



## Report to Audit Committee

16 April 2014

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**Title:** 2014/15 Internal Audit Plan and Strategy

**Report of:** Chief Internal Auditor, Gateshead Council

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### **Purpose of Report**

1. To approve the Internal Audit Plan for the year 2014/15.

### **Summary**

2. The Chief Internal Auditor has produced an Internal Audit Strategy Statement for 2014-2017 which includes the Annual Plan for 2014/15 and this is attached at Appendix 1. The plan is based upon a requirement of 196 audit days (1,470 hours) which is the same as 2013/14.

### **Link to values**

3. This report links to the corporate value of being motivated, trained, and committed across the Company.

### **Impact on tenants**

4. No impact directly from this report.

### **Risk Management Implications**

5. The perceived risk of each audit is based on a thirteen point assessment taking into account such areas as materiality, complexity of the system, potential for fraud and sensitivity. Based on a score derived from the assessment, audits are categorised as high, medium and low priorities. The Company's risk registers and the previous year's audit work is also reviewed. This informs the time allocation and the frequency in which audits will be carried out.

### **Financial Implications**

6. The cost of the internal audit work plan is fully provided for in the 2014/15 budget.

### **Equality and Diversity Implications**

7. There are no Equality and Diversity implications associated with this report.

### **Value for Money implications**

8. The delivery of the 2014/15 audit plan and the implementation of internal audit recommendations will assist in identifying efficiencies and achieving value for money.

### **Consultation carried out**

9. The plan has been developed following consultation with management.

### **Recommendation**

10. The Committee is asked to approve the Internal Audit Plan for 2014/15.

# The Internal Audit Strategy Statement

2014 - 2017

& Annual Plan 2014/15



## 1. Introduction

Internal Audit plays an essential role in supporting the Company to achieve its objectives and outcomes. The Annual Audit Plan for 2014/15 has been formulated from a review of the major risks that the Company faces over the next 3 years. The plan therefore focuses on areas where we can add the most value and provide assurance that identified risks are being properly managed. Our objective over the 3 years is to promote and champion sound governance and effective and efficient internal controls throughout the Company and to provide objective assurance by ensuring key business controls are operating as planned and value for money is being achieved to support the Annual Delivery Plan.

The Company's internal audit function is provided by Gateshead Council's Internal Audit and Risk Service which is based within the Corporate Finance Service, Finance and ICT.

## 2. Purpose

This document sets out Internal Audit's Strategy for 2014-17 and Annual Audit Plan for the financial year 2014/15.

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

- Allow the Chief Internal Auditor to produce a risk based annual plan taking into account the requirement to give an independent annual opinion on the overall adequacy and effectiveness of the Company's framework of governance, risk management and control;
- Ensure effective audit coverage and a mechanism to provide independent and objective assurance in particular to the Audit Committee and Senior Managers.
- Identify the key risks facing the Company that could prevent it from achieving its objectives and determine the corresponding level of audit resources required to assess mitigating controls.
- Add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money.

## 3. Key Outputs 2014-17

The Internal Audit and Risk Service will deliver the following key responsibilities:

- To provide ongoing assurance to management on the Company's control environment comprising systems of governance, risk management and internal control;
- To support the Company's values and expected standards of behaviour;
- To be responsive to organisational change and service demands;
- To work together with the Company's external auditors to ensure reliance can be placed on our audit work where at all appropriate;
- To continue to develop our joint working relationships with other related regional and national groups and bodies;

- To embed the integration of internal audit work with governance and service improvement and produce a clearly co-ordinated risk-based approach to the audit of business systems across the Company;
- To ensure agreed management actions to audit recommendations made are fully implemented;
- Deliver effective and valued training to the Company's managers and Audit Committee;
- To provide an effective corporate counter fraud & corruption service and response where required.

#### 4. Risk Analysis and Strategic Plan

To allow an annual opinion on the effectiveness of the internal control environment to be delivered Internal Audit will review all major systems and areas of activity within a three-year period. The three-year risk based strategic plan is reviewed annually after considering:

- The Company's priorities;
- The risks documented in the strategic and operational risk registers;
- Consultation with senior managers;
- Changes in legislation;
- The scope of any planned external audit work;
- The implications of external inspection reports;
- Time elapsed since the previous audit; and
- The availability of resources.

Once this information has been analysed the perceived level of risk for each audit area is assessed based on thirteen areas taking into account such factors as materiality, complexity, potential for fraud and sensitivity. Based on a score derived from these assessments audits are categorised as high, medium or low priority which dictates where they will be audited within the 3-year cycle. High priority areas are audited on an annual basis. A worked example of this assessment is attached at Appendix A. Based on this intelligence the 3-year strategic plan is attached at Appendix B.

