

AUDIT PLAN 2007/08

Report By: **Audit Services Manager**

Wards Affected

County Wide

Purpose

To advise on the process used to develop the Annual Plan for 2007/08.

Financial Implications

None identified.

RECOMMENDATION

THAT the Audit Plan for 2007/8 be adopted.

Reasons

Preparation of the Audit Plan represents best practice as required by the CIPFA Code of Practice for Internal Audit In Local Government and is an integral part of the Council's Internal Controls procedures under the CPA Use of Resources.

Considerations

1. The Accounts and Audit Regulations 2003 (as amended) established that a relevant body must *maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practice in relation to internal control*. The guidance accompanying the legislation states that, for principal local authorities, proper internal control practice for internal audit are those contained within the CIPFA code.
2. Herefordshire Council also has an obligation to include in its Statement of Accounts a statement on the system of internal financial control. The statement should set out the framework within which financial control is managed and reviewed and the main components of the system, including arrangements for internal audit. This statement reports on significant identified weaknesses and the actions undertaken to rectify them.
3. The work of Audit Services forms a significant part in the Council meeting its obligations under the Accounts and Audit Regulations and in the compilation of the Council's Statement on Internal Control. In addition, Audit Services work makes an important contribution to the Council's CPA rating in the Use of Resources category. Limiting the Council's vulnerability to fraud and corruption and adhering to financial controls are key lines of enquiry in this

assessment. The first call on audit resources will always be from the corporate governance and control perspective although the skills inherent within the team can positively contribute to other corporate initiatives where possible.

- 4 The Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) states that *“The Head of Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy. In preparing the plan, the Head of Internal Audit should take account of the adequacy and outcomes of the organisation’s risk management, performance management and other assurance processes”*.
- 5 The Code also states that *“ the plan should be fixed for a period of no longer than one year. The plan should outline the assignments to be carried out, their respective priorities and the estimated resources needed. The plan should differentiate between assurance and other work”*.
- 6 The approach to preparing the Annual Audit Plan is fundamentally based upon the Council’s Risk Strategy and covers risk assessments in the following areas:
 - Fundamental Systems.
 - Non- fundamental Systems.
 - Corporate Governance arrangements to include Anti-Fraud arrangements.
 - Performance Management/Best Value Performance Indicators.
 - Risk Management arrangements.
 - ICT protocols and controls.
 - Establishment visits.
 - Verification and Probity Reviews
7. Each area is assessed for potential risks and classified as a high, medium, or low risk. In addition, within each risk area, consideration is also given to residual risk for specific functions or establishments based upon past Audit opinion and current knowledge including a review of Risk Registers at Corporate and Directorate level.
8. A key part of the risk methodology is that fundamental systems are always high no matter what their previous audit opinion is, as these are critical systems whose failure could cause major disruption or loss of financial control to the Council. These systems are identified by an analysis of the Council’s last published accounts and further identification of the information systems impacted upon. In addition, bank account schools are always high because of their level of independence from the Council’s control systems.
9. Links to the Council’s Standing Orders and Financial Regulations, and scheme of delegation are evidenced by audit work set out below:

- Establishment audits cover inventories, budget monitoring and control, procurement and contracts, purchasing and stock control, income, Insurance, voluntary funds and imprest accounts.
 - Reviews at Directorate level cover compliance with Standing Orders for the Regulation of Contracts;
 - A review of the Gifts and Hospitality Register; and receipt of written assurances from Corporate Management Board members and all Heads of Service relating to gifts and hospitality.
 - Fundamental reviews such as those covering Debtors, Asset Register, Treasury Management, Creditors, Payroll also contribute; and
 - Reviews of delegation arrangements at Directorate level.
10. It is anticipated that for 2007/8 some £21,600 will be received by charging schools a nominal fee as a contribution towards additional costs to be incurred to achieve the target dates. These monies will be used to increase resources temporarily.
11. At the present time there is a FTE vacant post within Audit Services. It is anticipated that it will not be filled until the restructure of the Service has been completed. Temporary resources will continue to be brought in as cover.
12. Following the risk assessment, the base plan identified 2869 days of resources compared to available resources of 2588 days, a difference of some 281 days. The gap between needed and resources available is due to the requirements of the new DfES Toolkit for schools, which meant an allocation of some 761 days to cover audits and to give assurance that the Toolkit requirements have been met by 51 schools.
13. The alignment of the base plan to available resources has been achieved by:
- reducing contingency by 8 days; and
 - spreading the completion of school audits over two years with completion of 21 primary schools by 30th June 2008, this will however impact on the 2008/9 Audit Plan by 273 days. It is felt that this is the best approach as there is a need to ensure that assurance work is not compromised and that Audit Services has full involvement in Council priorities such as Herefordshire Connects and the Public Service Trust, and that the Director of Resources S151 responsibilities are not compromised.
14. With regards to Fundamental Systems the Audit Commission requirements for 2007/8 are currently being ascertained, these will be reported to members when known. The Audit Services Manager will liaise with Directors and Heads of Service to ensure that the requirements of the Audit Commission are met in full.

15. The plan also reflects continuing Audit Services involvement in supporting key corporate priorities such as the Performance Management Framework, Project Management, Risk Management, Local Public Service Agreements (LPSA), Local Area Agreements (LAA), Herefordshire Connects and the Public Service Trust.
16. Any revisions to the plan for 2007/08 will be reported to members by 30th November 2007 and the report will reflect any changes in resources and new audit work identified.
17. Appendix 1 shows the detailed Audit Plan
18. There has been consultation with Corporate Management Board Members, and their views, subject to resources, have been taken into account in determining the areas that require audit attention.

Risk Management

19. There is the risk that the Audit Plan is not completed. The key control measure will be monthly progress reports to the Director of Resources and progress on the Audit plan will form part of the Interim Assurance Report to the Audit Committee. If required temporary resources will be brought in to cover any vacancies if they arise.

BACKGROUND PAPERS

The Code of Practice for Internal Audit in Local Government in the United Kingdom (2006)