

AGENDA ITEM NO.

**TO: AUDIT AND RESOURCES SCRUTINY AND OVERVIEW
COMMITTEE – 1st APRIL 2004**

SUBJECT: INTERNAL AUDIT STRATEGY AND PLAN 2004/05 – 2006/07

FROM: FINANCE

1 RECOMMENDATION

- 1.1 That members approve the proposed Internal Audit Strategy and Plan for the period 2004/05 to 2006/07

2 REASON FOR RECOMMENDATION

- 2.1 The consideration and approval of an appropriate Internal Audit Strategy and Plan by Members is an important element in providing the required independent and objective opinion to the organisation on its control environment.

3 INTERNAL AUDIT STRATEGY AND PLAN

- 3.1 Internal Audit provides an independent opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 3.2 The proposed strategy for effectively delivering this assurance over the next three years and the planned individual reviews to be undertaken over this period are set out as Appendices 1 and 2 to this report.
- 3.3 Members of this Committee will recall that at the meeting of 4th February 2004 the compilation of a Strategy in the form prescribed was the one requirement within the Chartered Institute of Public Finance and Accountancy's recently-produced Code of Practice for Internal Audit in Local Government which the Council's Internal Audit section did not comply with. This report, as well as presenting the Audit Plan, addresses that.

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BACKGROUND PAPERS:

None

REFERENCES:

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2003), CIPFA, London.

Warwick District Council Internal Audit Manual

Areas in District Affected: Not Applicable

Executive Portfolio Area: Not applicable

Scrutiny Committee: This one

Key Decision? No

Policy and Budgetary Framework: Not applicable

INTERNAL AUDIT STRATEGY 2004/05 - 2006/07

1 Introduction

1.1 The overall Strategy of Internal Audit is:

“To deliver a risk-based audit plan in a professional and independent manner; to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment; and to make recommendations to improve it.”

2 Statutory basis for internal audit

2.1 The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. Regulation 6 of the Accounts and Audit Regulations 2003 more specifically requires that “a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.

3 Definition and objective

3.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation’s objectives. It 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.

3.2 From 2004, the Authority will need to provide enhanced Statements of Internal Control to demonstrate the robustness of its arrangements, and Internal Audit will form an important part of providing this enhanced assurance.

4 Status

4.1 Internal Audit is responsible to the Head of Finance for line management purposes, and helps to deliver the statutory financial responsibilities of the Strategic Director (Finance). Internal Audit is independent in its planning and operation, however, and has no responsibility for delivering or managing non-audit services. The Audit and Risk Manager shall have direct access to the Head of Paid Service, all levels of management and elected members. Internal Auditors have the authority to:

- Enter at all reasonable times any Council establishment.
- Have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary.
- Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud.

- Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination.
- Require any employee of the Council to produce cash, materials or any other Council property in their possession or under their control.
- Access records belonging to third parties, such as contractors or partners, when required and appropriate.

5 Delivery of the internal audit service

5.1 The Audit and Risk Manager is responsible for delivering the internal audit service in accordance with its Terms of Reference. To ensure that this can be achieved, there are appropriate arrangements for:

- determining and planning the work to be carried out (i.e. an audit plan based on an assessment of the risk),
- providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills (both in general audit and technical areas) and support facilities (such as IT facilities, equipment and management and administration processes).

5.2 The Internal Audit service will be delivered on the basis of a Strategic Audit Plan covering a 3-year period (set out as Appendix 2). The plan sets out the number of person-days required for Internal Audit to adequately review the areas involved. The overriding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a formal risk assessment process. The risk assessment process takes account of a range of strategic, corporate, service and operational risks (including those identified through the Risk Management process and by the external auditor) and the views of senior management on these issues. Where resources available are not considered by the Audit and Risk Manager to be adequate for such an opinion to be provided, this will be reported to the organisation.

5.3 The Plan balances the following requirements:

- the need to ensure the Audit Plan is completed to a good practice level (currently at least 90%),
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control (on which External Audit will place reliance),
- the need to appropriately review other strategic and operational arrangements,
- the need to have uncommitted time available to deal with unplanned issues which may need to be investigated e.g. allegations. (NB there are guidelines over circumstances in which Internal Audit may and may not get involved in such investigations).
- to enable positive timely input to assist corporate and service developments.

5.4 Progress against the audit plan, and the content of the plan itself, will be kept under review by the Audit and Risk Manager in liaison with the Head of Finance and the Strategic Director (Finance). Given the length of the Strategic Audit Plan this ongoing review will be particularly important to ensure it continues to tackle topical issues. Where there is a need for material changes to the plan (i.e. affecting over 20% of the planned assignments) a revised plan will be re-submitted to Audit and Resources Scrutiny and Overview Committee for approval. The Committee will also be advised of performance against the audit plan together with recommendations arising from audit reviews and progress in implementing recommendations.

5.5 Internal Audit will comply with the Auditing Practices Board's Guidance for Internal Auditors, as interpreted by CIPFA's Code of Practice for Internal Audit in Local Government in the UK, and staff are expected to comply with any other appropriate professional standards. The Audit and Risk Manager will ensure that there is an up to date Internal Audit Manual in place setting out expected standards for the service, and will monitor compliance with these standards, including those in relation to the planning, conduct and reporting of audit assignments. Relevant training will be provided to ensure auditors have the level of skills necessary to undertake their roles.

5.6 Where necessary to ensure an adequate, effective and professional audit service is provided, the Audit and Risk Manager will buy in resources from external providers to supplement internal resources. Internal Audit will aim to co-operate effectively with the external auditor and ensure that appropriate reliance can be placed on Internal Audit's activities.

5.7 Emphasis will be on assurance work but the service will provide consultancy services where it has available resources. The very highest priority will be accorded to ensuring Section 151 compliance and compliance with the Accounts and Audit Regulations.

5.8 The reporting approach for Internal Audit, aimed at delivering the outcomes of its work effectively, is set out in the Internal Audit Manual and Internal Audit shall comply with this protocol.

5.9 In the delivery of each assignment, Internal Audit will look to make practical recommendations based on the findings of the work and discuss these with management such that management commit to an appropriate action plan for implementing any necessary improvements to the control environment.

Full details on how Internal Audit operates at Warwick District Council are set down in the Section's Internal Audit Manual, a copy of which is available on request or can be viewed on the Council's intranet.