

**AGENDA ITEM NO.**

**TO: AUDIT AND RESOURCES SCRUTINY COMMITTEE - 1st APRIL 2003**

**SUBJECT: INTERNAL AUDIT STRATEGIC PLAN 2003 - 2006**

**FROM: FINANCE**

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**1. RECOMMENDATION**

1.1 That members agree the Internal Audit Strategic Plan for 2003 - 2006.

**2. REASON FOR RECOMMENDATION**

2.1 Formal approval of the Internal Audit Strategic Plan by members is required to give greater authority to the Plan, thus assisting in the achievement of its objectives.

**3. ALTERNATIVES CONSIDERED**

3.1 The alternative is that the Internal Audit Strategic Plan is not approved by members thus rendering it a document of reduced authority and status.

**4. INTERNAL AUDIT STRATEGIC PLAN 2003 - 2006**

4.1 The Internal Audit Strategic Plan for the three-year period 1st April 2003 to 31st March 2006 is set out as Appendix IV to this report.

4.2 The Background Section of this report explains the purpose of the Plan and how it is formulated.

**5. POLICY AND BUDGETARY FRAMEWORK**

5.1 There are no direct budgetary implications.

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**BACKGROUND PAPERS:**

**Internal Audit Manual**  
**Internal Audit Risk Register**

**Areas in District Affected: Not Applicable**

**Executive Portfolio Area: Not applicable**

**Scrutiny Committee: This one**

**Key Decision? No**

## 6. BACKGROUND

6.1 The main purposes of internal audit planning are:

- a) to determine priorities and to establish the most cost-effective means of achieving audit objectives;
- b) to assist in the direction and control of audit work;
- c) to help ensure that attention is devoted to critical aspects of audit work; and
- d) to help ensure that work is completed in accordance with pre-determined targets.

6.2 The process for the production of the Internal Audit Strategic Plan is set out in the Internal Audit Section's own Internal Audit Manual and is reviewed annually.

6.3 Internal Audit activity is planned on a three-year cycle. An audit planning database known as the Internal Audit Risk Register is maintained and subject to continuous review and updating in the light of the findings of completed audits and other known developments. The Risk Register lists all identified auditable activities throughout the Council and records against each activity:

- General details and characteristics of the service
- Brief statement of audit scope and purpose
- Relevant financial and non-financial statistics
- When last audited
- Rating of risk inherent within nature of activity
- Rating of financial risk
- Rating of risk pertaining to scope and impact of activity
- Rating of risk pertaining to quality of management and controls
- Overall risk rating
- Audit resource requirement and frequency of coverage arising from risk ratings

The Internal Audit Risk Register is set out as Appendix I to this report.

6.4 The determination of the above risk ratings and audit resources (i.e. days) result from completion of a pro-forma questionnaire called the Audit Needs Assessment Questionnaire. The Questionnaire is set out as Appendix II to this report and the Guidelines for completing the Questionnaire are set out as Appendix III.

6.5 At the conclusion of each audit, the auditor will complete a new questionnaire for the activity in question in consultation with the relevant service manager, inform the Audit Services Manager of any significant changes and endorse the previous questionnaire as 'superseded'. A questionnaire will also be completed for any new auditable activities identified, preferably in consultation with the relevant service manager.

- 6.6 The four risk factors are described in brief as follows:
- a) Inherent characteristics of the area/system: Complexity, stability - likelihood of change, maturity, sensitivity - to pressure/political groups;
  - b) Financial considerations: Value of transactions, volume of transactions, income, expenditure;
  - c) Scope/impact of area/system: On assets, on competitiveness, on other related systems, on corporate image;
  - d) Management and Control: Extent/nature of management concern, previous audit reports, employee turnover.
- 6.7 A full explanation of these factors is given in the Risk Assessment Guidelines (Appendix II). The approach to audit needs assessment is intended to foster a degree of client 'ownership' of the Audit Plan by being objective, consistent and consensual without being overly scientific.
- 6.8 In addition to the continuous review process, the risk register will be subject to critical review in internal audit 'workshops' convened by the Audit Services Manager every three years. This is aimed mainly identifying new auditable activities and changes impacting on those already listed. Auditors will be expected to prepare for these workshops by undertaking appropriate research and consultations.
- 6.9 Before the start of each financial year a strategic (3 year) plan will be produced setting out:
- a) Allocations in auditor days for all activities on the risk register;
  - b) An estimate in auditor days of resources needed for other duties (specified and contingent), administration, training and absences.
- 6.10 The Strategic Plan will be initially produced in draft for consultation with the Responsible Financial Officer and Head of Finance. This draft will draw directly on the risk register for planned audit days, subject to 'levelling' between individual years on a prioritisation basis (e.g. duration since last audit). Any surplus or deficit between overall auditor days required and the anticipated resources available from staff in post will be shown in the draft. Any variation to the planned audit days will be at the discretion of the Responsible Financial Officer and recorded in the risk register.
- 6.11 After updating with any amendments directed by the Responsible Financial Officer, the Strategic Plan will be circulated in full form to the Responsible Financial Officer and the Head of Finance and in an abridged form as follows:

Chief Executive	Complete list of allocations of planned audits
Head of Business Units/ Service Managers	Allocations re audits of activities relevant to their respective units.

- 6.12 Comments are invited during this process. Any changes requested by the Chief Executive, Heads of Business Units or Service Unit Managers will be brought to the attention of the Responsible Financial Officer and Head of Finance. No changes will be made without the approval of the Responsible Financial Officer.
- 6.13 A copy of the proposed Strategic Plan is also sent to the Council's External Auditors for their comments and, finally, the Plan is presented to the appropriate Committee for approval by members.