

 <b>Finance and Audit Scrutiny Committee - 16<sup>th</sup> March 2010</b>		<b>Agenda Item No.</b>  <div style="text-align: right; font-size: 2em;"><b>6</b></div>
<b>Title</b>	Internal Audit Strategy and Plan 2010/10 – 2012/13	
<b>For further information about this report please contact</b>	Richard Barr Tel: (01926) 456815 E Mail: richard.barr@warwickdc.gov.uk	
<b>Service Area</b>	Finance	
<b>Wards of the District directly affected</b>	Not applicable	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	Audit and Resources – 17 <sup>th</sup> March 2009	
<b>Background Papers</b>	Internal audit reports and risk assessments	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	No
<b>Included within the Forward Plan? (If yes include reference number)</b>	No

Officer/Councillor Approval		
With regard to officer approval all reports <i>must</i> be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	Date	Name
Relevant Director	3 March 2010	Andrew Jones
Chief Executive	3 March 2010	Chris Elliott
SMT	3 March 2010	
Section 151 Officer	3 March 2010	Mike Snow
Legal		
Finance	3 March 2010	As S151 Officer
Portfolio Holder(s)		Councillor Doody
Consultation Undertaken		
Not applicable		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

## **1 SUMMARY**

- 1.1 The report presents the Internal Audit Strategy and Plan 2010/11 – 2012/13 for consideration and approval.

## **2 RECOMMENDATIONS**

- 2.1 Members consider and approve the Internal Audit Strategy and Plan for the period 2010/11 to 2012/13.

## **3 REASON FOR THE RECOMMENDATIONS**

- 3.1 The Internal Audit Strategy and Plan is an important element in providing the required independent and objective opinion to the organisation on its control environment.

## **4 ALTERNATIVE OPTION(S) CONSIDERED**

- 4.1 This report is not concerned with recommending a particular option in preference to others so this section is not applicable.

## **5 BUDGETARY FRAMEWORK**

- 5.1 Although there are no direct budgetary implications arising from this report, Internal Audit provides a view on all aspects of governance including that of the Budgetary Framework. An effective control framework ensures that the Authority manages its resources and achieves its objectives economically, efficiently and effectively.

## **6 POLICY FRAMEWORK**

- 6.1 Although there are no direct policy implications, Internal Audit provides a view on all aspects of governance and will take into account the Policy Framework, Community Plan and the Council's policies.

## **7 BACKGROUND – INTERNAL AUDIT STRATEGY AND PLAN**

- 7.1 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.
- 7.2 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.
- 7.3 The production of a strategy for internal audit is a requirement of the Code of Practice for Internal Audit in Local Government issued by the Chartered Institute of Public Finance and Accountancy.

**INTERNAL AUDIT STRATEGY 2010/11 – 2012/13**

**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 2006 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 practices in relation to internal control.”

**3 Definition and objective**

3.1 Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment<sup>1</sup> 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.<sup>2</sup>

3.2 Under the Accounts and Audit Regulations, the Authority has to conduct a review annually of the effectiveness of its system of internal control including internal audit.

**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 Responsible Financial Officer. Internal Audit is independent in its planning and operation, however, and has no responsibility for delivering or managing non-audit services.

4.2 The Council’s Internal Auditors have the authority to:

a) enter the Authority’s premises at all reasonable times;

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<sup>1</sup> The control environment comprises the systems of governance, risk management and internal control.

<sup>2</sup> Defined by Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

- b) access all assets, records, documents, correspondence and control systems;
- c) receive any information and explanation considered necessary concerning any matter under consideration;
- d) require any employee of the Authority to account for cash, stores or any other Authority asset under his/her control;
- e) access records belonging to third parties, such as contractors, when required;
- f) directly access the Head of Paid Service, the Monitoring Officer, the Responsible Financial Officer, the Executive and Audit and Resources Scrutiny Committee.

4.3 When submitting an audit report, the head of internal audit may issue it to anybody within the organisation he deems appropriate.

4.4 All suspected fraud, corrupt acts and other irregularities are required to be brought to the attention of the head of Internal Audit who shall decide in conjunction with the Responsible Financial Officer what action to take by way of investigation.

## **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 Responsible Financial Officer. 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 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 relevant 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 compliance with section 151 of the Local Government 1972 and with the Accounts and Audit Regulations. When undertaking consultancy work, Internal Audit will advise client personnel of its temporarily amended role and responsibilities.

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.*