

Report for Resolution

Report to Audit Committee
25 March 2010

Report of Audit Manager

Subject Internal Audit Planning for 2010/11

Item
6

Purpose

To endorse the basis for and review progress on drafting the internal audit plan for 2010/11

Recommendations

That members:

- approve the basis for drafting the internal audit plan for 2010/11
- review progress on drafting the internal audit plan for 2010/11

Financial Consequences

The financial consequences of this report are none directly.

Risk Management

The audit plan is informed by the council's strategic risk register and departmental risk registers, together with other assurance processes.

Strategic Objective/Service Priorities

The report helps to achieve the strategic priority "Aiming for excellence – ensuring the Council is efficient in its use of resources, is effective in delivering its plans, is a good employer and communicates effectively with its customers, staff and partners" and the service plan target that "The annual internal audit plan is approved by the Audit Committee prior to the financial year-end."

Contact Officers

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Background Documents

Report

Background

1. The terms of reference for the Audit Committee include “Reviewing and considering the proposed ... internal audit coverage and whether this provides adequate assurance on the organisation’s main business risks...”
2. Internal audit provides an independent assurance function which reviews and reports on the adequacy and effectiveness of the council’s risk management, governance and internal control processes.
3. The CIPFA Code of Practice for Internal Audit requires the audit manager to ‘prepare a risk-based audit plan designed to implement the audit strategy.’ In preparing the plan, s/he should ‘take account of the adequacy and outcomes of the organisation’s risk management, performance management and other assurance processes.’ Further details of the factors informing the plan can be found in paragraphs 14 to 20.
4. The CIPFA Code also states that:
 - The audit manager should ‘consult stakeholders on the draft plan and revise the plan if appropriate’
 - ‘The audit plan should be fixed for a period of no longer than one year’
 - ‘The plan should differentiate between assurance and other work’
 - ‘The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation’
5. Last year the draft audit plan for 2009/10 was presented to Audit Committee in March 2009, in line with the service plan target. This year the corporate planning process, including service planning, is not yet complete, therefore it is only possible to give members an indicative plan at this stage. This is because the plan is informed by departmental risk registers, which will be updated as part of the service planning process. Prior to that, all strategic managers have been invited on risk management training by Zurich Municipal, which should help to ensure that process for compiling departmental risk registers is robust.
6. In conjunction with the corporate planning process a new performance management system, which includes a risk management module, is being introduced, and this will also be used to inform the audit plan.
7. Therefore at this stage it is only possible to provide an indicative audit plan for 2010/11, which is shown at annex 1 for members’ review.
8. When more detailed information is available from the performance management system and departmental risk registers the plan will be reviewed and amended if necessary in consultation with stakeholders.
9. The plan will then be brought back to Audit Committee for members’ approval.

10. Any changes to the plan during the year as a result of changing risks or priorities will also be reported to members.
11. The draft plan makes clear the distinction between systems/regularity assurance work and non-audit/consultancy type work.
12. Comments are also included to show the reasons for inclusion in the plan.
13. It is estimated that 600 days are required in 2010/11 to complete the plan.

Factors informing the plan

14. In accordance with International Standards on Auditing (ISA 315) the Audit Commission requires internal audit to review annually the main information systems that inform the entries in the financial statements.
15. In addition to normal cyclical audits the strategic risk register and risk management sections of all latest service plans will be reviewed and any high risk 'auditable' areas will be included. This is in line with the move towards risk-based auditing, and will feature more prominently in the audit planning process as the council's risk management processes continue to mature. Emerging risks during the year may also require amendment to the plan.
16. Some areas of audit work are included in the plan based on the latest Audit Commission inspections, governance reports and use of resources assessment.
17. The risk of fraud and corruption will be reviewed, taking account of the council's anti-fraud and corruption strategy and our participation in the National Fraud Initiative. A separate risk-based counter fraud plan will be developed as recommended in 'Protecting the Public Purse' (see separate report on agenda).
18. A contingency allowance has been built into the plan to allow for internal audit's involvement in any ad-hoc or disciplinary investigations.
19. Finally, time will be allowed to complete unfinished audit reviews, and follow-ups of completed audits to confirm that satisfactory progress has been made against agreed recommendations.
20. There are some areas of a mainly corporate and consultancy nature which on the whole do not change much from year to year. These are shown at the end of the plan under the heading of *Non-audit and consultancy work*.

Resources

21. The final section of annex 1 shows how the available number of internal audit staff days is arrived at.
22. After taking account of "lost" time (management, training, administration, etc.) the available number of staff days for 2010/11 is projected as 580 (600 in 2009/10). A detailed resource analysis showing how this figure has been arrived at is shown at annex 2. The slight reduction in available time is mainly the result of increased management responsibility for the fraud team.

23. At the present time there is some uncertainty around the unitary bid which may impact on internal audit resources and audit planning for 2010/11. For instance, it is not clear at this stage if the council will be assessed on its use of resources for 2010/11 if it is approved to become a unitary authority. If unitary does go ahead there could be a significant impact on audit resources in preparing for new functions.
24. Internal audit resources will be kept under constant review and any issues will be reported to members as necessary.
25. The draft plan and resource analysis results in a projected deficit of 20 days. Given that there are some contingency amounts built into the plan this is considered to be reasonable.
26. At this stage it is not envisaged that there will be a need to outsource any normal audit work, only technical IT audits as in previous years.

