

Title of Report:

Internal Audit Plan

Item 11

Report to be considered by: Governance and Audit Committee

Forward Plan Ref:

Corporate Plan Priority: D4 – Stronger governance

The proposals contained in this report will help to achieve the above Council Plan priority by:

- Providing assurance on the effectiveness of the Council's internal control framework

Purpose of Report:

To set out an Internal Audit Strategy for the Council and a programme of Internal Audit work

Recommended Action:

To consider / amend / approve the Strategy and programme of work

Reason for decision to be taken:

To review the proposed Strategy and work in the light of the risks facing the Council and the level of assurance that the Committee requires

List of other options considered:

None

Key background documentation:

Council Plan / Strategic Risk Register / Service Risk Registers / Assurance Statements from Heads of Service

Contact Officer Details

Name: Ian Priestley

Job Title: Service Head - Assurance

Tel. No.: 01635 519253

E-mail Address: ipriestley@westberks.gov.uk

Internal Audit Strategy & Plan for 2007 - 2008

1 Introduction

1.1 The purpose of this report is to outline an Audit Strategy for the Council and to set out a programme of work for Internal Audit that will provide assurance to the Governance and Audit Committee on the operation of the Council's internal control framework and support the Committee's review of the Statement of Internal Control.

1.2 The report covers the following points:

- Audit objectives and outcomes
- How audit work is planned to ensure significant local and national issues are addressed.
- Basis for the opinion of the head of audit on the internal control framework
- Methods of providing and resourcing of the service.

2 Audit Objectives and Outcomes

2.1 The objectives for Internal Audit are set out in the Audit Charter which forms an appendix to the Terms of Reference of the Governance and Audit Committee. This is summarised in the definition of Internal Audit, taken from the Cipfa Code of Practice for Internal Audit 2006. The full charter is attached at **Appendix A**

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation 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

2.2 In plain English Internal Audit is there to help Services deliver the Council Plan by identifying and helping to mitigate weaknesses in service delivery systems and procedures.

2.3 The main outcomes from the work of Internal Audit are:

- Audit reports produced at the conclusion of each audit, for the relevant Head of Service and Director.
- Monitoring reports on progress with implementation of agreed audit recommendations
- An interim report for Governance and Audit Committee on the outcomes of Internal Audit work
- An annual assurance report for the Governance and Audit Committee.

3 Audit Planning

3.1 The work programme for Internal Audit for the period 2007-10 is attached at **Appendix B**. The plan analyses the different areas of Council activity that Internal Audit feel require auditing. The Plan is laid out by Head of Service and for each audit covers:

- The key risks that the audit will cover
- The level of risk associated with the subject, as assessed by Internal Audit

Internal Audit Strategy & Plan for 2007 - 2008

- The type of audit
 - An initial estimate of the number of days that will be required to complete the audit, and the year in which the audit is planned
 - The month that the audit is planned to be carried out (for main financial systems only as these need to be audited every year)
 - The business owner, ie Head of Service
 - The Group Auditor who will be responsible for the work.
- 3.2 A second copy of the work programme, in a revised format, is attached at **appendix C**. Here the plan is laid out by audit type. The purpose of this is to allow the Committee to review the programme of work from a different perspective and in particular to focus on anti fraud and corruption work, to ensure this is properly resourced.
- 3.3 The process of putting the plan together is extensive in terms of the documents and people who are consulted. The following identifies the key drivers:
- The Council Plan. This is reviewed to ensure that audit resources are used to support the delivery of Council objectives.
 - The Council's risk registers, particularly the Strategic Risk Register. This is used to highlight areas where assurance is required for controls that are in place to significantly reduce levels of risk to the Council.
 - New emerging issues / risks eg Governance arrangements of the many partnerships the Council now works with.
 - Results of previous audit, inspection and scrutiny work, by internal teams and external agencies, is considered.
 - The views of stakeholders, Heads of Service, Corporate Board, Management Board are considered.
 - Plans are discussed with the external auditor to ensure that there is no unnecessary duplication of effort.
- 3.4 The work programme is based on levels of risk. The risk registers are used to inform the level of risk where appropriate and this is supplemented by an audit view of risk. This takes account of:
- Results of risk self assessments (Strategic and Operational Risk Registers);
 - Complexity/scale of system and processes / volume and value of transactions;
 - Fraud and corruption - eg the risk of fraud or corruption occurring;
 - Inherent risk - eg degree of change/instability/confidentiality of information;
 - Internal Audit knowledge of the control environment based on previous audit work.

4 Audit approach and opinion

- 4.1 The work of Internal Audit forms the basis of the opinion given by the head of audit on the Council's internal control framework. The work of Internal Audit is regulated by the CIPFA Code of Practice for Local Government. This sets out the standards and methods that should be applied in doing the work. At an operational level Internal Audit have a procedure manual that explains in detail how work is delivered.

Internal Audit Strategy & Plan for 2007 - 2008

- 4.2 There are a number key elements to the process that ensure the output from audit is fit for purpose.
- Consultation takes place at various stages of each audit with the service under review (Terms of reference, rough and formal draft and final reports and action plans are all discussed and agreed with the service under review)
 - Audits are followed up to ensure that agreed actions are implemented. (Method and approach to follow up work varies depending on the nature of the issues identified in the original audit)
 - Summary reports are produced so that Directors and Heads of Service are up to date with progress of audit work
 - All audit work is reviewed by a Group Auditor before being released. (The review process is ongoing during the course of each audit)
 - An annual review of the system of Internal Audit is now carried out by the Governance and Audit Committee.
 - The head of audit carries out quality reviews of audit files on a sample basis
- 4.3 The work produced by Internal Audit is designed to identify and remedy weaknesses in the internal control framework. Weaknesses that are identified are categorised according to their severity (fundamental, significant, moderate and minor).
- 4.4 Taken together, the above provides a sound basis for the head of audit to provide an annual opinion of the internal control framework of the Council.

5 Service provision and resourcing

- 5.1 The service was wholly outsourced through the Amey partnership from 2002 – 05. It is now provided in house.
- 5.2 The service does have problems attracting and retaining suitably qualified staff. A policy of grow your own has been used since 1998 and has some success. However, of an establishment of 8 the service will have three vacancies by 1st April 2007, and turnover has been difficult to manage over the last couple of years. The level of experience on the service has fallen and this impacts on the quality and quantity of work that the service can deliver. A key problem lies in retention of experienced auditors. There is no real career progression for experienced auditors within the service. Consequently most auditors move on to other organisations once they have gained sufficient relevant experience. It is now proposed to try and remedy this by putting in a Senior Auditor post in each of the two teams at grade J.
- 5.3 Other solutions to the issue of recruitment and retention that are being considered are a shared audit service with other Berkshire Council's. Although recruitment and retention is a problem across Berkshire a shared service would give greater critical mass and better career development opportunities. Also two of the Berkshire Council's operate in partnership with private accounting firms and such an approach could be applied across Berkshire.
- 5.4 The audit plan set out in appendix B is deliverable with a full complement. However, given the vacancies noted above a shortfall in delivery is inevitable.

Internal Audit Strategy & Plan for 2007 - 2008

- 5.5 The initial needs assessment for the audit plan that was prepared by Internal Audit indicated that further audit work beyond that included at appendix B was required. Details of the audits that have been removed from the audit plan because of lack of resources are noted at **appendix D**. However, it is the opinion of the head of audit that West Berkshire Council's Internal Audit service is resourced adequately (At establishment) in comparison with other Berkshire Council's. The Cipfa Code of Practice requires that this information be brought to the attention of the Governance and Audit Committee.