Additional assurance is highlighted to the Committee in Appendix C which demonstrates how the 3 year strategic audit plan corresponds to the current risk profile of the Company. This includes any risks not currently covered by Internal Audit where other assurance may be required.

#### 5. How the service will be provided

Internal audit provision is delivered by Gateshead Council's in-house team supplemented by a joint working arrangement with Newcastle Council for any ICT auditing. This arrangement will be kept under review on an annual basis over the 3-year period.

In order to deliver the Annual Audit Plan at the required quality and professionalism, we strive to ensure the team have the required mix of skills and experience. All our internal audit employees are either fully qualified CCAB Accountants and/or qualified Association of Accounting Technicians; or undertaking professional studies.

Our professional judgement has been applied in assessing the level of resources 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 optimal level and mix of skills required to deliver a highly professional and added value internal audit service.

## 6. Performance Management

We will continually ensure compliance with relevant professional standards through a combination of internal and external reviews of compliance and quality; with the outcomes reported to the Audit Committee. Examples of this include: -

- Internal self assessments by the Chief Internal Auditor
- Customer satisfaction questionnaires
- Any reliance placed on our work by external auditors
- Annual benchmarking information
- External assessment every 5 years by a recognised, qualified and independent assessor

To achieve the planned coverage for 2014/15, deliver a high standard of customer care and demonstrate effectiveness of the service, we have well established internal performance targets based on best professional practice. The following indicators will be reported to the Committee on a quarterly basis: -

Internal Audit Indicators:

Performance Indicator	Target
Number of audit assignments completed against annual plan	96%
Audits completed within agreed time	90%

Management Indicators:

Performance Indicator	Target
Number of draft reports agreed and returned within 2 weeks	90%
Number of audit recommendations implemented	90%

Appendix A - Risk Assessment - Internal Audit of Rent Collection

Risk Factors	Impacts	Scores					Weighting	Rent Collection	Score
		1	2	3	4	5			
Materiality	1 Annual Gross Income or Expenditure Budget	Up to £500,000	£500,001 - £1million	£1-5million	£5-10million	Over £10million	10	5	50
	2 Potential losses from cash and other desirable goods	Less than £5K	£5-25K	£25K-100K	£100-250K	Over £250K	5	1	5
	3 Volume of transactions per annum	Less than 999	1,000 - 9,999	10,000 - 99,999	100,000 - 199,999	More than 200,000	10	5	50
	4 Complexity of system	Simple	Straightforward	Some Complexities	Complex	Very Complex	10	4	40
Sensitivity	5 Adverse publicity	Minimum impact on the organisations image	Adverse internal criticism	Adverse external criticism	Public/media local concern	Public/media national outrage	8	2	16
	6 Operational impact	Minimal disruption to internal company operations	Minimal disruption to public and stakeholders	Noticeable disruption to internal operations, public and stakeholders	Major disruption to internal company operations and curtailment of ability to fully achieve the organisations strategic objectives.	Major disruption to public and stakeholders and inability of organisation to achieve strategic objectives.	10	3	30
Audit History	7 Audit Opinion	Operating Well		Satisfactory		Significant Weakness	4	1	4
	8 Time since last audit		1 year	2 years	3 years	Never/ over 3 years/ follow up	3	2	6
Personnel	9 Experience of management and staff	All managers and employees are highly experienced in their roles.		Managers and employees have adequate skills and experience.		Managers and key employees lack relevant skills, qualifications and experience.	1	3	3
	10 Staff Turnover/Current Vacancies	No changes since last audit		Some recent turnover and new staff in key roles		High turnover and restructuring. Currently vacancies in key roles.	1	3	3
	11 Level of Supervision	High		Adequate		Low	3	3	9
Process Changes	12 New systems and innovations	No changes since last audit		New system introduced in the last 1-2 years		New system has been introduced since last audit either ICT or process	1	2	2
	13 Legislative change	No changes since last audit		Minor legislative changes since last audit		Significant changes, full details of new statutory framework unclear	3	5	15

233

RISK RATING	SCORE	AUDIT FREQUENCY
Low	149 or less	once every 36 months
Medium	150 to 210	once every 24 months
High	over 210	once every 12 months

