

<b>COMMITTEE:</b>	<b>CABINET</b>
<b>DATE:</b>	<b>10th APRIL 2002</b>
<b>SUBJECT:</b>	<b>INTERNAL AUDIT PLAN 2002 TO 2006</b>
<b>REPORT OF:</b>	<b>SUE MCHUGH, DIRECTOR OF FINANCE AND CORPORATE SERVICES</b>
<b>Ward(s):</b>	All
<b>Purpose:</b>	To seek approval for the new Internal Audit Plan 2002 to 2006.
<b>Contact:</b>	Sue McHugh, Director of Finance and Corporate Services, Telephone 01323 415104 or internally on extension 5104.
<b>Recommendation:</b>	Members are asked to approve the new Internal Audit Plan included in the report as Appendix A.

<b>1.0</b>	<b><u>Background</u></b>
1.1	Internal Audit is a statutory function that has been established within the Council to provide an independent appraisal of the internal control systems in operation. The primary duty of the Section is to help ensure that the Director of Finance and Corporate Services' legislative s151 responsibilities are met and that the Council administers its affairs to the highest possible standards of ethics and probity. It does this by independently evaluating the Council's financial and management systems, where necessary making recommendations for improvements in control and the introduction of best practice.
<b>2.0</b>	<b><u>Introduction</u></b>

2.1	<p>Internal Audit activity is planned to enable an opinion to be given on the systems that:</p> <ul style="list-style-type: none"> <li>· Achieve the Corporate Aims and Values of the Council;</li> <li>· Manage material risks faced by the Council.</li> </ul>
2.2	<p>The Head of Audit is responsible for producing a risk assessment for the Audit Plan to prioritise the work required to take into account the relative risks in the Council's activities and systems and to give the above opinion.</p>
2.3	<p>The operational purpose of audit planning is to determine priorities, achieve cost effectiveness, control and direct audit work and match the audit work required to the resources available.</p>
2.4	<p>The Cabinet carries out the remit of an audit committee at the Council. This includes:</p> <ul style="list-style-type: none"> <li>· Agreeing the Internal Audit Plan;</li> <li>· Reviewing Internal Audit's progress against the Audit Plan;</li> <li>· Receiving and considering a summary of Internal Audit work.</li> </ul>
2.5	<p>This report provides sets out the Internal Audit Plan for the period 2002 to 2006.</p>
3.0	<p><b><u>Risk Assessment</u></b></p>

3.1	<p>The Head of Audit is responsible for establishing and documenting all the Council's activities. These activities are then assessed to establish their relative risk using the following elements:</p> <ul style="list-style-type: none"> <li>· Value of Transactions</li> <li>· Results of Recent Audits</li> <li>· Status of Internal Controls</li> <li>· Frequency / Extent of System Changes</li> </ul>
3.2	<p>The results of the risk assessment are used to rank activities and to group them into bands of audit frequency, with high risk score activities being reviewed each year. Lower risk score activities are reviewed biennially and triennially.</p>
3.3	<p>The same risk index formula is used to assign audit days to each activity. This gives an audit need that is compared with the resources available, after allowing for unproductive time such as annual and other leave, sickness, staff development and training, administration etc.</p>
3.4	<p>It should be noted that whilst the use of risk index formula is not a foolproof way of ranking systems in terms of audit need, it is an attempt to reduce the amount of subjectivity involved in the planning process.</p>
3.5	<p>Other work, such as the Best Value Review process is also considered at this time so that the work of the Audit Section can integrate as far as possible with these programmes.</p>
3.6	<p>A contingency provision has been included in the Audit Plan to cover any changes in circumstances following completion of the risk assessment.</p>
4.0	<p><b><u>The Internal Audit Plan</u></b></p>

4.1	The Strategic Internal Audit Plan covers 4 financial years starting 1 April 2002 and concluding on 31 March 2006 and covers the following areas:
4.2	<u>Financial Systems Audits</u>
4.2.1	<p>These are reviews of the Council's key financial systems, including the Financial Ledger, Payroll, Creditors, Debtors, Council Tax and Benefits.</p> <p>The District Auditor places reliance on this work when giving an opinion on the Council's finances.</p>
4.3	<u>Routine Audits</u>
4.3.1	<p>These audits are undertaken on a rolling cyclical programme, with the frequency of review determined by an assessment of risk, and are designed to ensure the proper administration of the Council's affairs. They are, in general; establishment audits where Auditors test the propriety, accuracy and recording of all transactions, and the proper function of the main systems in operation, by means of detailed examination of individual transactions.</p>
4.3.2	<p>The objective of the audit is not only to discharge the Director of Finance and Corporate Services' legislative s151 responsibilities but also to provide an assurance to management on the proper and effective administration of their area of responsibility.</p>
4.4	<u>Computer Audit</u>
4.4.1	<p>Computer audits are concerned with reviewing and testing internal controls and data within systems. This forms an integral part of the audit of those computer systems to determine whether they are working properly. Furthermore, it makes use of information within computer systems for other purposes, for example data files that contain management information can be reviewed to ascertain if the Council is achieving its objectives efficiently.</p>

