

REVISED AUDIT PLAN 2007/08

Report By: Audit Services Manager

Wards Affected

County-wide.

Purpose

To submit a revised Audit Plan for 2007/08 to the Audit and Corporate Governance Committee.

Financial Implications

None identified.

RECOMMENDATION

THAT Subject to any comments from the Audit and Corporate Governance Committee, the revised Audit Plan for 2007/08 be approved.

Reasons

Preparation of an Audit Plan represents best practice as required by the CIPFA Code of Practice for Internal Audit. Under the Code of Practice, the Audit Services Manager is required to report to the Audit & Corporate Governance Committee significant matters that might jeopardise the delivery of the original Audit Plan or require changes to it.

Considerations

1. Audit Services has a significant role to play in ensuring that the Council meets its obligations under the Accounts and Audit Regulations and in the compilation of the Council's annual Statement on Internal Control. Audit Services work also makes an important contribution to the Council's Use of Resources assessment. 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 internal control perspective although the skills inherent within the team can and do positively contribute to other corporate initiatives.
2. 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 practice in relation to internal control is as set out in the CIPFA Code of Practice for Internal Audit.

3. 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”*.
4. 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.”*
5. The original Audit Plan for 2007/08 was approved by the Audit & Corporate Governance Committee on 13th April 2007.
6. The original Audit Plan for 2007/08 was prepared following an assessment of the audit risk in the following areas:
 - a) Fundamental systems.
 - b) Non - fundamental systems.
 - c) Corporate governance arrangements (including anti-fraud policies).
 - d) Performance management / Best Value Performance Indicators.
 - e) Risk management arrangements.
 - f) ICT protocols and controls.
 - g) Establishment visits.
 - h) Verification and probity reviews.
7. Each area was assessed for potential risks and classified as having a high, medium, or low audit risk. Within each risk area, consideration is also given to the residual risk for specific functions or establishments based upon previous audit opinions and current knowledge including a review of risk registers at corporate and Directorate levels.
8. A key part of the audit risk methodology is that fundamental systems are always considered a high risk, no matter what their previous audit opinion, as these are critical systems whose failure could cause major disruption or loss of financial control to the Council. Fundamental systems are identified by an analysis of the Council’s last published accounts. Schools that operate their own bank accounts are always considered a high risk due to their level of independence from the Council’s control systems.

9. Compliance with the Council's Standing Orders, Financial Regulations and Scheme of Delegation will be evidenced by planned audit work in the following ways:
- a) Establishment audits review inventories, budget monitoring and control arrangements, procurement and contracts, purchasing and stock control, income, insurance arrangements, voluntary funds and imprest accounts.
 - b) Reviews at Directorate level cover compliance with Standing Orders for the Regulation of Contracts.
 - c) Bi-annual review of the Gifts and Hospitality Register including receipt of written assurances from Corporate Management Board members and all Heads of Service and other Key Managers.
 - d) Fundamental reviews such as those covering Debtors, Asset Register, ICT FMS and procurement, Treasury Management, Creditors and Payroll.
 - e) Reviews of delegation arrangements at Directorate level.
10. With regards to fundamental systems, the Audit Commission's requirements for 2007/08 are currently being ascertained and will be reported to Members when known. The Audit Services Manager will liaise with Directors and Heads of Service to ensure that the Audit Commission's requirements are met in full.
11. The revised Audit Plan for 2007/08 continues to reflect Audit Services' involvement in supporting key corporate priorities such as the Performance Management Framework, Risk Management, Local Public Service Agreements (LPSA), Local Area Agreements (LAA), Herefordshire Connects and the Public Service Trust.
12. Appendix 1 shows the detailed revised Audit Plan for 2007/08. The key changes are outlined below:
- a) **Corporate** – the increase in time spent supporting the Audit & Corporate Governance Committee reflects the additional meetings being held to monitor progress with the Director of Resources' special report. Local Area Agreement work has been reduced to the actual days taken to audit and sign off the grant claim.
 - b) **Non Fundamental Systems** - there has been a reduction in overall hours in this area. Systems not audited this year will be given priority in 2008/09.
 - c) **Follow up Work** – the number of audit days allocated to this area have been increased to take account of a revised audit risk assessment.

- d) **Project Management** - work within this area has been deferred to 2008/09 bearing in mind the work already carried out and planned in response to the financial governance issues identified in ICT & Customer Services.
 - e) **Risk Management** - the review of the Council's overall approach to risk management is in progress. Planned audit work on Business Continuity has been deferred as it is felt that the Risk Management review will cover the key aspects.
 - f) **Anti Fraud** – Regeneration Development and Housing Renovation Grants audit work has been deferred to 2008/09.
 - g) **Contracts** - work within this area has been increased from the planned 42 days to 207 days, with 150 of these days being attributed to the audit work related to the ICT Use of Contractors review and a subsequent review of the Customer Relationship Management contract. Unplanned work was carried out in relation to the Jarvis contract, the results of which will be reported following agreed protocols once the audit report has been finalised.
 - h) **Delegations** - the emphasis of the review has been changed to look at Directors' responsibilities.
 - i) **ICT** - audit work will be linked to the ISO 27001 accreditation. Audit Services will be working with IT staff on follow up work within the areas of team compliance, physical security and 3rd party management.
 - j) **Schools** - planned audit time has been increased to take account of the Department for Children, Schools, and Families Toolkit requirements. It allows for the introduction of a completely new audit programme, new checklists, training for primary schools, and further development of the Toolkit in a small primary school as a pilot for other small primary schools.
 - k) **Verification and Probity** - the time added relate to unplanned work so far this year. Twenty days have been added to cover the review of Schools Sports Co-Ordinator grant claims for two Secondary Schools. Twenty four days were added for Drug Forum related work. A further 40 days have also been added to cover additional work related to ICT.
13. In summary some 258.50 days of planned work have been deleted from the Audit Plan for 2007/08. It is anticipated that this will not have an adverse impact on the audit work required for the Audit Services Manager to give an audit opinion on the Council's system of internal control as additional work has been done to compensate.
14. Of the 425 days added to the Audit Plan, 170 days relate to additional work linked to the ICT Service area and can be summarised as follows:

Audit	Additional Days
Use of Contractors	100
Customer Relationship Management Contract	30
ICT Petty Cash	5
ICT Expenses no.1	25
ICT Expenses no.2	10
Total	170

15. Subject to budget considerations, the total additional 166.5 days (425 days – 258.5) will have to be covered by additional temporary staff.

Audit Planning for 2008/09

16. The Director of Resources and Audit Services Manager have been working with colleagues in the Herefordshire Primary Care Trust to develop a joint approach to audit planning (both external and internal) and delivery of internal audit services. A joint internal Audit Plan will be developed for 2008/09. The intention is to provide the internal audit teams with the opportunity to carry out audits across both organisations.

Risk Management

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 and Corporate Governance Committee. If required temporary resources will be brought in as cover.

BACKGROUND PAPERS

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