**Appendix B - The Gateshead Housing Company Three Year Internal Audit Plan 2014/17**

<b>Audit Name</b>	<b>Risk Score</b>	<b>Rating</b>	<b>Frequency (Months)</b>	<b>2014/15 Hours</b>	<b>2015/16 Hours</b>	<b>2016/17 Hours</b>
General Advice, Consultancy and Systems Review			12	40	40	40
Audit Committee			12	30	30	30
<b>Total Management Activities</b>				<b>70</b>	<b>70</b>	<b>70</b>
<b>Fundamental Financial Systems</b>						
Creditors	251	High	12	70	70	70
Budget Setting and Monitoring	250	High	12	40	40	40
Capital Programme	258	High	12	75	75	75
Company Payroll	255	High	12	50	50	50
Main Accounting	266	High	12	40	40	40
Insurance Arrangements	219	High	12	35	35	35
Rent Arrears	255	High	12	160	160	160
Rent Collection	233	High	12	70	70	70
<b>Total Fundamental Financial Systems</b>				<b>540</b>	<b>540</b>	<b>540</b>
<b>Corporate Governance</b>						
Business Continuity Arrangements	158	Medium	24	0	40	0
Risk Management	185	Medium	24	60	0	60
Governance	174	Medium	24	0	40	0
Performance Framework	157	Medium	24	0	50	0
Information Security Management and Governance	151	Medium	24	0	60	0
Counter Fraud Arrangements	175	Medium	24	0	50	0
<b>Total Corporate Governance</b>				<b>60</b>	<b>240</b>	<b>60</b>
<b>Corporate Governance - Keelman Homes</b>						
Keelman Homes	226	High	12	160	160	160
<b>Total Corporate Governance - Keelman Homes</b>				<b>160</b>	<b>160</b>	<b>160</b>
<b>Strategic and Operational Risks</b>						
Tenancy Allocation and Lettings	270	High	12	100	100	100
Housing Establishments	266	High	12	90	90	90
Repairs	269	High	12	90	90	90
Corporate IT	239	High	12	10	10	10
VAT Procedures	157	Medium	24	30	0	30
Leaseholder Service Charges	160	Medium	24	50	0	50
Asbestos Management	155	Medium	24	0	70	0
Human Resources	168	Medium	24	20	0	70
Health and Safety	151	Medium	24	0	70	0
Void Management	177	Medium	24	100	0	100
Gas Servicing	198	Medium	24	40	0	40
Access Management - IT Audit	149	Low	36	60	0	0
Change Management - IT Audit	149	Low	36	0	60	0
Incident Management - IT Audit	149	Low	36	0	0	60
Communications	112	Low	36	50	0	0



Value for Money and Efficiency Arrangements	147	Low	36	0	50	0
Equality and Diversity	129	Low	36	0	50	0
Complaints	96	Low	36	0	0	50
Asset Management IT	133	Low	36	0	50	0
Home Rewards	103	Low	36	0	0	50
Furnished Tenancies	137	Low	36	0	50	0
Anti-Social Behaviour	140	Low	36	0	40	0
<b>Total Strategic and Operational Risks</b>				<b>640</b>	<b>730</b>	<b>740</b>

<b>SUMMARY</b>						
Management Activities				70	70	70
Fundamental Financial Systems				540	540	540
Corporate Governance				60	240	60
Corporate Governance - Keelman Homes				160	160	160
Strategic and Operational Risks				640	730	740
<b>Total Hours</b>				<b>1,470</b>	<b>1,740</b>	<b>1,570</b>

**RISK PROFILE MAPPING**

The following tables show the heat maps of the current Strategic and Operational Risk. The numbers in the top of the cells relate to the number of risks ranked in that area of the map. The numbers in the bottom of the cells relate to the risks covered by the 3 Year Strategic Internal Audit Plan.

**STRATEGIC RISKS HEAT MAP**

<b>Likelihood</b>	Almost Certain				1
					1
	Likely				1
					0
	Moderate		1	1	
			1	1	
	Unlikely		2	4	
			2	4	
		Low	Medium	High	Critical
<b>Impact</b>					

Risks not covered: SR10 – Adverse impact of right to buy

**CORPORATE SERVICES - OPERATIONAL RISKS HEAT MAP**

<b>Likelihood</b>	Almost Certain				
	Likely	1		1	
		1		1	
	Moderate		7	11	2
			6	10	2
	Unlikely		1	9	1
			1	7	1
		Low	Medium	High	Critical
<b>Impact</b>					

Risks not covered: F14 – Pension liabilities may increase and become unserviceable  
 F15 – Service level agreements not reviewed  
 HR6 – Absence due to an epidemic  
 HR7 – Industrial action

**CUSTOMERS AND COMMUNITIES - OPERATIONAL RISKS HEAT MAP**

<b>Likelihood</b>	Almost Certain			1	2
				1	2
	Likely		3	2	
			3	2	
	Moderate		6	1	4
			6	1	4
	Unlikely				7
					7
		Low	Medium	High	Critical
<b>Impact</b>					

All risks covered