

Meeting: AUDIT COMMITTEE

Agenda Item:

Date: 17 March 2008

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INTERNAL AUDIT PLAN 2008/09

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1 PURPOSE

- 1.1 This report provides information on the approach adopted to plan and allocate internal audit resource to Stevenage Borough Council. It also includes the proposed Audit Assurance and Consultancy Services (Internal Audit) Terms of Reference and Strategy together with the proposed Annual Audit Plan for the year commencing 1 April 2008.

2 RECOMMENDATIONS

- 2.1 The Terms of Reference and Strategy be approved.
- 2.2 2.3 The performance targets be approved.

3 BACKGROUND

- 3.1 The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which simply requires that authorities 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.'
- 3.2 The Accounts and Audit Regulations 2006 (Regulation 6) more specifically require that 'a relevant body shall maintain an adequate and effective internal audit of their accounting records and control systems.' At Stevenage, Internal Audit provides the service to ensure an 'adequate and effective internal audit of accounting records and control systems.'
- 3.3 An effective internal audit function is also a key element of a council's corporate governance and internal control framework.
- 3.4 In order to be effective, Internal Audit endeavours to operate at all times to the

requirements contained within the revised Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

- 3.5 A key part of the Code of Practice is the requirement that an internal audit function produces an annual audit plan as a foundation for audit work over a financial year. This report ensures compliance with this requirement and also presents an indication of the work that might be carried out over an additional two-year period based on a risk assessment of the Council as at January 2008. The actual audits to be carried out in 2009/10 and 2010/11 will be determined as part of the annual risk assessment and planning processes undertaken for each of the financial years.
- 3.6 A summary of the days required to complete the SHL annual audit plan for 2008/09 is provided as a single line within the SBC 2008/09 annual audit plan.

4 CONSIDERATION

Terms of Reference and Strategy

- 4.1 The purpose, authority and responsibility of Internal Audit and how the service will be delivered are formally defined within the Terms of Reference and Strategy. The requirement to have such documents in place is contained within the Code of Practice for Internal Audit in Local Government 2006 to which Internal Audit works. An assessment of the Section's compliance with the Code will be presented to the June meeting of this Committee.
- 4.2 The proposed Terms of Reference and Strategy is attached as Appendix A to this report. A similar document was put to and agreed by the SHL Audit Committee held in February 2008.

Annual Audit Plan

- 4.3 The primary objective of Internal Audit is to provide assurance in an independent and objective manner on the Council's control environment. This means that its span of work covers issues of risk management, control and governance and focuses on assessing how managers' arrangements regarding these matters support the achievement of the Council's objectives.
- 4.4 The work and resource of Internal Audit are allocated using a risk-based approach. This helps to ensure that the work undertaken by the Section is focussed on the objectives and challenges faced by the Council and the related key risks as identified in the organisation's risk register.
- 4.5 This flexibility of approach reduces the need to try and forward plan the allocation of internal audit resource over the medium term. However, it is important for Internal Audit to plan ahead and document as many known risks as possible. This horizon scanning is evidenced by information shown in the years 2009/2010 and 2010/2011 of the proposed plan. These indicate that in the event of circumstances remaining unchanged over the coming two years, consideration would be given to focussing internal audit resource as shown. However, as the Council will face new challenges over the coming years it is probable that internal audit resource will be differently focused than indicated.

- 4.6 There are, however, some elements of the internal audit plan which are stable year on year and which need to be audited in order to comply with the Managed Audit Protocol developed by the Council's external auditors, the Audit Commission. To satisfy their requirements, internal audit resource focus largely on managed audits between December and March of each financial year. These audits can be found in the Managed Audits section of the proposed plan. As in previous years, there will be some element of carry forward of key financial systems audits into 2008/09 and an estimate of total time required to complete this work is shown in the plan as Carry Forward Managed Audits 2007/08. It is hoped that the amount of time required will be reduced by appointing a temporary auditor to start work in March 2008.
- 4.7 An assessment of the risks the Council faces with regard to IT will be made by undertaking an IT Baseline Assessment. Those areas identified as posing the most significant risks to the authority at the time of the assessment will be audited during the 2008/09 audit year.
- 4.8 Work will be undertaken in the course of the year to review documentation that supports the provision of internal audit services at the Council to ensure that it reflects the current working environment and meets current professional standards as set out in the Code of Practice for Internal Audit in Local Government 2006.
- 4.9 The draft Annual Audit Plan for 2008-09 and indicative plans for 2009/10 and 2010/11 are attached as Appendix B of this report. In summary, the Annual Plan makes provision for:
- Key financial systems audits
 - Audits based on risk profiling
 - Corporate Governance
 - Follow-ups
 - IT Audit
 - Contract Management
 - Advice and Consultancy / Special Investigations contingencies. These contingencies are required to facilitate a proactive response to unplanned management requirements.

