

THREE RIVERS DISTRICT COUNCIL
WATFORD BOROUGH COUNCIL
JOINT INTERNAL AUDIT SERVICE
SERVICE PLAN 2010/2011

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

This plan has been prepared against the background of the recent introduction of Shared Services and the implementation of new key financial systems. This will have a significant impact on the work of Internal Audit in 2010/2011.

1 Service Centre

Internal Audit Service – in-house provision in conjunction with additional external resource.

2 Lead Officer

Barry Austin – Audit Manager

3 Service Statement

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Councils on the control environment (comprising the systems of governance, risk management and internal control) and evaluates its effectiveness in achieving the Councils' 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 overall objective is to provide an adequate and effective system of internal audit of the Councils' 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 The Accounts and Audit Regulations 2003 (as amended in 2006) require that the Councils must make provision for adequate and effective audit. Guidance to the Regulations states that this provision should comply with CIPFA's *Code of Practice for Internal Audit in Local Government in the UK* (the Code). This Code was last revised in 2006. It 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 two Audit Committees.
- 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, but 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 Councils as well as covering the external auditor's requirements under the "Managed Audit" approach. A longer term database of potential areas for audit in both authorities is maintained by the Audit Manager.
- 4.7 When setting up the audit plan reference is made to the Councils' risk management processes (strategic and service based) to identify the key risks facing each council. The Audit Manager completes an annual audit risk assessment and maintains a fraud risk register and these are used as supporting elements of the planning process. Discussions are normally 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 committee minutes, corporate plans, 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 in a manner which meets the requirements of the external auditors. Most resource will be directed at the key systems as defined under the "Managed Audit" approach. As several new systems have or are about to be introduced their audit will constitute a significant element of the programmed work for 2010/2011.
- 4.10 A number of audits have been included in the plan 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 made for fraud investigations. This is based on past experience although some of this work will eventually be undertaken by the Fraud Team as the Finance Shared Service is developed. Internal Audit and the Fraud Team will work closely together to raise fraud awareness and to identify system weaknesses which may have allowed fraud to occur and will recommend measures to address them. 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 council functions which are widely recognised as being susceptible to fraud (e.g. housing benefits), recognising that the current uncertain economic circumstances could lead to the increased risk of 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 relevant 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 both Audit Committees for approval.
- 4.14 All High and Medium Risk recommendations will be followed up in accordance with agreed procedures to ensure they have been implemented. This will be either through seeking written confirmation from heads of services on a monthly basis and/or by review during the next audit of that activity. In the case of Three Rivers outstanding recommendations will then be reported to the Audit Committee.
- 4.15 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 control environment during 2010/2011.

5 Key Service Priorities for 2010/2011

- 5.1 The introduction of Shared Services and the implementation of new systems and new ways of working signals a significant change in the way the reorganised services operate. As a result, the audit of affected functions will form one of the key drivers of Internal Audit work next year to ensure that change does not mean a weakening of controls. This will involve a complete review of all affected systems and the updating of Internal Audit's system documentation. The work will also be aimed at providing assurance to the external auditors that the key, managed audit, systems operate effectively.
- 5.2 The identification of improved ways of working or potential cost cutting measures within services as a means of adding value for the two Councils.
- 5.3 It is widely accepted that the changed economic circumstances are likely to result nationally in an increase in attempted fraud. Fraud risk assessments have been reviewed and the higher risk functions (especially Housing Benefit) have been highlighted for increased attention. Internal Audit will remain alert to the possibility of fraud in all the reviews it undertakes (robust internal controls and staff vigilance are key to minimising the risk of fraud).
- 5.4 The two councils are looking to improve their Use of Resources scores and audit resources will be allocated to reviewing key criteria examined by external assessors to assist in that improvement.
- 5.5 Internal Audit will raise awareness of "best practice" in operation in both councils and seek to introduce these from one council to the other (as identified during the course of audit work).
- 5.6 The Audit Manager will continue to ensure that Internal Audit 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.

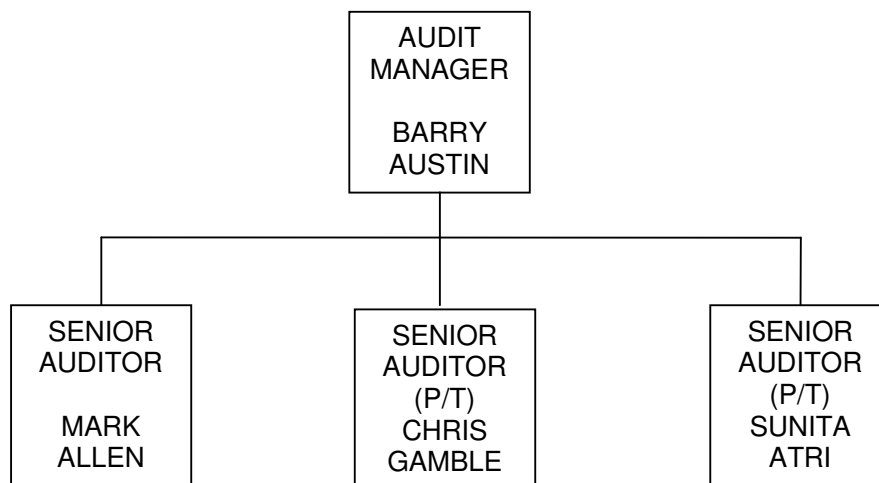
6 How has the service translated the key corporate priorities into service delivery?

- 6.1 In overall terms the Internal Audit Service seeks to support all corporate objectives/strategic themes by promoting the economic, effective and efficient use of limited resources through a continuous process of service reviews. In addition, the Service will review the effectiveness of actions taken to mitigate those key risks likely to prevent the achievement of corporate objectives or affect the ability to provide continuity of service.

- 6.2 Internal Audit will also examines the integrity, accuracy and security of data produced by the various systems as this forms the base on which decisions re future service provision and other initiatives are made..
- 6.3 The proposed work on Use of Resources criteria will contribute towards the Councils' scores in the assessment.
- 6.4 Details of the work to be undertaken by Internal Audit are set out in the 2010/2011 work plan.

7 Resource Requirement

- 7.1 As Internal Audit will be covering both authorities it has been agreed by the Joint Committee for Shared Services that the resources provided by the existing team at Watford will be supplemented by the procurement of external support.
- 7.2 The staffing resource for the in house Watford team has remained constant since 2001. In addition to the Audit Manager there are three Senior Auditors. The Audit Manager is a member of CIPFA and all 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). All staff have in excess of 5 years experience of internal audit work in local government.
- 7.3 At the time of preparing this Service Plan the Audit Manager was in discussions with three external organisations for the cost effective provision of external support. This will initially be for a one year period with the option of extending for a further two. As it is difficult to foresee exactly what resources will be needed after 2010/2011, this arrangement will provide a degree of flexibility in resource levels for Shared Services as currently set up as well as accommodating any future changes e.g. as brought about by the Herts Pathfinder initiative.
- 7.4 Existing in house team.



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 Committees on a quarterly basis.

8.2 Performance Indicators 2010/2011:

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	94%

8.3 Staff performance will be reviewed during and at the completion of individual audits by the Audit Manager and through the Watford 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 against CIPFA's 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. The longer term implications of the Herts Pathfinder initiative for the provision of internal audit across Hertfordshire authorities has yet to be determined.

Audit Manager
February 2010