

PART A

AGENDA

ITEM 8

Report to: Audit Committee

Date of Meeting: 19 March 2008

Report of: Audit Manager

Title: Internal Audit Service Plan and Annual Work Plan 2008/09

1. SUMMARY

This report presents Internal Audit's Service Plan and sets out the proposed work programme for the Internal Audit Service for the coming financial year.

2. RECOMMENDATIONS

The 2008/2009 Internal Audit Service Plan and Annual Plan be approved.

Contact Officer:

For further information on this report please contact Barry Austin
telephone extension 8032, email barry.austin@watford.gov.uk

Report approved by Janice Maule – Director of Finance

3.0 DETAILED PROPOSAL

3.1 Each year this Committee approves Internal Audit's Service and Annual Audit Plans (work programme) for the coming financial year. The Service Plan sets out Internal Audit's objectives for the year and how they link to the corporate objectives. The Annual Plan shows the programme of audits it is proposed to carry out to achieve the service objectives.

3.2 The 2008/2009 Audit Plan takes account of the risks faced by the Council and the need to review key systems. Allowances have been made to cover changes to those systems which may be affected by Shared Services. It is based on:

- (i) Available resources – estimated number of productive auditor days after allowing for leave, sickness, training etc.
- (ii) A review of risk registers.
- (iii) Internal Audit's own risk-based assessment of auditable areas. This is continually updated and is based on the CIPFA model. It takes into account materiality (level of income and expenditure), control environment/vulnerability (assessment of controls based on date and findings of last audit, low/high staff turnover etc), sensitivity (assessment of the likely impact of failure of the area under review) and management concerns (e.g. known problems).
- (iv) Discussions with Heads of Service.
- (v) Information gained from Service Plans, Medium Term Plans, committee reports etc.

3.3 Even though this is a plan for the coming year only there still needs to be an element of flexibility in the approach to the work to be undertaken to cater for unforeseen changes in circumstances. Should it be necessary to make any significant changes to the work programme they will be reported to Committee.

4. IMPLICATIONS

4.1 Financial

The Director of Finance reports there are no immediate implications in this report as there is sufficient budgetary provision to fund the proposed work programme given current staffing arrangements.

4.2 Legal Issues (Monitoring Officer)

The Head of Legal Services reports that there are no specific legal issues in the report. The Council has a responsibility to ensure that it has proper arrangements for the management of the internal control environment; this includes an appropriate internal audit presence.

4.3 Staffing

There are no implications in this report.

4.4 Accommodation

There are no implications in this report.

4.5 Equal Opportunities

There are no implications in this report.

4.6 Community Safety

There are no implications in this report.

4.7 Sustainability

There are no implications in this report.

4.8 Potential Risks

Failure to maintain an adequate internal audit of the Council's accounting records and system of internal control would be in contravention of the Accounts and Audit Regulations 2003 (as amended in 2006) and would make it impossible for the Audit Manager to provide an annual opinion on the overall adequacy and effectiveness of the internal control environment. This opinion feeds into the statutory Statement of Internal Control.

Background papers:

The following background papers were used in the preparation of this report:

Audit Files

If you wish to inspect or take copies of background papers please contact the officer named on the front page of the report.

File reference: None

WATFORD BOROUGH COUNCIL

Internal Audit Service

SERVICE PLAN 2008/2009

The purpose of this service plan is to demonstrate the link between key corporate priorities, Internal Audit Service priorities and the work of individual auditors and to record how the Service's priorities have been determined and are to be achieved.

1 Service Centre

Internal Audit Service – in-house provision.

2 Lead Officer

Barry Austin – Audit Manager

3 Service Statement

Internal Audit is an assurance function that primarily provides an independent and objective opinion on the Council's internal control environment (comprising the systems of governance, risk management and internal control) and evaluates its effectiveness in achieving the Council's objectives. Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

4 The Nature of the Service

4.1 The Service's broad objective is to provide an adequate and effective system of internal audit of the Council's accounting records and systems of internal control in accordance with the "proper practices in relation to internal control" as set out in the Accounts and Audit (Amendment)(England) Regulations 2006.