Consultation

- 4.10 Internal Audit seeks to work closely with the Council's external auditors to ensure that audit coverage is maximised and duplication kept to a minimum. To this end, the Audit Manager from the Audit Commission has been consulted on our proposed coverage of key financial systems so as reliance can be placed on our work.
- 4.11 Heads of Services and the Strategic Director (Resources) were consulted through a series of individual meetings. These meetings sought to identify issues they wished to see covered in routine audits and to offer them the opportunity to request audit input into projects that fall outside the routine audit plan. This element of the consultation process ensures that concerns that are of internal audit interest are raised for inclusion in the scope of the appropriate audit. This process also attempts to identify possible consultancy assignments that would need to be scheduled in year one of the plan, thus reducing the degree of uncertainty within the annual planning process.

- 4.12 Once the plan has been agreed, consultation will take place with the managers responsible for the areas to be audited to agree a mutually convenient time for the audit to be carried out.

Resourcing

- 4.13 The internal audit team is small and its work must be adequately planned and focussed to ensure the efficient, effective and economic use of its staffing resource. An audit plan must, therefore, be flexible so that as far as possible, the Service can provide both reactive and pro-active services, which can be relied on.
- 4.14 Internal Audit has a permanent establishment of four full time posts and one part time post. No additional resource will be available to the Council through partnership working as has been the case in 2007/08. The table below indicates how the chargeable hours of the Section have been calculated.

BREAKDOWN OF ANNUAL AUDIT DAYS 2008/09

Total staff days per annum 1,253

Total days required for leave and training 239

Total staff days less leave and training 1,014

Total days required for management and audit planning and administration 203

Total chargeable days available 811

- 4.15 The annual planning process has identified that the combined audit need of the Council and SHL for the financial year 2008/09 is 874 days. Based on the above, Internal Audit is theoretically under-resourced by 63 days for the financial year 2008/09. The Strategic Director (Resources) has made financial provision for a short-term interim auditor to cover this shortfall. It is anticipated that in future years, the Section will be able to deliver an effective internal audit service based on the current internal audit staffing resource.

Monitoring

- 4.16 Progress of Internal Audit against the agreed Annual Plan for 2008/09 will be reported quarterly to Members through the Audit Committee.
- 4.17 Performance against the Section's Performance Indicators will also be presented at the above intervals for comment. The proposed targets for the financial year 2008/09 are shown in the table attached as Appendix C.

5 IMPLICATIONS

5.1 Financial Implications

- 5.1.1 This report is financial in nature and consequently financial implications are included in the body of the report.

5.2 Other Implications

5.2.1 Failure to fulfil the requirement to provide an adequate and effective internal audit service could result in:

- A reduction in the overall level of independent assurance on governance, financial control and general management arrangements provided;
- Adverse comment from the External Auditor, with the potential for increased external audit fees if they are unable to rely on the work of Internal Audit; and
- Adverse perception of governance arrangements by the public and other key stakeholders.

5.2.2 However, it is anticipated that provided:

- a) there is no significant reduction in staffing resource through long-term absence or resignation; and
- b) fraud investigative work remains at similar levels to that of past years,

it will be possible to complete at least 90% of the annual audit plan for 2008/09 within budget and using existing staffing resource and additional interim staff resource. Should either of the scenarios detailed above occur, available resource will be channelled into ensuring that all key financial systems and systems categorised as having high operational risks will be audited. Other audits outstanding will be audited based on their identified audit risk working from highest to lowest so as to minimise the risk exposure of the Council.

5.2.3 Comments regarding the completion of the subsequent two years of the rolling audit plan cannot be made as this date as conditions within the Council's control environment and the Section's staffing situation cannot be predicted.

6 BACKGROUND PAPERS

6.1 All Internal Audit documentation.

7 APPENDICES

Appendix A - Terms of Reference and Strategy

Appendix B – Annual Audit Plan 2008/09 and Indicative Years 2009/10 and 2010/11

Appendix C – Performance Indicators