

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>28 JUNE 2011</b>
<b>TITLE OF REPORT:</b>	<b>AUDIT UPDATE 2011/12</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE SERVICES AND EDUCATION</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

The purpose of this Internal Audit Report is to update members on the current status of internal audit provision and bring to their attention any key internal control issues arising from work recently completed.

### **Recommendation**

**THAT subject to any comments the Committee wish to make the report be noted.**

### **Key Points Summary**

- The Council has now completed its procurement process and has appointed KPMG LLP as internal auditors subject to contract.
- Whilst contractual matters are resolved, KPMG LLP is providing interim support and audit work is continuing.

### **Alternative Options**

- 1 This report is for information therefore alternative options are not applicable.

### **Reasons for Recommendations**

- 2 To ensure compliance with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

### **Introduction and Background**

- 3 To ensure that the Committee is informed of the status of internal audit provision.

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Further information on the subject of this report is available from  
Saverio Della Rocca, Interim Head of Audit, on (01432) 260426

## Key Considerations

### Internal audit provision

- 4 In April 2011 the procurement exercise in relation to the provision of internal audit and counter fraud services to Herefordshire Council, Herefordshire Primary Care Trust (PCT) and Herefordshire Hospitals NHS Trust (NHS Trust) was completed with KPMG LLP being selected as the preferred supplier.
- 5 Contracts have now been agreed and signed by KPMG with the PCT and NHS Trust. KPMG and the Council are still working through the contract matters in relation to the Council's provision and this may take some time as the Council and KPMG must ensure that all necessary legal requirements are complied with.
- 6 During this transitional phase, it has been agreed by the Council's statutory financial officer that KPMG will second two members of staff, Saverio Della Rocca and Mukhtar Khangura, on a part-time basis into the Audit Services Team. The secondees will support the existing team in the delivery of internal audit provision with Saverio assuming the role of Head of Audit and will report to the Chief Officer (Finance and Commercial Services).
- 7 This began 16<sup>th</sup> June and will continue in the short term.

### Annual Assurance Report 2010/11

- 8 The Annual Assurance Report including the annual internal audit opinion is being finalised and will be presented to the next Audit and Governance Committee.

### Audit Planning 2011/12

- 9 The team are currently working on refreshing the audit plan for 2011/12 which will be presented to Members once it has been agreed with the HPS Leadership Team.
- 10 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".
- 11 The approach to preparing the Annual Audit Plan will be based on a number of key principles as set out below.
  - Risk based – the plan will be risk based and covers risk assessments in all key financial and operational areas. Each area will be assessed for potential risks and classified as extreme, high, medium, or low. The audit plan will focus on extreme and high risks with less coverage of lower risks areas.
  - Placing reliance on other assurance providers – internal audit recognises that it is only one source of assurance for management and where possible it should place reliance on the work of other assurance providers including internal assurance providers rather than complete detailed audit work itself. As part of the audit planning process, we will identify those areas where there are other assurance mechanisms in place;
  - Embracing different types of audit – there are a variety of different types of audit review that allow for a different level of audit coverage depending upon the risks and issues.

For example, for well established financial systems where there are no system or personnel changes or known problems, key control testing may be preferable to a detailed systematic audit.

- 12 The application of this approach will mean there are some changes to the prior year audit plan. The audit plan will also set out our approach to individual reviews.
- 13 Whilst the audit plan is being finalised, audit work will commence in relation to some follow up work and fundamental systems.

## **Financial Implications**

- 14 There are no financial Implications.

## **Legal Implications**

- 15 There are no Legal Implications.

## **Risk Management**

- 16 There is a risk that the Council does not have appropriate internal audit arrangements in place. The arrangement with KPMG LLP provides mitigation.

## **Appendices**

- There are no Appendices.

## **Background Papers**

- There are no background papers..