4.2 "Proper internal audit practices" are found in CIPFA's *Code of Practice for Internal Audit in Local Government in the UK* (the Code), published in 2003 and revised in 2006. This Code requires the Audit Manager to "provide a written report to those

charged with governance timed to support the Statement on Internal Control". It sets out various matters to be commented on in the report, including the requirement to give "an opinion on the overall adequacy and effectiveness of the Council's control environment". The work the Service undertakes throughout the year is planned to enable the Audit Manager to provide such an opinion.

- 4.3 Internal Audit's performance against the Code will be monitored on an annual, self-assessment, basis with the results being reported to the Audit Committee.
- 4.4 Internal control systems are all those processes which are set up by management to safeguard assets, ensure reliability of records, promote operational efficiency and monitor adherence to policies, regulations and directives. Internal Audit is not confined to the review of financial processes but has the freedom to review any council activity.
- 4.5 Internal Audit is an aid to management and is not a substitute for good management.
- 4.6 The Code also states that the audit work plan must be fixed for a period of no longer than one year. This is a reflection of the difficulty in predicting changes over the longer term when the range of services provided and the manner of service provision is likely to change substantially. The annual work plan enables Internal Audit to concentrate on issues of immediate significance to the Council as well as covering the external auditor's requirements under the "Managed Audit" approach. A longer term database of potential areas for audit will be maintained by the Audit Manager.
- 4.7 Increasing use is being made of key risks, as identified through the Council's risk management process, as the basis for the audit planning process. Total reliance on this process will not occur until the Audit Manager is satisfied that risk management is suitably embedded in the culture of the Council and service and corporate risk registers become sufficiently robust. In the transition, the Audit Manager will continue to maintain the audit risk assessment register as a supporting element of the planning process.

- 4.8 Reference has been made to the Medium Term Plan, individual service plans, the programme of procurement projects and the capital budget (to identify contracts for review) as sources of information for determining activities to be covered by Internal Audit. Relevant national, professional and local publications are also used as a source of planning material to ensure possible external developments are also accounted for.
- 4.9 The work to be undertaken in any year will continue to be discussed in advance with Heads of Service and Corporate Directors and with the external auditors.
- 4.10 The new external auditors (Grant Thornton) have been unable, at the time of preparing this plan, to give detailed guidance of their requirements of Internal Audit. As a result, systems based audit work will be carried out on the same lines as previously agreed with the Audit Commission. Most resource will be directed at the key systems highlighted under the "Managed Audit" approach.
- 4.11 The range of "Council wide" audits has been expanded to include projects which, it is hoped, will help maintain or improve the scores achieved under Use of Resources assessments. These include ethics, partnership governance and VFM arrangements
- 4.12 The allocation for fraud investigations is based on past experience, the time allowance in the audit plan being reduced from previous years. Any fraud investigation will also include an assessment of the adequacy of internal controls within the affected area/activity. It is management's responsibility to ensure that adequate control procedures are in place to deter and detect fraudulent activity, not Internal Audit's. Audit resources will be directed towards detecting fraud in those activities which are widely recognised as being susceptible to fraud.
- 4.13 Consultancy work undertaken in the past has largely consisted of providing advice and has generally been of a reactive rather than proactive nature. It is likely to continue in this way. Internal Audit will not positively seek consultancy type work,

given the other demands on time. If such work is undertaken the terms of reference will make it clear that it is not being carried out in the capacity of auditors and the Audit Committee will be advised accordingly.

