	To review the Council's preparations for Welfare Benefit changes.	10
Rent Deposit Scheme		Medium	Follow up review of the Rent Deposit Scheme	5
Personal budgets and direct payments		High	This audit will review controls relating to those with personal budgets and direct payments.	15
Care first		Medium	This audit will review the effectiveness of the application controls operating.	10

Safeguarding Strategy	LBC0063	High	To review the Strategy for safeguarding	15
Leaving Care (Transition to ASC)		Medium	To review the management and control for Leaving care	10
<b>Improve life and learning opportunities for all</b>				
School themed review - Procurement		Medium	This audit will review arrangements for procurement in schools.	10
School themed review - Payroll/HR		Medium	To review the effectiveness of controls at establishment level.	10
School themed review - ICT Security		Medium	This audit will review the effectiveness of ICT controls at schools.	10
School themed review – Bacs		Medium	To ensure the effectiveness of controls in the new system of electronic payments to suppliers	10
Traded Services Board		Medium	A review of the services and buy back procedures for schools	10
School reviews		Medium	Schools audits will be reactive and undertaken using a risk based approach.	20
Pupil premium funding		High	This review will examine the effectiveness of the management and control arrangements for Pupil Premium Funding	10
Schools Financial Value Standards		Medium	Reviewing returns submitted by schools	15
SEN		Medium	To provide assurance regarding resource allocation for SEN.	10
Early Intervention (inc Children's Centres and PVI's)		Medium	To examine a sample of children's centres to ensure effective control systems are operating	10
<b>Ensure a financially sound and efficient council</b>				
Housing Revenue Account		High	This audit will examine the implementation of self-financing and the effectiveness of controls to mitigate the risks and impact on the council	10
School Census		Medium	sample testing of school census data used as the basis for funding allocation	5
Right to Buy Process and Buy Backs		Medium	To review the system of Right to Buy Council Houses and the buy back process.	10

Leasehold Management		Medium	To ensure the process for managing our leasehold properties is robust and income due is collected.	10
Parking Services/enforcement	Key system	High	To review the system for collecting, controlling and monitoring parking income	10
Property Management (Estate Rationalisation)		Medium	To review the effectiveness of controls over the council's management of its own estate with reference to the Estates Rationalisation project	10
The Mall 2012		Medium	Annual review of the Mall Head Rent calculation	5
London Luton airport	LBC0039	High	Annual review of Concession Fee payments and review of the airport income generation opportunities	20
	<b>Total days</b>			<b>260</b>

## 8. Corporate Support

To provide support for the Internal Audit Service

Audit Review/Activity	Risk Register Ref:	Risk Assessment	Overview	Indicative Days
Audit Planning		-	Preparation of annual plan and individual assignments	25
Audit Reporting		-	Reporting on individual assignments and to Audit & governance Committee	25
Audit Strategy		-	Review of Audit Strategy to reflect current changes	5
Management of Audit		-	Ongoing management of the Audit function including file reviews etc	50
Benchmarking		-	To participate in the CIPFA Internal Audit benchmarking club and respond to any issues arising	5
Review of effectiveness of IA		-	Completion of the CIPFA Self assessment and action plan	5
Corporate working Groups		-	Attendance at various working groups	10
	<b>Total days</b>			<b>125</b>

## 9. Grant Certification

To review grants as required

Audit Review/Activity	Risk Register Ref:	Risk Assessment	Overview	Indicative Days
Contingency for certification work		-	Auditing grants as required for certification purposes	20
Bus Operators Grant		-	Annual review of Bus Operators Grant	5
TPA		-	Annual review of Teachers Pension contributions	25
	Total days			50

## 10. Other Direct Audit Activity

Audit Review/Activity	Risk Register Ref:	Risk Assessment	Overview	Indicative Days
Follow ups		-	To carry out follow up reviews of agreed management actions to previous audit recommendations	20
Contingency for ad hoc reviews and consultancy and advice		-	Contingency for reactive work not planned in response to management initiated reviews, emerging risks and issues.	25
Residual audits brought forward		-	Contingency for completion of reviews brought forward	25
	Total days			70

## 11. Trusts

Audit Review/Activity	Risk Register Ref:	Risk Assessment	Overview	Indicative Days
Active Luton		-	Audits at the direction of the Trust as part of their SLA	40
Culture Trust		-	Audits at the direction of the Trust as part of their SLA	30
				70
	Total days			

## **Terms of Reference for Internal Audit**

### **in Luton Borough Council**

#### **1. Purpose**

- 1.1 In accordance with best practice set down by the Chartered Institute of Public Finance and Accountancy (CIPFA) this document provides a formal Terms of Reference for the provision of Internal Audit at Luton Borough Council.
- 1.2 It is reviewed by the Audit Manager on an annual basis to ensure it meets proper practice and the business needs of the Council.

