



INTERNAL AUDIT

Draft Internal Audit Plan 2014/15

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Contents

The Internal Audit key contacts in connection with this document are:

Muir Laurie

Head of Internal Audit

t: 01895 556132

e: mlaurie@hillingdon.gov.uk

Anthony Dean

Principal Internal Auditor

t: 01895 556130

e: adean2@hillingdon.gov.uk

Sarah Hydrie

Principal Internal Auditor

t: 01895 277907

e: shydrie@hillingdon.gov.uk

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1. Introduction

1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices.
- 1.1.2 IA gives an objective opinion to the Council on whether the control environment is operating as expected. In 'traditional' IA teams this usually means compliance testing of internal controls. However, the IA team at Hillingdon is fully embracing the risk-based approach from 2014/15 onwards, which means we will give a much greater assurance to the Council because it is based on the key risks to the organisation's objectives. As a result, we will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.

1.2 The Purpose of the Internal Audit Plan

- 1.2.1 The IA Plan is a crucial component of the annual assurance statement provided by the Head of Internal Audit (HIA) to those charged with governance. In order to deliver this assurance it is vital to have a comprehensive IA Plan which gives sufficient risk-based coverage. Hillingdon, in common with other councils faces a number of challenges including increased demand for services in a number of key areas and the challenge for the Council is to try to balance the needs of some of our most vulnerable communities with ever-tighter resources.
- 1.2.2 To help meet this need, the risk-based IA Plan for 2014/15 has been linked to the organisational objectives and priorities, whilst taking account of the Council's wider assurance framework. The IA plan has also been developed in accordance with the recently updated IA Charter and is aligned to the current IA Strategy, although this is due to be updated in September 2014.

2. The Internal Audit Planning Process

2.1 Skills and Resources

- 2.1.1 In line with the PSIAS, the HIA is professionally qualified and suitably experienced. Although the skills mix within the rest of the in-house IA team is currently under development, it is supported by a partnership with Baker Tilly (formerly RSM Tenon). Consequently, overall available IA resources fulfil the PSIAS requirements in terms of the combination of professionally qualified and experienced staff. As a result, there are sufficient IA resources available to meet the skills and resource requirements needed to deliver the 2014/15 risk-based IA Plan.
- 2.1.2 Demand for IA assurance and consulting services usually exceeds available IA resources at local authorities. This means choices have to be made that will determine the impact IA has upon the Council and the way key stakeholders perceive the value of IA at Hillingdon. The starting point in the IA planning process is therefore to determine the total available IA resources. After deducting a sufficient time allocation for IA planning, management review, staff training and other IA overhead time, the calculated **Total Available IA Chargeable Time for 2014/15** at Hillingdon is **1,600 IA Days**. The IA staff skills mix is currently under review by the HIA and a further update on this will be included as part of the new IA strategy document, which is due to be considered by CMT and the Audit Committee in September 2014.

2.2 Planning Sources

2.2.1 Although the IA Plan for the year is determined by the number of days available, the primary purpose of the IA Plan is ensuring that the key risks facing the Council are given sufficient IA attention. Therefore the next step in developing the risk-based annual IA Plan has been to make reference to a variety of planning sources (as per the flowchart of the IA Process attached at **Appendix A**) including:

- **Team Plans** – We carried out a review of team plans where these could be traced, to help us confirm the strategic objectives of each service area;
- **Corporate Risk Registers** – We reviewed the Council’s corporate risk registers to establish those charged with governance’s view of the most significant risks facing the Council;
- **Senior Management** – We have met or spoken with most senior managers across the Council including members of CMT, to develop our knowledge of the risks and challenges facing their services;
- **Key Documents** – We have carried out a desktop review of key Council documents including minutes and reports of Cabinet and various committee meetings, as well as the recent Hillingdon Improvement Programme (HIP) reports and the draft budget papers for 2014/15;
- **Audit Committee** – The draft IA plan will be presented to the Audit Committee at its meeting on 11 March 2014 and will be subsequently updated to reflect any comments and observations the Audit Committee members may have, before being finalised by 31 March 2014;
- **Members** – We have met with the Leader of the Council to seek his views on the risks the Council faces, we have invited comments from all Cabinet Members and also intend to discuss the IA Plan at the induction sessions for new Members later this year;
- **External Audit** – We liaised with Deloitte to establish any areas of concern and to identify those areas where they are likely to place reliance on IA work to inform their own risk assessment;
- **External Inspections** – We have given consideration to any relevant external inspection reports i.e. Ofsted; and
- **IA Cumulative Knowledge** – We also make reference to the cumulative knowledge of the IA service (including Baker Tilly) of known weaknesses and risks facing the Council, including the wider strategic issues emerging elsewhere in local government.