- 4.14 The advent of Shared Services has cast a degree of uncertainty over the planning process for the coming year with the timetable for the proposed introduction of new systems unclear. It is vital that the mistakes leading up to the year 2000k are not repeated and that robust reconciliations of transferred data are in place from the outset. Generous allowances will be made in the annual audit plan allow for reviews of these issues. The Audit Manager is likely to assume responsibility for overseeing the internal audit contract at Three Rivers District Council. To offset this, the responsibility for managing the fraud, risk and insurance functions will be transferred elsewhere.
- 4.15 The allocation of resources will be set out in the annual audit plan. This service plan and the audit work plan will be presented to the Audit Committee for approval.
- 4.16 All High and Medium Risk recommendations will be followed up to ensure implementation. This will occur either through seeking written confirmation from Heads of Service on a quarterly basis or by review during the next audit of that activity. Unsatisfactory progress will be reported to CMB.
- 4.17 At the end of the year the work undertaken will be sufficient to enable the Audit Manager to provide an opinion on the effectiveness of the internal control environment during 2008/2009. Measures to evaluate the level of improvement in internal controls have been implemented e.g. by comparing the number of high risk recommendations made in respect of certain key systems on an annual basis.

5 How has the service translated the key corporate priorities into service delivery?

- 5.1 In overall terms the Internal Audit Service seeks to support all corporate objectives by promoting the economic, effective and efficient use of limited resources through a continuous process of service reviews. In addition, the Service will place

increasing emphasis on reviewing the effectiveness of actions taken to mitigate those key risks likely to prevent the achievement of corporate objectives.

5.2 The key corporate objectives remain as:

- (i) An efficient, effective, value for money Council.
- (ii) A town with a high quality environment.
- (iii) A safer town.
- (iv) A healthy town.
- (v) A good town for business, skills and learning.
- (vi) A well-informed community where everyone can contribute.
- (vii) A town to be proud of

Internal Audit's contribution to the achievement of these objectives can be most clearly directly demonstrated in respect of item (i) because of the emphasis on financial systems reviews and value for money. Audit also examines the integrity and accuracy of data produced by the various systems as this forms the base on which decisions re future service provision and other initiatives are made and will be involved in the implementation of data quality and information security strategies.

Audit can also contribute by reviewing risk management arrangements and business continuity planning thereby reducing the risk to the achievement of those objectives and ensuring that the Council is able to provide continuity of service. The control implications of any new procedures are reviewed and value for money issues commented on.

Internal Audit can have an indirect effect on changing the culture of the organisation by promoting more effective and efficient ways of working.

The proposed work on Use of Resources criteria will at least help maintain the Council's scores in the assessment.

Details of the work to be undertaken by Internal Audit are set out in the 2008/2009 work plan.

6 Key Service Priorities for 2008/2009

6.1 The following priorities are seen as crucial to the development of the service and its contribution to improved internal control. The Audit Manager will take the lead in these with the assistance of other members of the team.

- (i) Expectations of Internal Audit are continually evolving, the latest performance standards being set out in CIPFA's Guidance for Internal Audit in Local Government (2006). The Audit Manager will ensure that the Service operates in accordance with expected standards. This is a continuing review process. Procedures will also be compared to Audit Commission guidelines for the review of internal audit. The extent to which the external auditors continue to place reliance on the work of Internal Audit will act as measure of success in achieving this objective.
- (ii) The International Standards on Auditing require the external auditors to have an understanding of how transactions and processes within the council operate, culminating in the transfer of data to the general ledger and final accounts. Discussions will be held between Internal Audit and Grant Thornton to ensure that the external expectations are met.
- (iii) Internal Audit has now documented and flowcharted all key systems and will review these during the year to ensure their continuing accuracy. Detailed testing of these systems will continue for the coming year at least.
- (iv) The detailed testing of the Benefit Subsidy Claim will be cut back as Grant Thornton have indicated that they will be doing most of this themselves.
- (v) Internal Audit will continue to assist in the development of risk management arrangements within the Council and will seek to integrate the corporate risk assessment process into the audit planning process, eventually leading to a

risk based audit approach. The Audit Manager is a member of the RM working group.

- (vi) As the Benefit Fraud Team reported to the Audit Manager in 2007/2008 there was a limited move towards incorporating the fraud investigation work of the two teams into a corporate anti-fraud team. This will not be progressed further until the position under Shared Services has been finalised.
- (vii) The Audit Manager will amend the audit approach as necessary in response to changes in service provision and Council structures brought about by Member/Corporate Management Board decisions.