#### **2. Statutory basis of Internal Audit**

- 2.1 Within local government the requirements for an Internal Audit is statutory. The Accounts & Audit Regulations 2011 requires that a local authority “must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices”.
- 2.2 There is a statutory requirement for Internal Audit to work in accordance with the ‘proper audit practices’. These are effectively the CIPFA Code of Practice for Internal Audit in Local Government.
- 2.3 The statutory role is recognised and endorsed within the Council’s Financial Regulations, which provides the authority for unlimited access to officers, Members, documents and records and to require information and explanation as necessary.

#### **3. Responsibilities and objectives of Internal Audit**

- 3.1 Internal audit is an assurance function that primarily provides an independent and objective opinion on the control environment by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 3.2 The control environment comprises the systems of governance, risk management and internal control.
- 3.3 In meeting its responsibilities, the Internal Audit activities will be conducted in accordance with the council’s objectives, established policies and procedures.

- 3.4 Internal Audit will co-ordinate effectively with Grant Thornton (as the council's appointed external auditors) for optimal audit coverage and to ensure that appropriate reliance can be placed on internal audit work.
- 3.5 Internal Audit will work with those of the council's partner organisations to ensure the robustness of controls and risk management arrangements, to protect the council's interests.

#### **4. Reporting lines & relationships of Internal Audit**

- 4.1 The Audit, Risk and Investigation Service provide the council's internal audit function and are part of the Finance Service within the Commercial & Transformation Department of the council. The Audit Manager reports administratively to the Head of Finance (Section 151 Officer) and formally to the Audit and Governance Committee.
- 4.2 The Audit Manager has a right of direct access to the Leader of Council, the Chair of the Audit and Governance Committee, the Chief Executive, all levels of management, all Council employees and senior officials of partner bodies and external contractors.
- 4.3 The Audit and Governance Committee is responsible for approving the Internal Audit Strategy and Annual Audit Plan. The Audit Manager reports quarterly to the Audit & Governance Committee on progress against the Annual Audit Plan and key issues arising.

#### **5. Organisational independence of Internal Audit**

- 5.1 Internal Audit is sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations. Internal auditors have no operational duties for Luton Borough Council.
- 5.2 Internal audit is involved in the determination of its priorities in consultation with those charged with governance. Internal Audit has unrestricted access to officers, members, council records and to report in its own name.
- 5.3 The existence of an Internal Audit function within the Council does not diminish the responsibility of management to establish systems and internal control to ensure that activities are conducted in a secure, efficient and well ordered manner.
- 5.4 Internal Audit has no executive role or any responsibility for the development, implementation or operation of systems. However, it may provide advice on implementation, control and related matters, subject to resource constraints. Internal Audit staff shall neither 'own' any systems under audit nor be given any responsibility for any aspect of work subject to audit.

## **6. Consultancy and advisory role**

- 6.1 Due to detailed knowledge of the Council, its systems processes and operations Internal Audit is well placed to provide a consultancy or advisory role on an ad hoc basis or as part of the Annual Audit Plan. Reports from this type of work contain findings and recommendations particularly to add value to the council's services in achieving value for money in its use of resources. Any consultancy and advisory work carried out shall not jeopardise Internal Audit independence.

## **7. Internal Audit Standards**

- 7.1 There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These are effectively the CIPFA Code of Practice for Internal Audit in Local Government that accompanies the Accounts & Audit Regulations 2011.

## **8. Scope of Internal Audit**

- 8.1 The scope for Internal Audit is 'the control environment comprising risk management, control and governance'. This means that the scope of Internal Audit includes all of the Council's operations, resources, services and responsibilities in relation to associated partner organisations. The priorities for Internal Audit will be determined by a process of risk assessment.
- 8.2 Internal Audit shall have unrestricted access to all Council's personnel, records (whether manual or computerised), cash, stores and other property, and may enter Council property or land to obtain explanations. Such access shall be granted on demand, will not be subject to prior notice and will also extend to partner bodies or external contractors working on behalf of the Council in so far as such access relates to work carried out or services provided on behalf of the Council.

