

Meeting of: AUDIT COMMITTEE

Date: 27 JULY 2005

Report of: INTERNAL AUDIT MANAGER

Reference: aud/audcomm/270705

Title: INTERNAL AUDIT PLAN 2005/06

PUBLIC/EXEMPT ITEM

This item is for consideration in the public part of the meeting.

PURPOSE OF THE REPORT

To seek the Committee's approval for the proposed Internal Audit Annual Plan for 2005/06

RECOMMENDATIONS

That the Internal Audit Annual Plan is approved.

REPORT

Introduction

The terms of reference of the Audit Committee include: *To approve Internal Audit strategic plans and the Annual Internal Audit Plan* (the Constitution, part 3 section 7).

In line with the Council's approach to performance management and service planning, Internal Audit's strategic planning is now covered by the Financial Services Business Plan. The annual audit plan remains as the detailed work plan for the year.

The proposed Internal Audit Annual Plan for 2005/06 is attached as **Appendix A**.

Context, Trends and Current Issues

The context for and current issues influencing the 2005/06 plan are set out in the Financial Services' Business Plan. The key objectives influencing Internal Audit's work plans are summarised in the following extracts from the Business Plan:

Objective	Target	Specific Supporting Tasks or Actions
Contribute to ongoing corporate development of the Council's performance management framework.	<ul style="list-style-type: none"> • Developments reflected in 2006/7 Corporate Plan and Budget timetable, and in implementation of Escendency system and/or other tools. 	
To lead the development and implementation of the Council's Risk Management Strategy.	<ul style="list-style-type: none"> • Risk registers in place. • Other targets to be considered in view of performance mgmt framework developments, insurance impact and forthcoming CPA. 	<ul style="list-style-type: none"> • Lead on roll out of service risk registers. • Lead and support Steering Group. • Provide proactive and responsive support to services in managing risk. • Review and update action plan as appropriate developments.
To demonstrate compliance with the Council's corporate governance arrangements in delivering services, and to provide assurance as to the effectiveness of those arrangements	<ul style="list-style-type: none"> • Assurance statement provided by Internal Audit for 2004/05 year, and action plan agreed as appropriate. • Assurance gained that robust internal financial controls in place. • Delivery of Internal Audit Plan • Further targets may be considered in view of Audit Plans and forthcoming CPA. 	<ul style="list-style-type: none"> • To promote and provide assurance / an opinion on the effectiveness of the Council's corporate governance arrangements, in support of the Council's requirement to produce a Statement on Internal Control (SIC). • To advise and support the Council more generally in meeting the requirements to produce a SIC

Proposals

Taking account of these objectives, and the trends experienced in recent years' audit plans, the following table sets out the proposed approach to the areas of work included in the plan.

Area of Work	Recent Trend	Proposals for 2004/05 Plan
Advice & Support Work	Stable levels of ad-hoc advice and unscheduled support work.	Retain existing levels
Planning and Monitoring	Stable	Retain existing levels
Computer Audit	Limited computer audit coverage provided. Where undertaken, work has mainly been in non-technical areas, e.g. project management, e-government and in association with the external auditor.	Proposals to develop a programme of computer audit works and explore alternative arrangements for providing computer audit coverage.
Contingencies	Increased levels of investigation work, especially in non-financial areas. Need to reduce this workload, whilst maintaining a reasonable contingency for financially based investigations.	Internal Audit will not be requested to undertake investigations of a non-financial nature during 2005/06. Reduced contingency to be maintained.
Financial Systems	Changes within the Audit Commission's Code of Practice places more emphasis on the Council's documentation and evaluation of financial systems.	Increased allocation of time to enable appropriate documentation and evaluation of financial systems
Management Arrangements	A key area in assessing the Council's corporate arrangements. This work is fundamentally linked to forthcoming CPA and evaluating the effectiveness of the Council's control and governance arrangements in support of its improvement planning and the requirement to publish a Statement on Internal Control (SIC)	Wider programme, concentrating on corporate priorities and contributing to the Council's improvement plan.
Non Audit Work	Now minimal impact – limited to the Internal Audit Manager's role as Deputy s151 Officer	Maintain existing levels
Operational Audits	A lower emphasis in 2005/06 than in previous years, reflecting the need to focus on financial systems and management arrangements as set out above. Emphasis will return to operational audits in future years as the control framework and risk management processes become more firmly established.	Reduced coverage for this year.

Overall, the plan reflects the range of developments in train regarding the development of the Council's Internal Control and Corporate Governance arrangements, and in particular the implementation of risk management and performance management processes. Emphasis is again given to assisting the Council with the development of its Internal Control arrangements in support of the Statement on Internal Control and Corporate Governance and with a view to helping achieve improved scores in the Audit Commission's assessment of the Use of Resources and in the next round of CPA judgements.

Having set up in 2004/05 a model, which identifies significant elements of the internal control framework, the emphasis in 2005/06 work will be on evaluating their practical effectiveness. Where relevant, this will involve a combination of techniques to assess value for money and comparative performance in relation to peers and to examples of best practice.

Establishing a sound set of documentation and testing programmes linked to significant risks, relating to fundamental financial systems will be a major feature of this year's work. The approach is being developed in close consultation with the external auditor to ensure that he is able to place full reliance on Internal Audit work.

Resources

The Internal Audit establishment is five posts. Additional resources are available through the deployment of a budget of £20,000 for “bought-in services”.

It is estimated that 960 days of audit work can be delivered within these existing budgets.

Options and Options Analysis

Option 1: Approve the proposed audit plan.

The proposed audit plan seeks to make a significant contribution to the Council's improvement agenda. Internal Audit's focus will be on providing assurance as to the effectiveness of the Council's systems of Internal Control and Corporate Governance. The plan does contain provision for Internal Audit to take a pro-active role in certain areas of development, and it must therefore be accepted that there will be some reduction in the level of independent assurance work.

The proposed plan aims to secure the highest possible rating for Internal Audit and improved ratings for the Council in future Audit Commission assessments of corporate arrangements.

Option 2: Adopt an Internal Audit Plan focussed on assurance work

An Internal Audit Plan can be established which concentrates solely on providing assurance as to the effectiveness and efficiency of the systems and arrangements covered. This plan would be compiled with due regard to a risk assessment exercise and would provide sufficient evidence to support an Internal Audit opinion on the Council's Internal Control System.

In the Council's current position, however, such a plan would be unlikely to provide meaningful and active support to the implementation of its Improvement Plan and the development of its internal control framework.

Officer Preferred Option and Comments

With a view to helping the Council make significant progress in the key governance and internal control areas included in the Council's Improvement Plan, Option 1 is preferred.

FINANCIAL IMPLICATIONS

As referred to in the Resources section of this report the proposed plan can be delivered from existing budgets.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Deputy Monitoring Officer has been consulted and has no further comments.

SECTION 151 OFFICER'S COMMENTS

The proposed plan is in line with the need to develop the internal control framework and provide assurance as to its effectiveness. It is required in order to fulfil one of the s151 Officer responsibilities with regard to ensuring that there is an effective internal control function.

BACKGROUND PAPERS

Previous years' internal audit plans and reports.