2.3 Risk Assessment

2.3.1 Using the knowledge gained through the above process, we carry out a comprehensive **audit needs analysis** and define what is known as the **audit universe** (a long list of areas for potential IA review). We then conduct an IA risk assessment for each area in the audit universe based on three elements, as set out below:

Inherent Risk	Our assessment of the overall level of risk associated with the audit area. This is effectively a gross relative risk of the potential impact of this area.
Control Risk	Our assessment of the risk that exists within a particular area based upon the controls that we understand the Council has put in place. This affects the likelihood of the risk being realised.
Materiality	Our assessment of the potential financial or organisational consequence. This might be judged by the potential for a monetary loss or the extent to which it impacts on core Council objectives.

2.3.2 The Council's risk management framework is not sufficiently mature to place full reliance on service risk registers to identify all the risks the Council faces. However, the existing risk registers are developed adequately enough to inform the IA risk assessment process, including calculating the total audit risk. The total audit risk score is determined using each of the above (para 2.3.1) elements which enables each area in the audit universe to be categorised into one of three **overall risk assessment areas** as follows:

Overall Risk Assessment	Definition
HIGH	This relates to a significant threat or opportunity that impacts the Council's corporate objectives. This has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives.
MEDIUM	This relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. This has an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives.
LOW	This relates to a minor threat or opportunity that impacts on operational objectives. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives.

3. The Detailed Internal Audit Plan

3.1 The results of the overall risk assessment process are then used to determine IA priorities and produce the initial allocation of IA resources. Further to this, attached at **Appendix B** is a pie chart which provides a high level estimation by audit type (excluding contingency) of where IA expects to utilise its resources over the coming year. We believe this allocation provides the best value to our key stakeholders, using a risk-based approach to internal control, risk management and corporate governance. The definitions of type of IA work and allocation (as highlighted at **Appendix B**) are as follows:

Type of IA Work	Definition	% of IA Plan	IA Plan Allocation
Assurance	Work which provides comfort to CMT and the Audit Committee that risks to the achievement of objectives (including transformation projects) are being effectively mitigated and arrangements are operating as expected.	40%	480 Days
Core Financial Systems	Assurance coverage of the core financial processes that have a material impact on the financial position of the Council.	25%	300 Days
RBIA - CRR	<u>Risk-based IA (RBIA)</u> reviews that provide assurance on the Council's strategic risks identified in the <u>Corporate Risk Register (CRR)</u> .	13%	156 Days
Advice	Work where the primary purpose is to support management to improve systems and processes, mitigate risk and enable the achievement of objectives.	10%	120 Days
Grant Claims	Grant work on behalf of the Council including the Housing Subsidy and Troubled Families claims.	7%	84 Days

Follow Up	Activity which ascertains the implementation of agreed management actions.	3%	36 Days
Facilitation	Activity which supports management in their management of risk and the production of the Annual Governance Statement.	2%	24 Days
		100%	1,200 Days

3.2 However, in line with the PSIAS, risk-based IA is a continuous process and therefore the IA Plan will be subject to ongoing review to ensure it remains aligned with the Council's objectives and the risks identified by management in the risk registers. There are a significant number of audit areas identified in the audit universe which fall below the risk threshold and therefore do not currently form part of the detailed IA Plan. Formal updates of the IA Plan will be reported to CMT and the Audit Committee as part of the quarterly progress reports.

