

15th APRIL 2008

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

INTERNAL AUDIT PLAN 2008/2009

1. SUMMARY

The Internal Audit Plan for the period 1st April 2008 to 31st March 2009 has been prepared and takes into account the changes affecting the Council and its services as well as the wide range of corporate governance issues considered an integral part of any well-run organisation. Consultation with the Internal Audit service customers has taken place and views expressed have been fully considered in the Audit Plan's production.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 The Internal Audit Plan for 2008/09, as detailed in **Appendix 3** be approved.
- 2.2 A half-yearly progress report is submitted to a future meeting of this Committee.
- 2.3 Significant developments associated with the Audit Plan be reported to this Committee as necessary.

3. AUDIT PLAN 2008/09

3.1 **Background**

The production of a comprehensive Audit Plan is an essential requirement for the delivery of an effective Internal Audit service which is driven by statutory requirements. In addition to the identification of planned areas of audit activity, the Plan provides the structure for the essential performance management work needed to ensure the practical completion of identified projects.

The statutory issues that drive audit plans are provided at **Appendix 1**. The growth of risk management and other corporate governance best practice has identified the need to ensure the resources of Internal Audit are suitably prioritised to focus on the needs and key risks of the Council as well as meeting these statutory demands.

The Audit Plan and associated management and monitoring also assists the Audit Commission in forming judgements in relation to their statutory duty to express opinion to the Council on the service provided by Internal Audit.

3.2 **Audit Plan 2008/09**

Internal Audit Plan 2008-2009 – Audit Committee 15.04.08

The proposed Internal Audit Plan for the year is attached at **Appendix 3** and shows a total of **808 days**, compared with the approved Plan for 2007/08 of 911 days. The Audit Plan has been prepared following a risk-based assessment.

The approved staffing establishment consists of an audit team of 5 staff to carry out actual audit work reporting to the Audit and Resources Manager. At the present time the section is operating with 2 trainee auditor vacancies. For planning purposes the availability of the equivalent of 4 persons for 2008/09 has been assumed to deliver the work detailed in the Audit Plan and additional resources would need to be acquired to take account of recruitment protocols now in place within County Durham.

It should be noted that there has been some transfer of responsibilities in relation to risk management and governance to the post of Risk and Governance Manager.

Specifically, the Audit Plan for 2008/09 has been prepared after reviewing and taking into account the following:

- Audit Universe (all the potential areas of audit coverage encompassing all Council functions and activities)
- Risk assessment of potential audit areas
- Review of previous audit assignments and conclusions
- Review of risk register – specifically Strategic Risk items
- Consultation with Directors / Heads of Services / Senior Managers
- Transition Plan
- Audit Commission reports and their views on local government reorganisation
- Total Resource Availability in terms of staffing resources.

The content of the 2008/09 Plan reflects a wide range of Council activities and has been developed following consultation across all departments to ensure that changing priorities and pressures have been recognised, particularly in light of local government review and priorities contained in the Council's Transition Plan. The maintenance of a proper control environment is fundamental to delivery of services and must be the main focus of internal audit activity.

Consideration has been given to the views of the Audit Commission, particularly with respect to issues surrounding local government reorganisation and its impact on Council's within County Durham. These views are shown in **Appendix 2** and the Audit Plan 2008/09 has been developed to accommodate these issues.

It should be appreciated that there may need to be some flexibility in the Audit Plan for 2008/09 to reflect changing priorities, risks and general uncertainty for the year ahead. Efforts will be made to ensure the audit resources and activity is appropriately focused and redirected to adequately deal with new issues and matters should they materialise. For example, a successful LSVT ballot could require additional audit resource input to deal with post ballot and transfer issues.

4. RESOURCE IMPLICATIONS

- 4.1 Whilst this report has no direct implications for resources, the Plan work undertaken could highlight issues requiring action, resulting in additional costs or savings being made.

5. CONSULTATION

- 5.1 The Audit Plan has been prepared following consultation with all departments, and recognises Audit Commission requirements detailed in the Internal Audit Protocol guidance, Inspection Plan and revised Code of Audit Practice.

