

REPORT OF THE ASSISTANT DIRECTOR (AUDIT)
TO THE EXECUTIVE
03 MARCH 2006

Proposed Strategic Internal Audit Plan

1.0 Introduction and Report Summary

- 1.1 This report proposes a new five year Strategic Internal Audit Plan. Historically the Monitoring & Audit Committee had responsibility for approving and monitoring the Internal Audit Plan on behalf of the Council. Under the current arrangements, the Executive, the Scrutiny Committee and the Responsible Finance Officer have an interest in the issues to be included within the Audit Plan. The Scrutiny Committee and the Responsible Finance Officer are content with the proposed five year Strategic Internal Audit Plan.
- 1.2 The Contact Officer for this report is Sam Turner, Assistant Director (Audit), Tel: 01235 547615.

2.0 Recommendations

That Members approve the five year Strategic Internal Audit Plan for 2005/10.

3.0 Relationship with the Council's Vision, Strategies and Policies

- (a) Vision strand E.
- (b) No specific strategy; although the Audit plan will underpin all Strategies indirectly.
- (c) Anti Fraud & Corruption Policy; and all Policies indirectly.

4.0 Background

- 4.1 Good practice promulgated by the Council's External Auditors (the Audit Commission) suggests that Internal Audit Plans should cover a period of several years, usually between three and five years. The previous five year plan covered the period 2000-2004. The proposed plan covers the period 2005-2010 which incorporates the current year. This is to ensure that this five year plan follows on from the previous five year plan, that the current year is integrated in to the strategic plan and is in accordance with advice from our External Auditors.
- 4.2 The CIPFA (Chartered Institute of Public Finance & Accountancy) Code of Practice for Internal Audit states that the audit plan should be risk based, should take into account the results of the organisation's risk management process, and should outline the assignments to be carried out and the broad resources required to deliver the plan.
- 4.3 The purpose of this report is to explain the process for setting the audit plan and to explain the rationale behind the calculation of days available and the proposed allocation of resources between the various categories of work.
- 4.4 It should be noted that we are currently investigating the possibility of joint working with South Oxfordshire DC for Internal Audit which, if implemented, might change the resources available and the schedule of planned audits.

5.0 Internal Audit Resources

5.1 The Internal Audit establishment comprises three full time Auditor posts although one such post has been vacant since 4th April 2005 pending the outcome of the senior management restructure. Currently it is envisaged that this post will be filled and therefore the new Strategic Plan is based on the full establishment of three auditors.

6.0 The Strategic Audit Planning Process

6.1 Drawing up a new strategic audit plan necessitates a fundamental review of all the Council's activities in order to identify, and risk assess, all auditable activity over the next five years.

6.2 This would normally entail significant consultation with stakeholders including all second tier officers and some service managers. At the time of writing, the new senior management structure is not yet implemented and it is not therefore appropriate at the present time to carry out this consultation. However a fundamental review of all potential auditable activity has been carried out including a review of all Service Plans and Service Development Plans, a review of all Risk Registers and consideration of the Council's corporate aims.

6.3 Each individual auditable activity is subject to an audit risk assessment.

7.0 Internal Audit Risk Assessment

7.1 The purpose of the risk analysis is to enable Internal Audit to evaluate the vulnerability of systems to non-compliance with managerial objectives and to set a relative measure. Historically Internal Audit has performed this risk assessment using knowledge and experience from Internal Audit only. Following the creation of Risk Registers in 2004, it is now possible for Internal Audit's risk assessment to also take into account the Council's risk management process. This is recognised as good practice for Internal Audit, and represents good corporate governance for the Council.

7.2 Our risk analysis model uses several risk elements. Each element has a relative weighting to reflect the inherent relative risk of that particular element. The model attempts to strike a balance between financial factors and non-financial factors, and objective judgements and subjective judgements.

7.3 A brief explanation of the risk elements is given below:

i. Money/Financial Values

- A stratified range of financial values.

ii. Volume of Transactions

- A stratified range of volumes

iii. Devolution and Delegation

- An initial assessment of the degree of devolution or delegation; and
- A series of assessment factors upon which a judgement is made of internal control.

iv. Contracted-Out Services (if appropriate)

- A series of assessment factors for each type of contracted out arrangement, again requiring a judgement as to the controls in place.

v. System Factors

- An assessment based on stability;
- An assessment based on the type of processing application (for example standalone computer, network computer system or manual); and
- An assessment of the complexity of Regulations and/or Processing.

vi. Managerial and Control Environment

- A series of assessment factors upon which a judgement is made upon internal control; and
- An assessment of the susceptibility to fraud or previous fraud experience.

vii. Sensitivity

- A series of assessment factors relating to sensitivity, for example confidentiality, impact of failure on other systems, client sensitivity.