3.3 The **detailed IA Plan** (attached at **Appendix C**) has a number **key features** including:

- **Contingency** – An allocation for unprogrammed work of 25% (400 days) has been included in the IA Plan. This will be used to respond to new and emerging risks and unplanned requests for IA work.
- **Schools** – Previously IA coverage of Hillingdon schools was carried out using a cyclical approach over a three year basis. From 2014/15 onwards a risk-based approach will be taken with IA assurance reviews of Hillingdon schools. In particular cross-cutting audits of themed areas will be carried out at a risk-based selection of schools. The results of this work will be made suitably anonymous and then shared with all Hillingdon schools.
- **Consultancy** – In line with the PSIAS, IA coverage will include a range of consultancy work. The chart at **Appendix B** highlights that 150 days has been allocated for IA advice which can include certification of grant claims, training and the facilitation or conducting of specific consultancy reviews. Through participation in corporate project groups we will also provide insightful, independent and informed advice in order to reduce the risk of project failure.
- **ICT Audit** – The audit plan makes provision for specialised computer audit work to be undertaken by our external contractor Baker Tilly with some support provided by the in-house team. The scope of this assurance work will be to assess and report upon the adequacy of the key ICT controls present within major Council systems.
- **Value for Money** – As part of our assurance coverage, IA will conduct Value for Money (VfM) reviews on specific areas of expenditure and seek to reach a judgement on whether VfM has been achieved. Good VfM is defined as the optimal use of resources to achieve the intended outcomes (i.e. economy, efficiency and effectiveness). Our role is not to question the Council's policy objectives, but to provide independent and rigorous analysis to the Audit Committee on the way in which public money has been spent to achieve policy objectives. As well as reaching an overall conclusion on VfM, where applicable we will make recommendations on how to achieve better VfM and to improve the services under examination.
- **Projects** - Many local authorities have projects which struggle to deliver the benefits that are expected of them, often having major knock on effects with other projects and sometimes even conflicting with other projects. We can provide quality assurance on projects through the entire life cycle of change, from project identification through to final delivery.
- **Contracts** – With the increasing number of contracts in operation across the Council, there will be an increased focus by IA on contract related assurance audits. This will include reviews of the procurement process, as well as contract management arrangements for the significant / high value contracts.

- **Core Financial Systems** – As set out at section 2 of the detailed IA Plan, we will carry out comprehensive coverage of the core financial systems to enable the Director of Finance to discharge his responsibilities under section 151 of the Local Government Act 1972.
- **Anti-Fraud and Anti-Corruption** – Whilst IA has a responsibility to give regard to the possibility of fraud and corruption as part of its work, the Council's Corporate Fraud Investigation Team (CFIT) is the lead assurance provider for the Council on this area. As a consequence there is no specific allocation of resource set aside in the draft IA Plan for proactive anti-fraud and anti-corruption work. However, the IA service will continue to work closely with the Council's CFIT.

4. Internal Audit Reporting

- 4.1 IA reports the findings of its work in detail to key officers at the conclusion of each piece of its work, although if necessary Directors would be immediately informed of any significant internal control weaknesses identified by IA. With the exception of consultancy review reports, all IA reports issued include an assurance rating on the basis of the **IA assurance definitions** included at **Appendix D**.
- 4.2 A quarterly IA progress report is submitted to CMT and the Audit Committee, which summarises IA performance and work carried out in the period. These reports include an update on the progress made against the delivery of the IA Plan and provide details of IA work completed to date, the assurance opinions given and the number and type of recommendations made.
- 4.3 Furthermore, an annual IA report is presented to CMT and the Audit Committee which includes the HIA's statutory opinion statement on the Council's internal control, risk management and corporate governance arrangements. The individual assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations will have a bearing too. The annual IA report contributes to the assurances underpinning the Council's Annual Governance Statement.