6. OTHER MATERIAL CONSIDERATIONS

6.1 *Links to Corporate Objectives/Values*

The audit activity effectively supports all services in the delivery of the Council's priorities, together with a reinforcement of the need for accountability for public finances.

6.2 *Risk Management*

Much of the work undertaken by Internal Audit relates to minimising the risk to the Council of major system problems and failure of the internal control arrangements. Activity is directed towards providing assurances on the control environment, thereby highlighting any risk issues capable of causing damage to the Council.

Audit efforts to embed good risk management practices around the Council also form a significant element of the Audit Plan. Of course, the full co-operation of management across the Council is essential to the maintenance of quality corporate governance, including risk management.

6.3 *Health and Safety*

No additional implications have been identified, beyond those contained within the Risk Management development work around the Council.

6.4 *Equality and Diversity*

No material considerations have been identified.

6.5 *Legal and Constitutional*

The Audit Plan recognises the statutory framework associated with services and the corporate governance framework, as well as the Council's constitutional arrangements. No other legal or constitutional implications have been identified.

6.6 *Other Material Considerations*

No other material considerations have been identified.

7. OVERVIEW AND SCRUTINY IMPLICATIONS

- 7.1 There are no direct implications for Overview and Scrutiny Committees arising from this report.

8. LIST OF APPENDICES

- 8.1 Statutory Internal Audit Definitions
- 8.2 Local Government Reorganisation – Audit Commission
- 8.3 Audit Plan 2008/09

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Ward(s): Not Ward specific.

Background Papers: - Internal Audit Plan 2007/08 - Audit Committee – 23rd April 2007
- Internal Audit Plan 2007/08 – Half-Year Report - Audit Committee
5th November 2007

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input type="checkbox"/>

Statutory Internal Audit Definitions

The CIPFA definition is : Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the degree to which the internal control environment supports and promotes the achievement of the organisations objectives. **It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.**

The Accounts and Audit Regulations 2006 specifies that :

Para 6

(1) 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, for that purpose.

(2) Any officer or member of a relevant body shall, if the body requires—

- (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and
- (b) supply the body with such information and explanation as that body considers necessary for that purpose.

The 2006 CIPFA revised Code of Practice for Internal Audit states :

1.2 The scope of Internal Audits remit includes the organisations entire control environment. In determining where effort should be concentrated the Head of Audit should take account of the organisations assurance and monitoring mechanisms, including risk management arrangements for achieving the organisations objectives.

7.2.2 In order to compile the plan there must be a clear understanding of the organisations functions and the scale and breadth of potential audit areas

7.2.3 The Audit Plan should be fixed for a period of no longer than one year. The Plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation.

Local Government Reorganisation – Audit Commission

The key issue is LGR - Councils will demise 31/3/2009 and Comprehensive Area Assessments will be undertaken thereafter.

Demising councils

Risks arise from the potential loss of staff or their interest (same applies to Members); a rush to spend balances; inappropriate decision making (particularly in relation to future commitments); a failure to safeguard and transfer assets; a breakdown in internal control and good governance and adjustments to staff terms and conditions that will either have long term financial implications (eg strain on pension fund) or will need to be revisited by the new council (eg equal pay settlement).

Setting up the new council

The new council will need good governance arrangements from the outset. These will include, standing orders; financial regulations; schemes of delegation; anti fraud policies; procedure notes; lists of authorised personnel; access controls; and accounting and other policies (such as gifts and hospitality, HR and IT). It will need to put in place arrangements at least sufficient to score 2 (meeting minimum standards) under our UoR assessment.

Business as usual

Service continuity and emergency planning will need to be in place and robust. The needs of the public, service users and staff will need to be kept at the forefront throughout. LAA targets will need to be met and partnership arrangements will need to be refreshed. Performance management will need to be all encompassing. Effective risk management must permeate all operations as change occurs.

Auditors must understand these changes, test to check that risks are being managed and offer comment on arrangements, both in relation to transition and for the new council.