

AUDIT PLAN 2008/09

Report By: Chief Internal Auditor

Wards Affected

County Wide

Purpose

1. To report to the Audit and Corporate Governance Committee on the process used to develop the Annual Plan for 2008/09.

Financial Implications

2. None identified.

RECOMMENDATION

THAT Subject to any comments from the Audit and Corporate Governance Committee, the Audit Plan for 2008/09 is adopted.

Reasons

3. 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 Use of Resources assessment for 2008.

Considerations

4. 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.
5. Herefordshire Council also has an obligation to include an Annual Governance Statement in its Statement of Accounts. Cabinet has been requested to agree an assurance framework at its meeting on 27th March 2008. The work of Audit Services is one of the assurance elements.
6. In addition, the work of Audit Services forms a significant part in the Council meeting its obligations under the Accounts and Audit Regulations and the 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 control perspective although the skills inherent

Further information on the subject of this report is available from Tony Ford (Chief Internal Auditor) on 01432 260425

within the team can positively contribute to other corporate initiatives where possible.

7. 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".
8. 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:
 - (a) Financial standards, which will cover the Council's fundamental systems.
 - (b) Non-fundamental systems.
 - (c) Corporate governance arrangements to include anti-fraud activity.
 - (d) Other key systems.
 - (e) ICT protocols and controls (Council-wide).
 - (f) Establishment visits.
 - (g) Verification and probity audits.
 - (h) Results of recommendations follow-up.
 - (i) Performance Management.
9. 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.
10. 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.
11. 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".

12. All the work in the Audit Plan (Appendix 1 refers) is assurance work except for 20 days consultancy in relation to ISO 270001 in ICT. In addition, all the work within the current plan forms the basis for the Chief Internal Auditor to give an opinion on the Council's systems of internal control and is therefore deemed a priority. Priority will however be given to fundamental system work due to the impact on the assurance work of the Audit Commission.
13. Links to the Council's Standing Orders and Financial Regulations, and scheme of delegation are evidenced by audit work as set out below:
 - (a) Establishment audits cover inventories, budget monitoring and control, procurement and contracts, purchasing and stock control, income, Insurance, voluntary funds and imprest accounts.
 - (b) Reviews at Directorate level cover compliance with Standing Orders for the Regulation of Contracts.
 - (c) A review of the Gifts and Hospitality Register; and receipt of written assurances from key managers including the Chief Executive and Directors.
 - (d) Fundamental reviews such as those covering Debtors, Asset Register, Treasury Management, Creditors, and Payroll also contribute.
 - (e) Reviews of delegation arrangements at Directorate level.
14. Following the risk assessment, the base plan identified 2,004 days of resources compared to available resources of 2,000 days, a difference of some 4 days. The gap between needed and resources available is due to the higher contingency than normal. Benchmarking has shown that Unitary Authorities have a contingency level ranging from nil to 30 percent of total days available with an average of 6.2 percent. It is considered that 10 percent contingency is a reasonable figure.
15. With regards to Fundamental Systems, the Audit Commission requirements for 2008/09 are currently being ascertained and will be reported to members when known. The Chief Internal Auditor will liaise with Directors and Heads of Service to ensure that the requirements of the Audit Commission are met in full.
16. The plan also reflects continuing Audit Services involvement in supporting key corporate priorities such as the Performance Management Framework, Project Management, Risk Management, Local Area Agreements (LAA), Herefordshire Connects and the Public Service Trust.
17. Any revisions to the plan for 2008/09 will be reported to members by 30th November 2008 and the report will reflect any changes in resources and new audit work identified.
18. Due to time constraints there has been limited consultation with Corporate Management Board Members, however their views, will be sought and

subject to resources, will taken into account in determining the areas that require future audit attention.

Joint working with the Primary Care Trust

- 19. The Chief Executive’s recently published paper on a joint management structure states that opportunities to integrate some elements of internal audit services across the Council and PCT will be followed up.
- 20. It has been agreed that joint working will be trialled in the following areas:

	Area	Location in Plan
i	Section 75 Agreements	Other key systems
ii	Programme Boards	Other Key Systems- Herefordshire Public Services
iii	Risk Management	Other Key Systems- Herefordshire Public Services
iv	Debtor Management	Other Key Systems- Herefordshire Public Services
v	Creditor Management	Other Key Systems- Herefordshire Public Services
vi	ICT Applications	Other Key Systems- Herefordshire Public Services

- 21. The approach has been agreed with the Primary Care Trust. Members are reminded that this is a new venture being undertaken by both organisations and there needs to be some embedding of approach and joint working arrangements.

Risk Management

- 22. 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 Reports to the Audit and Corporate Governance 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)