5. Internal Audit Follow Up

- 5.1 IA evaluates the Council's progress in implementing management agreed recommendations against set targets, although detailed follow up work will not be carried out by IA for low risk recommendations. The full definitions of the **IA risk ratings** are included at **Appendix E**. If progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, IA will implement the escalation procedure agreed with management (as set out in the updated IA Management Protocol).
- 5.2 Linked to this, we need to be clear that IA does not tell management what to do; it identifies internal control, risk management and corporate governance weaknesses along with notable practices for management's attention. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways (**the 4 T's**):
- i) **Transfer** the risk i.e. insure against it;
 - ii) **Terminate** the risk i.e. stop carrying out the activity that creates the potential risk;
 - iii) **Treat** the risk i.e. take mitigating action to reduce the risk;
 - iv) **Tolerate** the risk i.e. do nothing and accept that there is a potential risk that could materialise.
- 5.3 IA will support managers in formulating a response to the risks identified. As an organisational improvement function, IA will also offer assistance to management to help

devise pragmatic and robust action plans arising from IA recommendations. Progress on the implementation of IA recommendations will be reported to CMT and the Audit Committee on a regular basis.

6. Measuring Internal Audit Performance

6.1 The Public Sector Internal Audit Standards

6.1.1 The Public Sector IA Standards (PSIAS) came into effect on 1 April 2013 and are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

6.2 Internal Audit Measures of Success

6.2.1 The PSIAS are also clear that IA should be adding value to an organisation. At a time when all areas of the Council are being urged to deliver better and more efficient services, it is absolutely right that IA can itself demonstrate improvements in its services. Currently, the IA service at Hillingdon reports its actual performance against three KPIs to CMT and the Audit Committee on a quarterly basis; however these KPIs are all purely focused on timeliness. Whilst measuring the time taken to conduct an audit is an important element of measuring IA efficiency, modern IA practice suggests that IA success is reliant on and/or linked to a wide range of factors including:

- Quality
 - Is a fully risk-based IA approach applied?
 - How highly do clients rate the service provided by IA?
 - How much value do clients believe IA adds?
 - Is the HIA suitably qualified and experienced?
 - Is there an appropriate skills mix within the IA team including qualifications, experience and specialist skills?
- Economy
 - Does the cost per audit day provide good value?
 - Does the cost per chargeable audit day provide good value?
- Efficiency
 - How quickly is audit work completed from beginning to end?
 - Are audits delivered within the allocated IA days budget?
- Effectiveness
 - Is the Council successful i.e. are the Council's strategic objectives being achieved e.g. sound finances, value for money, high resident satisfaction?
 - Are projects delivering successful outcomes for the Council?
 - Does management agree with IA findings?
 - Is positive action proposed by management to address the issues identified by IA?
 - Is positive management taken within the agreed timescale?
 - Is the Council's control environment getting stronger?
 - Are the Council's governance arrangements improving?
 - Is the Council strengthening its approach to risk management?
 - What is the number of high/ medium/ low IA recommendations?
 - What is the number of substantial/ reasonable/ limited/ no assurance IA ratings?
 - Are assets properly safeguarded?

6.3 Reporting Internal Audit Performance

6.3.1 There are a wide range of IA stakeholders to satisfy, but the key stakeholders for the purposes of the IA progress reports are CMT and the Audit Committee. Further to this, attached at **Appendix E** are the proposed IA KPIs for use from 2014/15 onwards. The intention is that using the monitoring data maintained on our dedicated IA software system, a summary of actual IA performance against the targeted performance will be reported to CMT and the Audit Committee and included in the quarterly IA progress report. These results will allow all stakeholders to measure the performance and robustness of the IA service at Hillingdon.

6.4 Analysing Internal Audit Performance

6.4.1 All of the proposed IA KPIs (per **Appendix E**) need management co-operation to enable them to be achieved. In fact IA in isolation is unable to achieve any of these KPIs; they can influence the results but they cannot completely control them i.e. IA *KPI 4* (**HIGH** risk IA recommendations where management action is taken within agreed timescale); IA can influence this by raising pragmatic recommendations and agreeing reasonable timescales with management, but ultimately the reliance is on management to strengthen the control environment in the agreed timeframe.