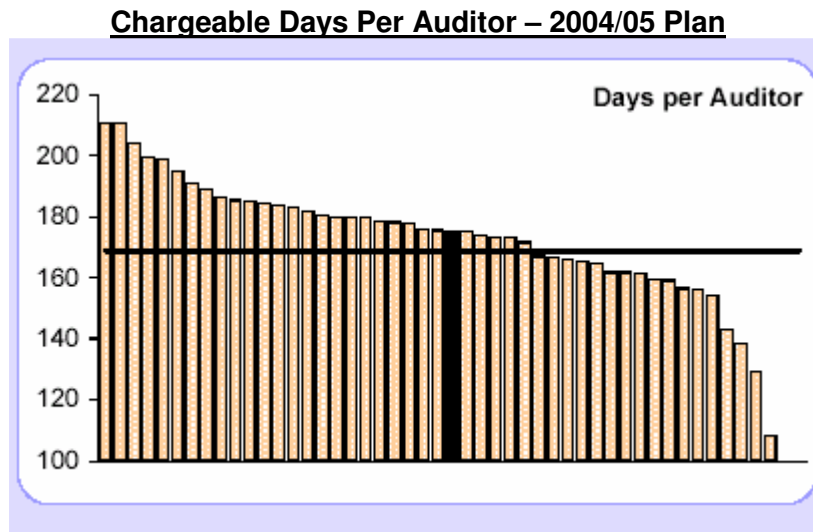
- 7.4 These factors are in accordance with the CIPFA Audit Risk Assessment Model.
- 7.5 The results of the Council's own Risk Registers, and significance to the Council's corporate aims, are also taken into account in assessing the relative risk of each activity.

8.0 Estimated Resources Available to Deliver the Strategic Audit Plan

- 8.1 The resources available to deliver the strategic audit plan is expressed in days. The number of days estimated to be available is arrived at by starting with the number of days in post and available to internal audit. The total number of days available is then reduced by the estimated number of days lost through annual leave, bank holidays, election duties and sickness. The remaining days available are then allocated between the various elements of work which are expected to be carried out each year in order to deliver an effective Audit service. The Audit Plan is only one of several different categories of work.
- 8.2 The calculation of days available and allocation of days between different categories of work is attached as Appendix 1.
- 8.3 The different categories of work are classed as either chargeable or non-chargeable. "Chargeable" means the work has an identifiable client. The different categories of work are explained below:
- 8.4 Training (Non-Chargeable). This is estimated at 8 days per FTE per year to ensure that the auditors remain up to date with internal audit and local government issues.
- 8.5 Updating Knowledge (Non-Chargeable). This includes on-the-job development (but not formal training) such as researching new legislation for example Freedom of Information Act, Regulation of Investigatory Powers Act, to ensure that the auditors remain up to date with relevant legislation. This also includes reading relevant reports and publications to ensure that the auditors remain up to date with Internal Audit, Council and Local Government developments.
- 8.6 Admin/Corporate Issues (Non-Chargeable). This includes representation on groups such as the Quality System Management Review Team, and the Council's bullying group. This also includes corporate issues for example attending staff briefings on senior management restructuring, Council budget etc. This also includes audit administrative tasks for example reorganisation of audit files.
- 8.7 Responsive Audit Work (Chargeable). This is part of the core internal audit service and includes the provision of ad hoc advice on a wide range of audit and control issues. This also includes audit involvement in tender openings and associated processes. The provision of advice is an important part of maintaining and improving the control environment.
- 8.8 Custody and Issue of Cheques (Chargeable). Internal Audit controls the issue of all Council cheques including weekly benefits and creditors cheque runs and ad hoc emergency cheques which can arise at any time.
- 8.9 Audit Plan (Chargeable). This is part of the core internal audit service and involves carrying out planned audits in accordance with approved audit plans.
- 8.10 Contingency (Chargeable). The External Auditors recommended (Interim Audit Report; September 2004) that contingency should be built into the Internal Audit Plan. Before we introduced contingency we had a target of achieving 75% of the audit plan. To maintain target

performance at effectively the same level contingency of 25% was built into the audit plan and the target for completion is increased from 75% to 100%.

- 8.11 This terminology and categorisation between chargeable and non-chargeable is in accordance with CIPFA benchmarking protocol and therefore enables meaningful comparisons with other authorities. The table below is an extract from the CIPFA benchmarking report 2004-05 which shows that the Vale (175.5 days) as a black vertical bar, and the average (167.6 days) as a horizontal line.



Source: CIPFA Audit Benchmarking Club 2004 Vale of White Horse District Council compared with Shire Districts

9.0 Strategic Internal Audit Plan

- 9.1 The proposed Internal Audit Plan was reported to the Scrutiny Committee on 16 February and comments were invited. Scrutiny Committee Members raised questions regarding the apparently low risk scores and consequent lack of audit coverage in the following areas: Building Control, Bank Reconciliation and Business Continuity. It was explained by the Assistant Director (Audit) that the low risk scores were the result of the risk assessment process and that this was a scientific process incorporating a number of risk factors and which follows good practice. The Scrutiny Committee was content with the proposed Internal Audit Plan.
- 9.2 The Responsible Finance Officer also confirmed that he is content with the proposed Internal Audit Plan.
- 9.3 The proposed Strategic Internal Audit Plan is attached as Appendix 2.
- 9.4 A spreadsheet showing the Internal Audit Plan calculations, including the risk factors and weightings, is attached as Appendix 3.

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ASSISTANT DIRECTOR (AUDIT)

Background Papers: None