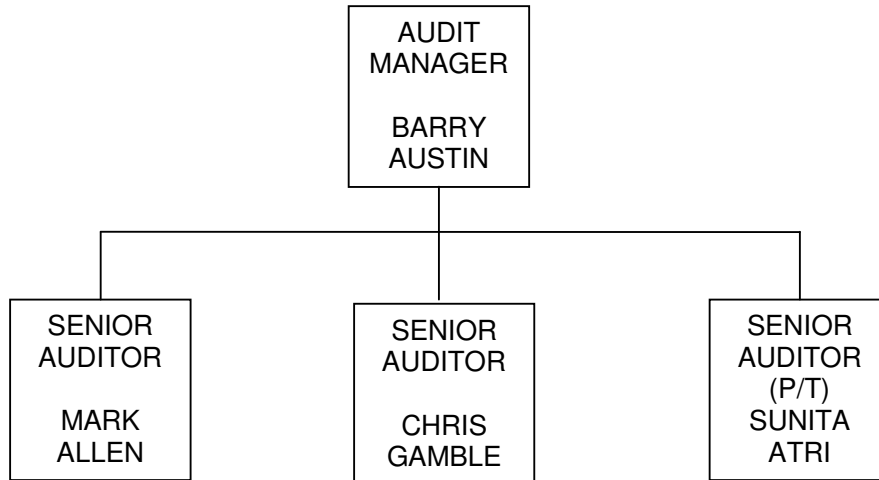
7 Resource Requirement

(i) Staff

Staffing levels have remained constant since Internal Audit was re-established in 2001 although one post has been re-designated from Auditor to Senior Auditor to reflect the changing responsibilities of the Service. This level is felt to be sufficient to complete the necessary workload to enable the Audit Manager to give an annual opinion on the adequacy of controls.

All three Senior Auditors hold recognised Institute of Internal Auditors (IIA), qualifications. In addition, one member of the team has the Association of Accounting Technicians qualification (AAT). The Audit Manager is a member of CIPFA and is participating in CIPFA's Continuing Professional Development (CPD) scheme (Year 3). The other three will be encouraged to participate in the relevant CPD scheme.

(ii) Structure



(iii) Annual Budget

Employees	£195,130
Supplies/Services	£ <u>2,560</u>
	£197,690

8 Monitoring and Evaluation

8.1 The Audit Manager will continuously monitor progress against the Audit Plan and local performance indicators. Progress on a range of issues will be reported to the Audit Committee on a quarterly basis.

8.2 Performance Indicators 2008/09:

Indicator	Target
Actual "chargeable" days as % of planned	85%
% Audit plan completed (based on number of projects)	90%
% Final audit reports issued on time	100%
Client satisfaction score	85%

8.3 Staff performance will be reviewed during and at the completion of individual audits and in the corporate performance appraisal process.

8.4 The external auditors review the work of Internal Audit annually to ensure that they can continue to rely on our work.

8.5 The Audit Manager's comparison of performance with the Code will contribute towards the overall assessment of the effectiveness of Internal Audit.

8.5 Watford will continue to benchmark itself against other Herts authorities to help maintain best practice in its operations and benefit from the exchange of ideas.

9 Risk Assessment

See below for significant risk.

Audit Manager
March 2008.

Risk Ref	<u>Risk</u>	<u>Consequence</u>	Likelihood 4=Catastrophe 1=H. Unlikely	Impact 4=Catastrophe 1=H. Unlikely	Risk Rating	Responsibility	<u>Existing Control Procedures</u>	Likelihood 4=Cat 1=H. U	Impact 4=Cat 1=H. U	Risk Rating
IA 1	Loss of staff for an extended period.	Failure to achieve audit plan. Failure to complete work on key systems. Criticism from external auditors and loss of internal credibility.	3	4	12	Audit Manager	Use of contingency allowance. Forward planning e.g. early advertisement for replacement. Reorganise work to ensure key systems are prioritised.	3	3	9
Risk Ref	<u>Options for additional/replacement control procedures</u>						<u>Cost/Resources</u>	<i>Likelihood</i> <i>d</i> 4=Cat 1=H. U	Impact 4=Cat 1=H. U	Risk Rating
	Buy in additional resource to achieve minimum cover required for the provision of an audit opinion re adequacy of the internal control environment.						Depends on experience of auditor and length of time involved but likely to be costly.	3	2	6