## **9. Skills and Resources of Internal Audit**

- 9.1 Internal Audit will ensure as far as possible that it is appropriately staffed in terms of numbers, skills and experience. The Audit Manager is responsible for appointing staff and will ensure these are made in order to achieve the appropriate mix of qualifications, experience and skills.
- 9.2 The Audit Manager is responsible for ensuring that the resources of Internal Audit are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby the resources were concluded to be insufficient, the Audit Manager must formally report this to the Head of Finance (Section 151 Officer) and to the Audit and Governance Committee.

- 9.3 If Internal auditors are appointed from operational roles elsewhere within the council, they do not undertake an audit in that area directly within one year unless by prior agreement.
- 9.4 In line with the CIPFA Statement on the Role of the Head of Internal Audit (2010), the Audit Manager is a professionally qualified CIPFA Accountant. In addition there is a high mix of professionally qualified staff throughout the Internal Audit team to meet delivery requirements of the service.

## **10. Internal Audit's role in issues of fraud and corruption**

- 10.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit reviews alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption.
- 10.2 The Audit Manager has lead responsibility for corporate counter fraud activities including proactive initiatives, maintaining and developing an effective framework, and advising management.

## **11. Internal Audit Reports**

- 11.1 The majority of audit reviews include a formal audit report being produced and issued to management. The primary purpose of the audit report is:
- To provide an opinion on the effectiveness of the control framework operating for the mitigation of risks;
  - To make practical audit recommendations and agree management actions;
  - To prompt management action to implement audit recommendations for change leading to improvements in control and where applicable value for money and performance; and
  - To provide a formal record of points arising from an audit review and agreement with management.
- 11.2 Management are expected to implement all agreed recommendations within a reasonable timeframe. Each internal audit report will be followed up, normally within six months of the issue of the final report, in order to ascertain whether the agreed actions have been implemented effectively.
- 11.3 The Audit Manager reports regularly to the Audit & Governance Committee on progress made against the Annual Audit Plan and the summarised outcomes of individual audits.
- 11.4 The Audit Manager provides an Annual Internal Audit Report to the Audit & Governance Committee that includes an opinion on the adequacy and effectiveness of the whole internal control environment, including risk management and governance within the Council. This opinion supports the Annual Governance Statement.

### Service Performance Targets

Aspect of Service	Performance Indicator	Target
Cost and Quality of input	<ul style="list-style-type: none"> <li>Service costs</li> <li>Productive time as % of total time</li> </ul>	<ul style="list-style-type: none"> <li>Within budget</li> <li>65%</li> </ul>
Productivity and Process Efficiency	<ul style="list-style-type: none"> <li>Achievement of annual plan by 30<sup>th</sup> March 2013</li> <li>Issue of draft report after completion of fieldwork</li> <li>Client responses received to draft audit reports from issue</li> <li>Issue of final report after agreement with client of draft</li> <li>Time between start of audit (entry meeting) and exit meeting</li> <li>Audit reviews delivered within budgeted time</li> </ul>	<ul style="list-style-type: none"> <li>90%</li> <li>Within 10 days</li> <li>Within 15 days</li> <li>Within 10 days</li> <li>Days not exceeding 3x total planned for audit review</li> <li>90%</li> </ul>
Quality of Output	<ul style="list-style-type: none"> <li>Client satisfaction levels</li> <li>External audit reliance on work of Internal Audit</li> </ul>	<ul style="list-style-type: none"> <li>90% of scores good and above</li> <li>Reliance placed</li> </ul>
Compliance with Professional Standards	<ul style="list-style-type: none"> <li>CIPFA Code of Practice for Internal Audit in Local Government (2006)</li> </ul>	<ul style="list-style-type: none"> <li>100% compliant</li> </ul>
Outcomes and degree of influence	<ul style="list-style-type: none"> <li>Agreement of recommendations</li> <li>Implementation of agreed recommendations</li> </ul>	<ul style="list-style-type: none"> <li>100% of High Priority recs</li> <li>95% other recs</li> <li>75% of all recs</li> </ul>
Our Staff	<ul style="list-style-type: none"> <li>Professionally Qualified (or Training) and undertaking CPD</li> <li>Annual training &amp; Development Received (Minimum)</li> </ul>	<ul style="list-style-type: none"> <li>50%</li> <li>Ave 5 days per person</li> </ul>