6.4.2 It is therefore important that interpretation of the IA KPIs is not taken in isolation, as other factors should be taken into account i.e. the more risk focused IA approach being applied to the IA Plan in 2014/15 will probably result in a greater number of **HIGH** risk recommendations and a greater number of **LIMITED** assurance reports. The IA KPI targets as set out at **Appendix E** are ambitious, but they are achievable and realistic for a high performing IA team, which is what we strive to be at Hillingdon. In terms of *KPI 9* (Client Satisfaction Rating), this is based on an average score of 3.0 out of 4.0 from the IA Client Feedback Questionnaires completed by management. *KPI 10* (IA reviews compliant with the PSIAS and IIA Code of Ethics) is an internal quality check completed by the HIA and IA management to verify that all IA work meets the required standards.

6.5 Individual Internal Audit Staff Performance

6.5.1 As well as the proposed KPIs for quarterly reporting to CMT and the Audit Committee, a further set of KPIs is being introduced that the HIA will use to monitor and assess the performance of individual staff in the IA team. These operational KPIs will form the basis of the annual performance targets for IA staff and be aligned to the more detailed IA procedures and standards, as set out in the IA Manual and outlined in the IA Charter, both of which have been recently updated. The IA standards aim to ensure that all IA staff follow a consistent process for each audit and that the planned IA programme is completed within agreed timescales and to the required quality standards.

7. Acknowledgement

7.1 The draft IA Plan will be considered by the Audit Committee at its meeting on 11 March 2014. The IA Plan will then be finalised by 31 March 2014 and circulated to all key stakeholders including all senior managers across the Council.

7.2 IA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management of the Council as part of the risk-based planning process.

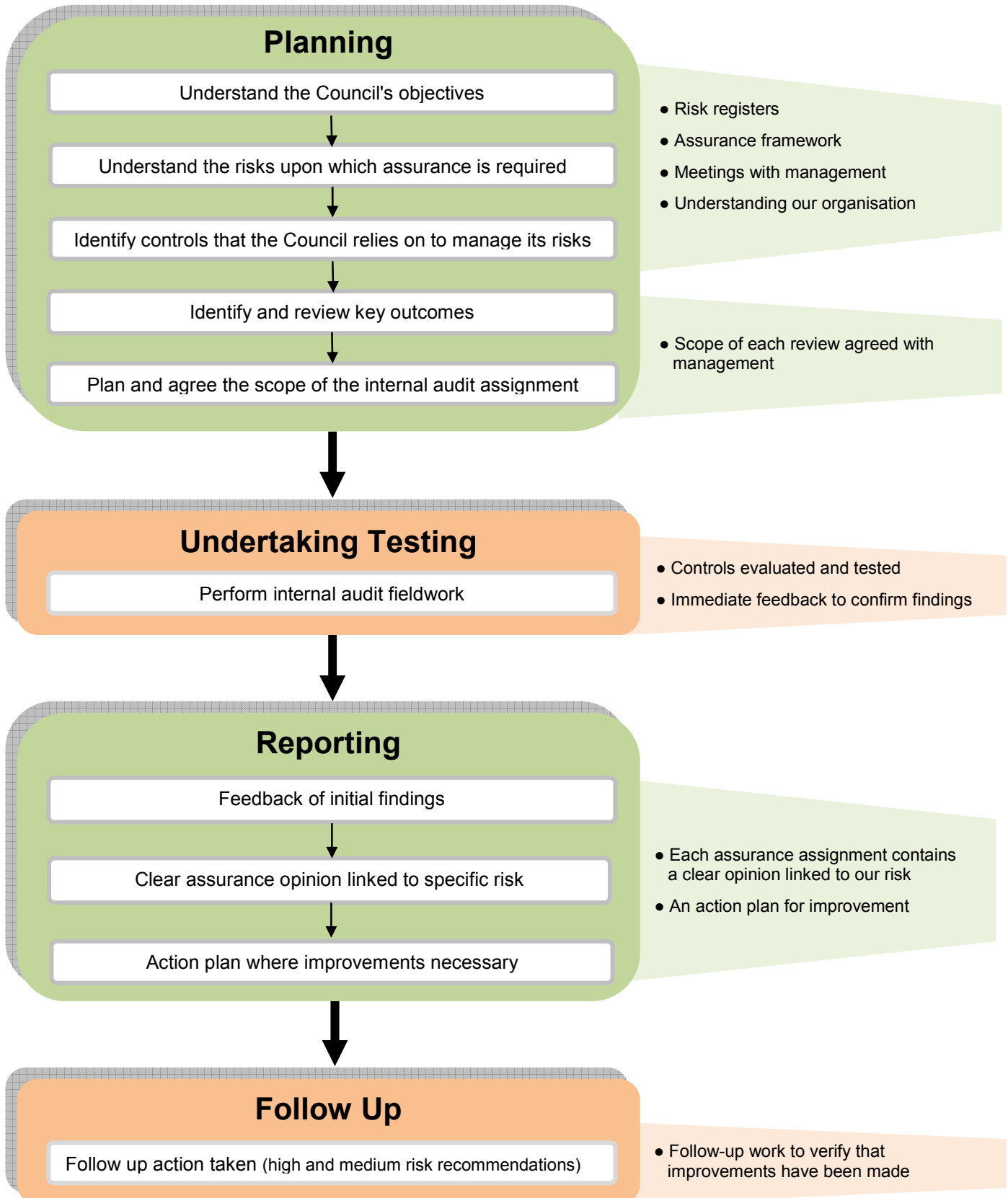
Muir Laurie ACCA CMIIA MAAT
Head of Internal Audit