Conclusion

27. The audit planning process and draft audit plan for 2010/11 should provide members with adequate assurance on the main risks to the council's objectives and priorities. Any amendments to the draft plan, including resourcing implications, will be reported to members for your approval.

Draft Audit Plan 2010/11			
	2010/11		
Audit Assurance Work	Estimated Days		Reason for inclusion in plan
Fundamental Systems			
Purchasing & payments	15		In accordance with the International
Debtors/recovery	15		Standards on Auditing (ISA 315),
Payroll	15		the Audit Commission seeks to
Housing rents	15		place reliance on the work of internal
Income/cash receipting	15		audit in evaluating and testing the
Treasury & cashflow management	15		main systems that drive the balances
Housing/c tax benefits, incl. fraud team	15		and disclosures in the financial
Council tax/NDR	15		statements.
Asset management - non-housing	20		
Sub-total	140		
Corporate Resources			
Customer contact	20		Cyclical
General ledger	10		Issues in annual governance report
Licensing	15		Cyclical
HR - recruitment	15		Cyclical
Procurement	15		Cyclical
Sub-total	75		
Regeneration & Development			
Private sector housing	10		Cyclical
Housing repairs/decent homes	10		Cyclical
Car parks - MSCP/P&D	15		Cyclical
Homes & Communities Agency contract	10		From strategic risk register
Neighbourhood teams	10		From corporate plan
Care & repair	10		Cyclical
Sub-total	65		
Cultural Services			
Sports facilities, incl. leisure centre	10		Cyclical
Sub-total	10		
Corporate			
Ad-hoc investigations	20		Contingency allowance
Probity	10		Anti-fraud measure
Perf. mgt. system/national indicators	10		Cyclical
Business continuity/emergency mgt.	10		From strategic risk register
Capital programme/major contracts	20		From strategic risk register
Outsourced IT audits (details to follow)	10		IT security - client role
Sub-total	80		
To complete 2009/10 plan:			
Community alarm service	10		To complete previous plan
Right to buy	10		To complete previous plan
HR - leavers	10		To complete previous plan
Premises management & leaseholders	10		To complete previous plan
Sub-total	40		
Follow-ups	20		Follow ups required by Code of Practice
Sub-total	20		
Total for audit assurance work	430		

Draft Audit Plan 2009/2010 (cont.)	2009/10		
	Audit Plan Days		
Non-audit & consultancy work			
New Deal - Grant Claims	20		Ongoing involvement of audit staff
Corporate Governance	30		Review policies; use of resources
Fraud plan, incl. NFI	40		Fraud risks & wider scope of NFI
Risk Management	10		Corporate issue
Financial Appraisals/Tenders/Final A/cs	10		Contingency
Advice, unplanned work, requests	50		Contingency
Total for non-audit/consultancy work	160		
Total Allocated Days	590		
Audit Resources Available 2009/10:			
Total available days (after allowance for holidays and sickness)		810	
<u>Less</u> Allowance for non-chargeable days:			
Management/Administration	170		
Training	20		
Other	40	230	
Planned Chargeable Days		580	
Resources needed for Audit Plan		590	
Projected Surplus/(Deficit)		(10)	

AUDIT & FINANCIAL CONSULTANCY**ANALYSIS OF TIME (EMPLOYEE RESOURCE DAYS) - PLANNED FOR 2010/11**

	AUDIT MANAGER	SENIOR AUDITOR / CONSULTANT	SENIOR AUDITOR / CONSULTANT	SENIOR AUDITOR / CONSULTANT (0.8 FTE)	PLANNED TOTAL
	PLAN	PLAN	PLAN	PLAN	
1. AVAILABLE WORKING DAYS					
Total Days (52 x 5 = 260)	260	260	260	208	988
Less: Bank Holidays	9	9	9	9	36
Annual Leave	32	31	32	26	121
Elections			1		1
Sick, Special Leave, etc.	5	5	5	5	20
Available Days	214	215	213	168	810
Less:					
2 NON-CHARGEABLE TIME					
2.1 ADMINISTRATION / MGT					
Administration - General	20	20	20	20	80
Section Meetings	4	2	2	2	10
Service Centre Management	75				75
Departmental Management	5				5
SUB - TOTAL	104	22	22	22	170
2.2 TRAINING ETC					
Training - Courses	5	5	5	5	20
SUB - TOTAL	5	5	5	5	20
2.3 OTHER GENERAL OVERHEAD					
IT Support / Time Recording	5	10	5	5	25
Folder Structure Administration	0	15	0	0	15
SUB - TOTAL	5	25	5	5	40
Total Non Chargeable Days	114	52	32	32	230
Total Chargeable Days	100	163	181	136	580
% NON-CHARGEABLE (DAYS)	53%	24%	15%	19%	28%
% CHARGEABLE (DAYS)	47%	76%	85%	81%	72%