



AGENDA ITEM: 3

OVERVIEW & SCRUTINY BOARD

21 SEPTEMBER 2005

STRATEGIC AUDIT PLAN 2005/06 - 2007/08

CMT MEMBER: P SLOCOMBE – DIRECTOR OF RESOURCES

SUMMARY

1. This report sets out the Strategic Audit Plan for three years from 2005/2006 and the annual Audit Plan for 2005/2006 and requests Members' comments and approval.

INTRODUCTION

2. The Council is required by statute to provide an adequate and effective Internal Audit function. Responsibility for ensuring that statutory Internal Audit arrangements are in place is delegated to the Director of Resources. The Code of Practice for Internal Audit in Local Government in the United Kingdom 2003 ('the Code') requires that the Head of Internal Audit should prepare a risk-based audit plan designed to achieve the maximum audit coverage from the resources available.
3. The current risk-based Internal Audit plan was prepared to cover financial years 2003/2004 to 2005/2006. Financial year 2004/2005 was a year of significant change with the movement of services between Directorates and voluntary transfer of the local housing stock. The plan for financial year 2005/2006 onwards has been developed to recognise these factors.

EVIDENCE / DISCUSSION

Resources

4. The Internal Audit Service establishment was increased from 13 to 14 permanent posts in the final quarter of 2004/05. Difficulties in recruiting qualified staff have meant that this additional post has not been filled. In addition 3.5 other permanent posts became vacant as staff left for promotion or to follow interests outside Internal Audit. For much of



2005/06 a senior experienced member of the Internal Audit Service will be absent on long-term sick leave following heart surgery. Agency staff will be used where appropriate to make up the shortfall in resources and help deliver the plan.

5. The Director of Resources is undertaking a comprehensive review of how the Internal Audit function will be delivered in future years.
6. So far as resources permit, the Internal Audit Service aims to cover the whole system of internal control including all significant processes, systems, activities and operations. However, where the level of resources available to Internal Audit restricts the service, it must concentrate on its main function which is the evaluation of the Council's overall financial control framework.
7. The plans for 2006/07 and 2007/08 are based on successful recruitment to all the current 4.5 vacant posts. They are subject to significant change depending upon the ability to recruit staff and the outcome of the current review instigated by the Director of Resources. The 2006/07 plan will be revised in the final quarter of this year and submitted to the Overview and Scrutiny Board for consideration before the commencement of the new financial year.
8. The plan for financial year 2005/06 is based on an establishment of 9.5 auditors (including the Audit Manager) plus 2.6 FTEs obtained from recruitment agencies. After allowing for non-chargeable time, the total number of audit days available in 2005/06 is 2,147.

Development of the Plan

9. Internal Audit has adopted a risk-based approach to planning. The starting point is a detailed risk assessment of the numerous services delivered by the Council and operational systems on which they rely. A risk model is used to assess the risks threatening the delivery of each service and system and determines their priority within the plan. Audit need is ascertained by considering the following risk factors:
 - Volume and value of transactions
 - Impact of system failure
 - Quality of internal control
 - Complexity of the system
 - Susceptibility to error or fraud
 - Degree of delegation and externalisation
10. Assessment ratings are updated to reflect the outcome of the most recent audit of each operational activity. The risk assessment process generates a points score, which is used to determine the depth, frequency and priority of coverage by the Internal Audit Service. In general, auditable areas scoring 80 and above are classed as high risk and are audited annually to provide assurance for the Director of Resources and external auditor. Auditable areas scoring between 60 and 80 are classified as medium risk and



are in general audited once every two years. A score of 60 and below is considered low risk. The aim is to audit low risk areas once every three years. When an auditable area has been assigned a risk assessment rating, the resources (days) and skills required to deliver the work are determined.

11. The number of days required to deliver individual audits is balanced to available resources to produce a three-year strategic plan for 2005/2006 – 2007/2008 and the annual plan for 2005/2006.
12. Preparation of the plan includes consultation with the Senior Management Teams of the four Service Directorates and Corporate Services to ensure current and developing risks are taken into account.
13. Audits included in the Strategic Plan provide sufficient coverage to give an opinion on the overall control environment to support the opinion in the Statement on Internal Control.

Key Financial Systems

14. The Council's corporate financial systems are audited annually as the failure of any one represents a significant risk to it achieving its objectives. Staff vacancies arising in the final quarter of the financial year, alongside the significant resources input to support the development of the control environment within SAP, has contributed to a number of key financial systems slipping into the 2005/06 plan. A provision of 236 days has been included in the 2005/06 plan to complete this work.
15. When undertaking its audit of the 2005/06 financial accounts, the external auditor is required to follow the UK and Ireland's version of International Standards on Auditing. This places greater emphasis on gaining an understanding of the auditable body to identify risks of material misstatement in the financial accounts, particularly on understanding internal controls. This means that the external auditor will need to direct more resources towards each of the main information systems that drive the balances and disclosures within financial accounts.
16. Internal audit can assist the external auditor by documenting each material system and associated controls. The benefits to Internal Audit of performing this work are that it will make it easier to identify key controls and increase the effectiveness of an auditor who is reviewing a system for the first time. An additional 5 days has been added to the time allocated to all audits of key financial systems to deliver this work.

Code of Practice Audits

17. To comply with the Chartered Institute of Public Finance and Accountancy's Internal Audit Code of Practice, the Internal Audit function is required to review and give an opinion on the Council's arrangements for both corporate governance and risk management. The opinions expressed in these audits provide evidence to support the statement of internal control included within the final accounts.



Procurement and Contract Management

18. Throughout 2004/05 Internal Audit has worked closely with the Strategic Commissioning & Procurement Unit to ensure that the Council's systems for all aspects of procurement, including contract management, are efficient and effective. However, the difficulty in recruiting an auditor with a knowledge of contracts has meant that more work needs to be done on the control environment surrounding national initiatives like Rethinking Construction.

Performance Management

19. In financial year 2004/05 Internal Audit committed significant resources to ensure that effective systems were in place to deliver the performance outcomes against which the Council is increasingly assessed e.g. BVPIs, CPA PIs and PSA, particularly the information systems that underpin the measurement and reporting of performance. The Internal Audit Plan for 2005/06 seeks to commit the same level of resources to this area.

Local Directorate Systems

20. Many audits have been included in the Strategic Plan to provide internal audit coverage of all Directorate services and systems prioritised according to assessed risk. This includes an annual programme of visits to schools. The approach to school audits is being reviewed to eliminate time allocations from being exceeded. The need to develop links with the school governor, advisory and finance teams are recognised and will be a 2005/06 development.

Audit Approach

21. The approach of internal audit is to use systems based reviews, supplemented in some areas by the use of regularity audits. All audits have regard to management's arrangements for:
 - Securing the proper, economic, efficient and effective use of resources;
 - Achieving key performance indicators where appropriate;
 - Preventing fraud and irregularity
22. In addition to these audits and advice on controls given on specific development areas, there are a number of generic areas where demands upon Internal Audit cannot be planned in advance. For this reason 100 days have been set aside as a contingency to provide capacity for anti-fraud and corruption work including special audits and the investigation of potential irregularities.



CONCLUSION

23. The Audit Plan for 2005/06 is the first year of the three-year strategy. It supports the achievement of Council objectives and assists in safeguarding assets, ensuring best use of resources and reducing losses due to poor risk management.

Contact Officer

Report Prepared by D. Robinson – Audit Manager
Telephone 726374