28 February 2014

APPENDIX A

THE INTERNAL AUDIT PROCESS

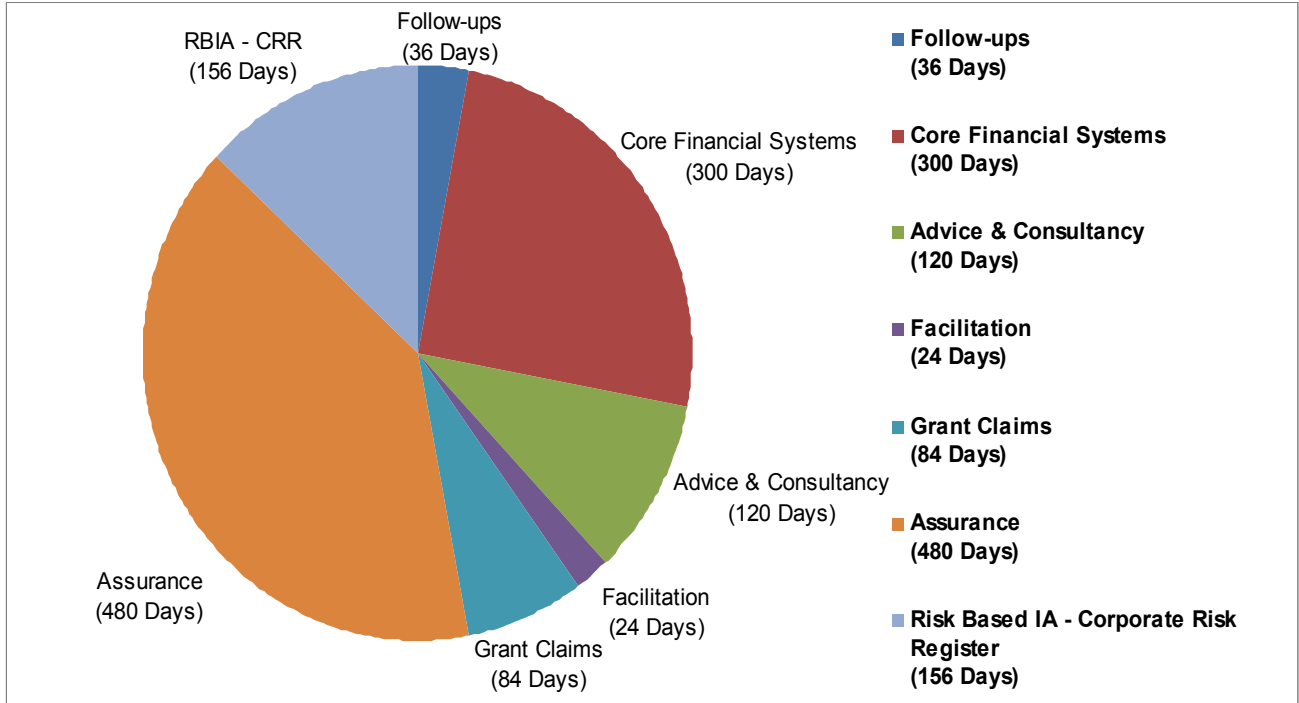
As per para 2.2.1, once total IA available IA resources have been determined, the overall IA process is summarised below:



APPENDIX B

INTERNAL AUDIT PLAN ALLOCATION BY AUDIT TYPE

As per the definitions at para 3.1, the IA Plan allocation by audit type (excluding contingency) is as follows:



APPENDIX C**DETAILED INTERNAL AUDIT PLAN 2014/15****Section 1 - Assurance (Quarter 1):**

IA Ref.	Planned Audit Area	Risk Assessment	Review Sponsor	Provisional Timing
A1	Health Contributions / CCG	HIGH	Merlin Joseph, Director of Children & Young People's Services	Q1 - April
A2	ICS Data Quality	HIGH	Merlin Joseph, Director of Children & Young People's Services	Q1 - May
A3	Ofsted Improvement Action Plan	HIGH	Merlin Joseph, Director of Children & Young People's Services	Q1 - June
A4	Housing - Temporary Accommodation	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1
A5	Corporate Construction	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1
A6	Schools - Budgetary Control	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1
A7	Business Continuity	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1 - April
A8	Performance Management	MEDIUM	Fran Beasley, Chief Executive and Corporate Director of Administration	Q1 - June
A9	Mortuary	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1 - June
A10	Northgate - contract management	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1
A11	Software Licensing	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1
A12	Planning Applications & Appeals	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1

APPENDIX C (cont'd)**DETAILED INTERNAL AUDIT PLAN 2014/15 (cont'd)****Section 1 - Assurance (Quarter 2):**

IA Ref.	Planned Audit Area	Risk Assessment	Review Sponsor	Provisional Timing
A13	Housing - Repairs	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q2
A14	Schools - Payroll	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q2
A15	Leisure Services - contract management	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q2
A16	Corporate Procurement/Commissioning	MEDIUM	Paul Whaymand, Corporate Director of Finance	Q2
A17	Capita Income ICT system	MEDIUM	Paul Whaymand, Corporate Director of Finance	Q2
A18	Data Protection and Fol	MEDIUM	Fran Beasley, Chief Executive and Corporate Director of Administration	Q2

Section 1 - Assurance (Quarter 3):

IA Ref.	Planned Audit Area	Risk Assessment	Review Sponsor	Provisional Timing
A19	Schools - Recruitment	HIGH	Deputy Chief Executive and Corporate Director Residents Services	Q3
A20	IAS Data Quality	HIGH	Tony Zaman, Director of Adult Services	Q3
A21	Mental Health & Learning Disability Residential Placements	MEDIUM	Tony Zaman, Director of Adult Services	Q3
A22	Personalised Budgets & Financial Assessments - Children's & Adults	MEDIUM	Tony Zaman, Director of Adult Services	Q3
A23	Transitional Arrangements - Children to Adults	MEDIUM	Tony Zaman, Director of Adult Services	Q3
A24	All Age Disability Service	MEDIUM	Tony Zaman, Director of Adult Services	Q3
A25	Airport Services	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q3

APPENDIX C (cont'd)**DETAILED INTERNAL AUDIT PLAN 2014/15 (cont'd)****Section 1 - Assurance (Quarter 4):**

IA Ref.	Planned Audit Area	Risk Assessment	Review Sponsor	Provisional Timing
A26	Schools - Safeguarding	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q4
A27	Housing - Planned Maintenance Work	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q4
A28	HIP/BID/Transformation Programme	MEDIUM	Fran Beasley, Chief Executive and Corporate Director of Administration	Q4
A29	Absence Management System	MEDIUM	Fran Beasley, Chief Executive and Corporate Director of Administration	Q4
A30	Corporate Governance	MEDIUM	Fran Beasley, Chief Executive and Corporate Director of Administration	Q4
A31	Risk Management	MEDIUM	Paul Whaymand, Corporate Director of Finance	Q4
A32	Schools - Contracts & Procurement	MEDIUM	Deputy Chief Executive and Corporate Director Residents Services	Q4

