STRATEGIC AUDIT PLAN 2005/06 – 2008/09

CABINET AREA RESPONSIBILITY: AUDIT AND PERFORMANCE MANAGEMENT

CABINET   **14TH APRIL 2005**

Wards Affected

County-wide.

Purpose

To report to Cabinet on the process used to develop the Strategic Audit Plan for 2005/06 to 2008/09 and the Annual Plan for 2005/06.

Key Decision

This is not a Key Decision.

Recommendations

That the Audit Strategy and Audit Plan for 2005/06 be endorsed.

Reasons

Preparation of the Audit Strategy and Audit Plan represents best practice and is an integral part of the Council's internal controls and procedures.

Considerations

1   The Accounts and Audit Regulations 2003 established requirements related to systems of internal control and the review and reporting of these systems. Regulation 4 of the Accounts and Audit Regulations 2003 requires that from 1st April 2003 ' *The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk'.*

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 Regulation 4 of the Accounts and Audit Regulations and in the compilation of the Council's Statement of Internal Control. In addition, Audit Services

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Further information on the subject of this report is available from Tony Ford, Principal Audit Manager, on 01432 260425

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 (2003) states that 'Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy, taking account of the organisation's risk management process. Any differences between the plan and resources available should be identified and reported to the organisation'.

5   The approach to preparing the Annual and Strategic 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.

- Best Value Performance Indicators.

- Risk Management arrangements.

- ICT protocols and controls.

- Establishment visits.

- Verification and Probity Reviews.

6.   Each area is assessed for potential risks as classified utilising ' Traffic Lights' signposting, with Red being high risk, Amber being medium risk and Green being low risk. In addition, within each risk area, consideration is also given to residual risk for specific functions or establishments based upon their last Audit opinion and current knowledge including risk management reports to CXMT.

7.   A key part of the risk methodology is that fundamental systems are always red no matter what their previous audit opinion is, as these are systems whose failure could cause major disruption or loss of financial control to the Council. In addition, bank account schools are always red because of their level of independence from the Council's control systems.

8.   Resources available have been reduced owing to the deletion of a post in line with the Council's budget reduction requirements. The impact of this reduction in resources has not led to a reduction of audit work in high risk areas.

9.   Following the risk assessment, the base plan identified 2804 days of resources required (summarised in Appendix 2). Adjustments are then made to align the plan to available resources i.e. 2,596 days.

10   The reduction in the base plan was achieved by reducing the number of: -

- Non fundamental System Audits by 8 saving 111 days

- Non School Establishment visits by 6 saving 72 days
- Verification and Probity reviews by 2 saving 25 days

11. Additionally, it should be noted that some 57 (63%) Primary and Special Schools have not had an audit visit in the previous four years. Although not high risk areas individually, they do have a substantial risk as a group. Although 60 days has been allocated to primary schools within the plan, this does not represent enough audit cover to clear the backlog or meet the current years' requirement. To help overcome this, Audit Services intends to run 2 half-day seminars for school administrators and carry out limited establishment audits at individual schools, which have been chosen at random. The audits will cover high risk areas identified from previous establishment visits across the Council. A checklist will also be developed to help Governors ensure proper corporate governance.

12. The Audit Commission requirements for 2005/06 are that Audit Services produce detailed system procedures and flowcharts for all fundamental system in line with International Accounting Standards. The Bank Reconciliation, Cash and Deposit, FMS Financial Reporting and Control, and FMS Budget Creation and Monitoring fundamental systems must be finalised by 31st December 2005, with the remainder by 31st March 2006.

13. Although there is no evidence to suggest that there is a problem in relation to fraud and corruption, it is important for the reasons stated in para 3 that the plan includes anti-fraud and corruption work. The Council is also taking part in the Audit Commission's National Fraud Initiative (NFI), and members will be updated on progress accordingly.

14. The Plan also reflects continuing Audit Services involvement in supporting key corporate priorities such as the Performance Management Framework and Local Public Service Agreements (LPSA).

15. The Strategic Audit Plan is a rolling plan covering a period of four years. Year one represents the Annual Plan for 2005/06. The whole represents the Strategic Plan for the period to March 2009. The first year plan is quite firm in terms of planned audit activity, whilst the remainder is more flexible and will be updated in the light of experience and future risk assessments.

16. Any revisions to the plan for 2005/06 will be reported in November 2005 and will reflect any changes in resources and new audit work identified.

17. Appendix I summarises audit time and gives a summary of audit activity at a strategic level. Appendix 2 shows a summary at service level, with the detailed Strategic Plan in Appendix 3. Appendix 4 shows the detailed Audit Service Strategy.

18. There has been extensive consultation with Directors, Heads of Service and the Audit Commission and their views, subject to resources, have been taken into account in determining the areas that require audit attention.

Risk Management

The four-year strategic plan is based upon a 'Traffic Lights' Methodology, with Red being high risk, Amber being medium risk and Green being low risk. Within each risk area consideration is also given to residual risk for specific functions or establishments based

upon their last Audit opinion and current knowledge. The risk based plan has been aligned to available resources, which means that some items identified for audit will not be done in the current year.

Consultees

None identified.

Background Papers

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