4.4.2	A part-time trainee Computer Auditor was appointed during the 2001/02 financial year and a significant portfolio of computer audit work has therefore been included in the Audit Plan for the next 4 years.
4.5	<u>Contract Audit</u>
4.5.1	As expenditure on contracts forms a large part of the Council's expenditure, it follows that it is necessary to maintain an adequate and effective internal audit of that expenditure.
4.5.2	Time has been set aside within the Plan for reviews of specific Council contracts, together with general reviews of contract standing orders and the adequacy of systems for controlling the operation of contract works.
4.6	<u>Value for Money Studies</u>
4.6.1	The term value for money (VFM) is used to describe the combination of economy, efficiency and effectiveness within an organisation.
4.6.2	Improving VFM is therefore a key objective for local government. The primary responsibility for achieving good VFM lies with management, but Internal Audit has a key role in helping to discharge this responsibility.
4.6.3	VFM is an integral part of every piece of audit work. Internal Audit is uniquely placed through its independence, professional expertise and right of access to every part of the Council and all aspects of its operation to recognise and promote VFM.
4.6.4	Within the contingency allocation, time has been set aside to enable Auditors to initiate, conduct or participate in special ad-hoc VFM reviews. Specific reviews have also been identified and include recruitment, appointment of consultants, travel and subsistence and car loans/leasing.

4.7	<u>Best Value</u>
4.7.1	Internal Audit's role in the Best Value process is a critical one, providing the Council with assurance, advice, independent assessment and scrutiny over its use and management of resources.
4.7.2	This is generally discharged through a programme of planned audit assignments culminating in reports to management on systems they are responsible for.
4.7.3	Best Value requires the Council to critically examine its approach to service delivery and therefore to demonstrate proper and best use of resources. Furthermore, the Council is required to ensure it discharges its responsibilities under Best Value adequately and its approach and compliance will be examined.
4.7.4	It is apparent that the two demands are linked and that Internal Audit has a view on, and a role within, this significant business undertaking.
4.7.5	In light of the above, the Head of Audit has made provision within the Audit Plan for the Section to become more involved in the corporate Best Value regime. It is intended that Auditors will attend Best Value Review meetings in order to provide an independent challenge and to ensure that control issues identified through audit assignments are considered at review meetings.
4.7.6	The Head of Audit has also planned (as far as possible) for audit assignments to complement and integrate with Best Value Reviews.
4.8	<u>Special Investigations</u>
4.8.1	Within the Plan an allocation of time is set aside to investigate any allegations of fraud and irregularities, or to follow up any malpractice that might have come to light in carrying out audit assignments.
4.9	<u>Risk Management</u>

4.9.1	The Council must identify and manage the risks that could restrict the delivery of services and completion of the Corporate Aims and Objectives. Clearly this process is not a one-off exercise, but an ongoing task.
4.9.2	It can be seen that Internal Audit and risk management, as systems for controlling risks that threaten the assets and Aims of the Council, form a complementary and valuable partnership.
4.9.3	This partnership has been highlighted through the Finance Best Value Review, which recommended in the Improvement Plan that from October 2002, the Head of Audit should lead for the Council on risk management.
4.9.4	Specific responsibilities will include the mainstreaming of risk management within the Council and the establishment of a risk management strategy.
<b>5.0</b>	<b><u>Consultations</u></b>
5.1	The Internal Audit Plan has been subject to consultation with senior officers across the Council and District Audit.
<b>6.0</b>	<b><u>Human Resource and Financial Implications</u></b>
6.1	Initial estimates are that risk management will take up one quarter of the Head of Audit's time on an ongoing basis. In order to accommodate this, provision has been made within the Plan for an increase in the Audit establishment.
6.2	However, it is currently anticipated that any additional staffing costs can be met through a combination of existing budget provisions together with savings made through reduced insurance premiums, lower insurance excesses etc.
<b>7.0</b>	<b><u>Environmental, Youth and Anti-Poverty Implications</u></b>

7.1	There are no environmental, youth or anti-poverty implications as a result of this report.
<b>8.0</b>	<b><u>Summary</u></b>
8.1	This report provides details of the Internal Audit Plan for the period 1 April 2002 to 31 March 2006.
Martin Freeman  Head of Audit	
<b>Background Papers:</b>  The Background Papers used in compiling this report were as follows:  Report to Cabinet 18 April 2001 on the Audit Plan 2001/02 and 2002/03  To inspect or obtain copies of background papers please refer to the contact officer listed above.	
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