

AUDIT PLAN 2006-07**Report By: Principal Audit Manager****Wards Affected**

County-wide

Purpose

To report on the process used to develop the Annual Plan for 2006/07.

Financial Implications

None.

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 under the CPA Use of Resources.

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 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 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 and 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 a review of Risk Registers at Corporate and directorate Level.
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 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 red because of their level of independence from the Council's control systems.
8. Links to the Council's Standing Orders and Financial Regulations, and scheme of delegation are evidenced by audit work set out below:
 - Establishments and School 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 is a new development added for 2006/07.

9. Following the risk assessment, the base plan identified 2,534 days of resources. Required adjustments are then made to align the plan to available resources i.e. 2,459 days. (Appendix 1 refers).
10. The reduction in the base plan was achieved by reducing the number of:
 - System audit by one saving 15 days;
 - School audits by four saving 40 days;
 - Establishment audits by two saving 20 days
11. It should be also be noted that some 76 (85%) 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 115 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. Audit Services will continue to work with LMS and Finance to give training to school administrators.
12. At the present time there is a vacant post within Audit Services. It is anticipated that it will not be filled until the latter part of the year due to the current restructure of the Resources Directorate. Temporary resources have been brought in to cover until September 2006.
13. The Audit Commission requirements for 2006/7 are that fundamental systems are completed and ready for their review as follows:

Date	Fundamental System
31/01/2007	Payroll (Schools and Non Schools) Housing Benefits Council Tax Creditors Bank Reconciliation
28/02/2007	F.M. System Budget Setting & Reporting NNDR Debtors SAPS
31/03/2007	Cash and Deposits Asset Register Treasury Management Financial Management Schools Supporting People
14. The Principal Audit Manager is currently liaising 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 including helping to develop partnership risk management arrangements, Local Public Service Agreements (LPSA), Local Area Agreements (LAA) and Herefordshire Connects.
16. Resources have also been put in the plan to carry out work in relation to the waste management PFI agreement.
17. Any revisions to the plan for 2006/07 will be reported in November 2006 and will reflect any changes in resources and new audit work identified.
18. Appendix 1 shows the detailed Audit Plan and Appendix 2 shows the detailed Audit

Service Strategy.

19. There has been extensive consultation with Directors, and their views, subject to resources, have been taken into account in determining the areas that require audit attention.

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 Committee. If required temporary resources will be brought in to cover any vacancies if they arise.

Recommendation

THAT the Audit Strategy and Audit Plan for 2006/07 be adopted.

BACKGROUND PAPERS

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