Reviewed March 2008

**WATFORD BOROUGH COUNCIL
INTERNAL AUDIT SERVICE
AUDIT PLAN 2008/2009**

Audit	Outline of work	Proposed Time Allocation. Days
Managed Audits	As required by external auditors under the "Managed Audit" approach. The audits will include reviewing and testing controls in place and updating system notes/flowcharts for all key systems	
Accounting system (Aptos)		10
Treasury management		6
Creditors		15
Income collection (Radius)		15
Payroll	To include possible transfer to a new system/provider.	30
Asset Management		15
Sundry Debtors		15
Benefits Administration	Includes introduction of Local Housing Allowance and possible transfer to a new system.	30
Council Tax	Includes possible transfer to new system	15
NNDR	Includes possible transfer to new system.	10
Reconciliations: a) Bank reconciliations b) Data transfer between systems	To include review of potential impact of new systems.	35
Budgetary Control		7
Total Managed Audits		203

Grants Work	Mainly Benefits Subsidy claim and HSSA	30
Other High Risk – As Assessed by Internal Audit.	Based on IA's own risk assessment, discussions with front line Heads of Service, review of Corporate and Service Risk Registers and Medium Term Plan.	
Performance indicators	Review of procedures/calculations for 07/08 PIs (concentrating on those to be c/f to 08/09) including a review of quality control.	30
Corporate Governance Arrangements	Implementation of best practice including comparison with CIPFA/Solace latest guidance. C/F from 2007/08	15
Risk Management	Implementation of risk management arrangements and mitigation of risks.	15
Fraud Awareness	Review arrangements for maintaining awareness	6
Partnership working	Review of governance arrangements for larger partnerships	15
Use of Resources	Review of key issues which require corporate input e.g. VFM	15
Service Planning	Examination of links between projects – service plans – corporate objectives.	15
Total Other High Risk		111
Medium Risk Audits		
Parking Control	Implementation of new contract	8
Procurement	Validation of savings	7
Project management	To include expenditure controls in P&D.	8
Ethics	Review of "ethical arrangements" in place – linked to Use of Resources.	8

Housing Trust	Review monitoring of SLAs/accurate recovery of income.	8
Cemeteries	Implementation of new charging policy/income collection	8
BECC	Closure arrangements.	4
Fees and Charges	Compliance with policy/contribute to corporate objectives	15
Data Quality	Overview of corporate arrangements (ex PI work)	10
Building Control	Income collection	5
National Fraud Initiative (NFI)	Follow up on C Tax/Electoral Registration matches	5
Shared Services	Audit of expenditure	5
Total Medium Risk		91
IT Audit	Review corporate, management and technical controls based on a rolling programme of audits.	
GIS	Roll out	10
Thin client	Post implementation review	10
Total IT Audit		20
Contract Audit		
Leisure centres - operation	Monitoring arrangements	8
Leisure centres – final account		5
Contract monitoring	Contracts to be determined	15
Total Contract Audit		28
Contingencies		
Fraud Investigations		25
Other	Time over-runs and unforeseen circumstances, including “knock on” effects of shared services.	25
Total Contingencies		50
Total Resource Requirement		533

Available Resources (Estimate)

Gross Working days		959
Less		
Annual Leave/Bank Hols	144	
Sickness	16	
Other/Special	6	
Training, including in use of IDEA (data matching software).	<u>35</u>	<u>201</u>
Net working days		758
Less		
Admin, planning, appraisals working groups, team meetings etc		<u>225</u>
Total Available days		<u>533</u>

