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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	16th DECEMBER 2009	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/audit committee/internalauditreview/ IA plan update report Dec 09
SUBJECT:	IMPROVEMENT PLAN FOR INTERNAL AUDIT - UPDATE	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE:

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## **1.0 Recommendations**

- 1.1 That the principles for formulating the Audit Plan for 2010/11 on a risk based approach are considered and approved.
- 1.2 That the reporting templates and suite of performance indicators as detailed in Appendices 2 and 3 are considered and approved for implementation from 2010/11.

## **2.0 Purpose of the Report**

- 2.1 At the meeting of the Committee in June, an improvement plan was approved with the aim of developing the effectiveness of the Council's Internal Audit Service. This followed an independent review of the Service by Price Waterhouse Coopers (PWC) earlier in the year.
- 2.2 This report details progress against the improvement plan and sets out proposals for addressing the two fundamental areas identified, i.e. where internal audit directs its resources and efforts in the future and to develop a set of performance and reporting indicators.

## **3.0 Detail**

### **Background**

- 3.1 Under Regulation 6 of the Accounts and Audit (Amendment) Regulations 2006, PWC were commissioned to undertake an external review of Internal Audit during the early part of 2009. This was undertaken in accordance with the Committee's agreed review process as recommended by best professional practice

- 3.2 Based on the evidence provided in the report and a subsequent presentation by PWC in April 2009, the Committee agreed that Internal Audit at the Council is effective. In addition, several areas for improvement were recommended by PWC to further enhance the level of service being provided.
- 3.3 Some discussion took place on these points at the April meeting. The Committee agreed that an improvement plan should be formulated and submitted to the Committee for consideration. This was duly completed and approved in June 2009; the plan as approved is shown at **Appendix 1**.
- 3.4 The main issues in the plan were considered to be points 2 and 5, i.e. broadening the scope of internal audit and the development of performance indicators.

### **The Future Direction of Internal Audit**

- 3.5 The current audit plan is formulated and based on a risk assessment of the Council's systems and processes. Although audit coverage is robust across these systems, it has been acknowledged that the current plan leaves little room to review corporate wide issues and add value for the Council.
- 3.6 This was acknowledged within the external review where it was considered that the number of days allocated to several low risk systems, could be reduced to free up resources to be used elsewhere.
- 3.7 This should not be viewed as a criticism; it should be recognised that the Council has replaced its main ICT systems (finance, revenues and benefits, etc) in recent years. This has impacted upon the work of audit to ensure satisfactory internal control is maintained in its core systems.

### **Risk Based Approach**

- 3.8 The allocation of current audit resources is based upon an established risk assessment model, although this does not formally correspond with the Council's corporate planning and risk management frameworks.
- 3.9 Following up on the work by PWC and using research from other authorities, it is clear that audit planning and subsequent work should be focused more, and based on, the key risks facing the Council. Therefore, the proposed principles to be adopted in formulating the audit plan for 2010/11 are summarised as follows:
- Consultation with external audit to agree approach and resources to maintain core systems work.
  - Agree formal protocol with external audit, clearly showing roles and responsibilities and agreeing extent of IA work which will allow EA to place compliance.
  - Review non-audit duties and agree with senior management those to be transferred or where alternative solutions are required.

- Internal audit to review the Council's risk registers at a service and corporate level to inform the proposed audit plan.
- Audit plan to state how much reliance has been placed on risk registers in formulating the plan.
- As now, a needs assessment to be undertaken in liaison with each Head of Service.
- Meetings with the Chief Executive, Directors and Committee Chairman to ensure proposed audit work aligns to the Corporate Plan and to identify wider issues such as partnership working and governance.
- Assessment of audit resources, including a skills assessment against the proposed plan in conjunction with the Director of Corporate Services (Section 151 Officer).

3.10 This is perhaps a more formal way of developing the next audit plan, designed to allocate resources differently, in accordance with the key business and financial risks facing the Council, whilst maintaining adequate core systems work.

3.11 Based on this, a draft plan in detail will be reported to the Committee in February 2010 for consideration, ahead of the 2010/11 financial year.

### **Audit Reporting and Performance**

3.12 In accordance with the action outlined in **point 9 of Appendix 1**, the latest quarterly monitoring report incorporates an extra template summarising all audits and reviews covered so far in 2009/10.

3.13 In order to meet **action 5 in Appendix 1**, a more comprehensive set of indicators is now proposed as set out in **Appendices 2 and 3**. These are those recommended in the PWC review and are also based on indicators and performance monitoring in other authorities.

3.14 Clearly, appendices 2 and 3 are for illustration at this stage, but if approved, will be populated and reported in future quarterly monitoring reports.

### **4.0 Financial Implications**

4.1 None additional at this stage, although one proposed action to purchase technology to help with audit management could incur costs. Financing this is being reviewed during the current 2010/11 budget-round.

### **5.0 Corporate Implications**

5.1 None directly.

## **6.0 Community Implications**

- 6.1 Ensuring an effective internal audit service helps to strengthen the Council's governance and accountability duties to the local community. In addition, it demonstrates that this core service is adding value to the Council's operations and priorities.