

WATFORD BOROUGH COUNCIL

Internal Audit Service

SERVICE PLAN 2009/2010

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

This plan has been prepared against the background of the imminent introduction of Shared Services which will have a significant impact on the work of Internal Audit. The normal planning process has been followed to identify functions to be audited (see 4.6 to 4.12 for key elements of this process). At the time of preparing this plan discussions are taking place to agree a joint approach to auditing those systems affected by Shared Services. This should avoid duplication of effort whilst still providing the required level of control assurance. It is proposed that the Audit Manager will also monitor the provision of the internal audit service at Three Rivers by the external provider.

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 will objectively examine, evaluate and report 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) - 2006. This Code requires the Audit Manager to provide a written report to those charged with governance timed to support the Annual Governance Statement. 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's standards 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.

Planning Process

- 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 is maintained by the Audit Manager.
- 4.7 Use is made of key risks, as identified through the Council's risk management process, as the basis for the audit planning process and the Audit Manager maintains an audit risk assessment register which is used as a supporting element of the planning process. Discussions are held with Heads of Services to identify any areas of concern they may have which could feed into the work programme.
- 4.8 Reference has been made to the Shared Services programme, 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 Systems based audit work will be carried out on the same lines as previously agreed with the external auditors. Substantial resources will be directed at the key systems as defined under the "Managed Audit" approach.
- 4.10 As with last year a number of projects have been included which, it is hoped, will help maintain or improve the scores achieved under Use of Resources assessments. These include partnerships, corporate governance, risk management and data quality.
- 4.11 A contingency allowance has been for fraud investigations based on past experience although this work will eventually be undertaken by the Fraud Team as

the Finance Shared Service is implemented. Once this happens, Internal Audit will work closely with the Fraud Team to identify system weaknesses which may have allowed the fraud to be committed and will recommend measures to address them. The time allowance in the audit plan has been reduced from last year's allocation. It is management's responsibility to ensure that adequate control procedures are in place to deter and detect fraudulent activity, not Internal Audit's or the Fraud Team's. Audit resources will be directed towards detecting fraud in those activities which are widely recognised as being susceptible to fraud.

- 4.12 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. 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.
- 4.13 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.
- 4.14 All High and Medium Risk recommendations will be followed up to ensure implementation. This will be either through seeking written confirmation from Heads of Service on a monthly basis or by review during the next audit of that activity. The follow up procedure was amended in 2008/09
- 4.15 At the end of the year the proposed work programme will be sufficient to enable the Audit Manager to provide an opinion on the effectiveness of the internal control environment during 2009/2010.

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 revised corporate objectives are:
 - (i) An efficient, effective, value for money Council.
 - (ii) A well planned town with homes to suit all needs.
 - (iii) A safer town.
 - (iv) A healthy town.
 - (v) A prosperous and educated town.
 - (vi) A well-informed community where everyone can contribute.
 - (vii) A town that protects its environment and heritage.

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. Added emphasis will be given to data quality (a key element of Use of Resources assessment) and data security (following publicity given to cases of lost information over recent months).

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.

The proposed work on Use of Resources criteria will contribute towards the Council's scores in the assessment.

Details of the work to be undertaken by Internal Audit are set out in the 2009/2010 work plan.

6 Key Service Priorities for 2009/2010

- 6.1 The key priorities are largely related to the introduction of Shared Services and the maintenance of auditing standards.
- (i) 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. As an aid to this, Internal Audit has documented and flowcharted all key systems. The introduction of Shared Services and the implementation of new systems and new ways of working will necessitate a complete review of all affected systems and their documentation.
 - (ii) The Internal Audit team at Watford will work with the internal auditors at Three Rivers (Deloitte) to ensure that all of the key systems are covered at both authorities with the minimum duplication of effort.
 - (iii) Fraud investigation work traditionally undertaken by Internal Audit is due to be transferred to the Fraud Team (benefits) although both teams will work closely together on fraud investigation and raising fraud awareness and Audit will review fraud cases to identify and remedy system weaknesses. Key systems are subject to a fraud risk assessment.
 - (iv) Internal Audit will continue to assist in the development of risk management arrangements across the Council. The Audit Manager is a member of the Risk Management Group.

- (v) The Audit Manager will continue to ensure that the Service operates in accordance with CIPFA's expected standards. Procedures will also be compared to Audit Commission guidelines for the review of internal audit and will be designed to meet the external auditor's requirements. 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.

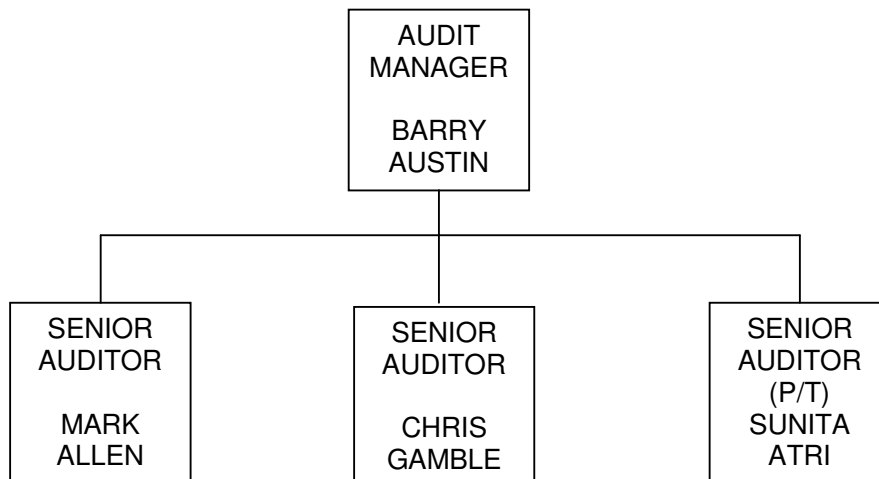
7 Resource Requirement

(i) Staff

Staffing levels have remained constant since 2001 and no immediate change is foreseen. This level is felt to be sufficient for the financial year 2009/2010 to complete the necessary workload to enable the Audit Manager to give an annual opinion on the adequacy of controls. Resources allocated to Internal Audit will need to be reviewed towards the end of the year as the workload implications of Shared Services become clearer.

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 are encouraged to participate in the relevant CPD scheme.

(ii) Structure



(iii) Annual Budget

Employee Related	£195,650
Supplies/Services	£ 2,560
	<u>£198,210</u>

8 Monitoring and Evaluation

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

8.2 Performance Indicators 2009/010:

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

* The target has been 90% in previous years but it is felt prudent to reduce this for the coming year because of the uncertainties brought about by Shared Services. It is hoped that 90% can still be achieved with the intention of raising this in future years.

8.3 Staff performance will be reviewed during and at the completion of individual audits and, with the Audit Manager, through 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.

8.6 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

Internal Audit faces risks associated with entering into Shared Services and with the implementation of new systems but at this stage these are felt to be manageable with forward planning and consequently are not scored as significant.

See below for significant risk.

Audit Manager
March 2009.

Risk Ref	Risk Title/ <i>Description</i>	Consequence	Likelihood 4=Catastrophe 1=H. Unlikely	Impact 4=Catastrophe 1=H. Unlikely	Risk Rating	Responsibility	Existing Control Procedures	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. Reorganise work to ensure key systems are prioritised.	3	3	9
Risk Ref	Options for additional/replacement control procedures					Cost/Resources		Likelihood 4=Cat 1=H. U	Impact 4=Cat 1=H. U	Risk Rating
	Buy in additional resource sufficient 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 February 2009