APPENDIX C (cont'd)**DETAILED INTERNAL AUDIT PLAN 2014/15 (cont'd)****Section 2 - Core Financial Systems:**

IA Ref.	Planned Audit Area	Risk Assessment	Review Type	Review Sponsor	Provisional Timing
CF1	Payroll	MEDIUM	Assurance	Fran Beasley, Corporate Director of Administration	Q2 - July
CF2	Asset Register	HIGH	Assurance	Paul Whaymand, Corporate Director of Finance	Q2 - Sep
CF3	E-Invoices	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Oct
CF4	Benefits	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Oct
CF5	Budgetary Control	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Oct
CF6	Treasury Management	LOW	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Nov
CF7	Council Tax	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Nov
CF8	Pensions	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Nov
CF9	NNDR	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Dec
CF10	Capital Accounting	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Dec
CF11	Main Accounting System	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q4 - Jan
CF12	Creditors	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q4 - Jan
CF13	Debtors	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q4 - Jan
CF14	Cash & Bank	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q4 - Jan
CF15	Housing Rents	HIGH	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q4 - Jan

APPENDIX D**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

Assurance Level	Definition
Substantial	There is a good level of assurance over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
Reasonable	There is a reasonable level of assurance over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
Limited	There is a limited level of assurance over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
No	There is no assurance to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.





1. Control Environment: The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- Establishing and monitoring the achievement of the authority's objectives;
- The facilitation of policy and decision-making;
- Ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- The financial management of the authority and the reporting of financial management; and
- The performance management of the authority and the reporting of performance management.

2. Risk Appetite: The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

3. Residual Risk: The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX E**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

Risk	Definition
HIGH 	The recommendation relates to a significant threat or opportunity that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
MEDIUM 	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. The risk requires management attention.
LOW 	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
NOTABLE PRACTICE 	The activity reflects current best management practice or is an innovative response to the management of risk within the Council. The practice should be shared with others.

APPENDIX F**INTERNAL AUDIT KEY PERFORMANCE INDICATORS**

The **proposed** Key Performance Indicators (KPIs) for IA reporting to CMT and the Audit Committee from 2014/15 onwards are set out below:

KPI Ref.	Performance Measure	Target Performance	*Actual Performance	RAG Status
<u>IA KPIs for quarterly reporting to CMT and the Audit Committee:</u>				
KPI 1	HIGH risk IA recommendations where positive management action is proposed	98%	100%	GREEN
KPI 2	MEDIUM risk IA recommendations where positive management action is proposed	95%	99%	GREEN
KPI 3	LOW risk IA recommendations where positive management action is proposed	90%	92%	GREEN
KPI 4	HIGH risk IA recommendations where management action is taken within agreed timescale	90%	91%	GREEN
KPI 5	MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	71%	AMBER
KPI 6	Percentage of IA Plan delivered to draft report stage by 31 March	90%	88%	AMBER
KPI 7	Percentage of IA Plan delivered to final report stage by 31 March	80%	78%	AMBER
KPI 8	Percentage of draft reports issued as a final report within 15 working days	90%	67%	RED
KPI 9	Client Satisfaction Rating	75%	83%	GREEN
KPI 10	IA work fully compliant with the PSIAS and IIA Code of Ethics	100%	90%	RED

Key:

- * = Actual Performance is at 7 February 2014 for illustrative purposes
- CFQ = Client Feedback Questionnaire
- PSIAS = Public Sector Internal Audit Standards
- IIA = Chartered Institute of Internal Auditors (UK)
- **GREEN** = currently meeting or exceeding this performance target
- **AMBER** = currently not meeting this performance target (just short of target performance)
- **RED** = currently this performance target is not being met (significantly short of target performance)

INTERNAL AUDIT KEY PERFORMANCE INDICATORS

The **current IA KPIs** are:

- KPI 1 – Deliver **90%** of the agreed IA Plan to **final report** stage by 31 March 2014;
- KPI 2 – Deliver **95%** of the agreed IA Plan to **draft report** stage by 31 March 2014; and
- KPI 3 – Deliver **95%** of completed audits within the agreed time allocation.