

Audit and Corporate Governance Committee Report



Report of Head of Finance

AGENDA ITEM NO 9

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To: Audit and Corporate Governance Committee

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Internal Audit Plan 2007/08

Recommendation

That the Committee agrees to approve the annual Internal Audit Plan and monitor progress against the plan.

Purpose of Report

1. The purpose of this report is:
 - o to set out the proposed internal audit plan for 2007/08, and
 - o to explain the process for setting the audit plan and for calculating the resources available.

Background

2. The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 states that the Head of Internal Audit or equivalent should

- prepare a risk-based audit plan, which should outline the assignments to be carried out and the broad resources required to deliver the plan.
3. The CIPFA Code also states that the Audit Committee should “approve (but not the direction of)” the annual Internal Audit Plan and monitor progress against the plan”.

Audit Shared Service

4. With effect from 1st April 2007 Internal Audit will be delivered through a shared service between the Vale of White Horse District Council (VWHDC) and South Oxfordshire District Council.
5. The proposed audit plan reflects the proposed audit coverage for both Councils. The plan comprises three parts:
 - Joint audits, which will encompass activity across both Authorities;
 - South Oxfordshire District Council audits;
 - Vale of White Horse District Council audits.
6. The introduction of joint audits is a new concept to the two authorities. It is clearly the intention that joint audits will lead to efficiency savings however in the early stages such audits will entail a learning curve.
7. The implementation of a shared service will necessitate the harmonisation and rationalisation of working practices within Internal Audit. This will maximise efficiency in the long term but will entail additional effort in the first few months of the year.
8. On this occasion, the audit plans have been arrived at using the existing audit universe from each authority. The audit universe is simply the list of all potential auditable activity, which is relatively subjective and consequently there are several differences between the two lists. It is envisaged that the audit universes will be reviewed and rationalised into one during the first year of the shared service, so that future plans are more integrated and share a common perspective.
9. The shared audit service is effective from 1st April 2007, however there are currently two vacant posts. In calculating the resources available for the Audit Plan, estimates have been made regarding the likely start dates for appointees to these posts.
10. Since this will be the first year of the new arrangements, and in view of the factors explained in paragraphs 4 –9 above, it should be noted that the proposed plan is only an estimate of the likely audit coverage and that it is subject to change.

Internal Audit Risk Assessment

11. The purpose of the risk analysis is to enable Internal Audit to evaluate the vulnerability of systems and the impact of non-compliance, with managerial objectives and to set a relative measure.
12. The risk analysis model uses several risk factors. Each factor has a relative weighting to reflect the inherent relative risk of that particular

factor. The model aims to strike a balance between financial factors, and non-financial factors, and between objective judgements and subjective judgements.

13. A brief explanation of the risk factors is given below:

- Money/Financial Values
 - A stratified range of financial values.

- Volume of Transactions
 - A stratified range of volumes

- Devolution and Delegation
 - An initial assessment of the degree of devolution or delegation; and
 - A series of assessment factors upon which a judgement is made of internal control.

- Contracted-Out Services (if appropriate)
 - A series of assessment factors for each type of contracted out arrangement, again requiring a judgement as to the controls in place.

- System Factors
 - An assessment based on stability;
 - An assessment based on the type of processing application, e.g. a standalone computer, network computer system or a manual system; and
 - An assessment of the complexity of regulations and/or processing.

- Managerial and Control Environment
 - A series of assessment factors upon which a judgement is made upon internal control; and
 - An assessment of the susceptibility to fraud or previous fraud experience.

- Sensitivity

- A series of assessment factors relating to sensitivity, e. g. confidentiality, impact of failure on other systems, client sensitivity.
14. These factors are in accordance with the CIPFA Audit Risk Assessment Model.

Estimated Resources Available to Deliver the Internal Audit Plan

15. The resources available to deliver the Internal Audit Plan are arrived at by starting with the number of days in post. This is then reduced by the estimated number of days lost through training, annual leave, bank holidays, sickness and other leave. The remaining days available are then allocated between the various elements of work which are expected to be carried out each year in order to deliver an effective audit service. The delivery of the Audit Plan is only one of several different categories of work.
16. The calculation of days available and allocation of days between different categories of work is attached as Appendix 1. In accordance with the Ridgeway Shared Service Partnership principles already agreed by both Councils, the Audit Plan ensures that each Council will receive an equal share of the resource and audit service.
17. The different categories of work are classed as either chargeable or non-chargeable. Chargeable means the work has an identifiable "client". The different categories of work are explained below.
18. Training (non-chargeable). This is estimated at 8 days per FTE per year to ensure that the staff remain up to date with internal audit and local government issues, and also includes post entry training.
19. Updating Knowledge (non-chargeable). This is estimated at 5 days per FTE per year and includes on the job development (but not formal training) such as researching new legislation, to ensure that staff remain up to date with relevant legislation. This also includes reading various internal and external documents and publications to keep up to date with Council, Internal Audit, and Local Government developments.
20. Admin/Corporate Issues (non-chargeable). This includes corporate issues such as attending staff briefings, team meetings etc. This also includes administrative tasks.
21. Responsive Audit Work (chargeable). This is part of the core internal audit service and includes the provision of ad hoc advice on a wide range of audit and control issues.
22. Cheques and Tenders (chargeable). This includes custody and issue of cheques, which at the VWHDC is currently an audit function. Internal Audit is also required to oversee the tender process at both Councils.
23. Audit Plan (chargeable). This is part of the core internal audit service and involves carrying out audits in accordance with approved audit plan.
24. Contingency (chargeable). External Audit recommend that contingency should be built into Internal Audit plan. This is to allow for

unplanned audit work and investigations to be carried out as the need arises.

Risk Criteria and Audit Opinion

25. The risk criteria used to determine whether Audit Recommendations are ranked as High, Medium or Low is attached as Appendix 2.
26. The criteria used to determine the overall audit opinion for each review are attached as Appendix 3.

Internal Audit Plan

27. The proposed Internal Audit Plan is attached as Appendix 4. It should be noted that this plan only covers a single year, and has been developed from the existing five year strategic audit plans from both Councils. It is envisaged that, during the first year of the shared service, the two five year plans will be reviewed and brought together into an integrated document so that there will be a new five year plan covering both Councils.
28. The plan is meant to be a flexible document and will be amended to take account of changing circumstances. The outcome of initial audit work, legislative changes or requests for additional work from senior management may result in increases or alterations in coverage during the plan period.

Monitoring and Review

29. Internal Audit will submit summaries on the key findings of individual audits to the Audit and Corporate Governance Committees of each Council, together with an annual summary report to Members of audits undertaken. Copies of the summary reports will be issued to the Cabinet Member for Finance. Copies of full audit reports will be made available to Management Team.

APPENDIX 1

CALCULATION OF DAYS AVAILABLE & ESTIMATED ALLOCATION OF DAYS

<u>Part 1: Estimated Allocation of days Available per Auditor:</u>	
Total Days Available per Auditor (52 x 5)	260
"Lost" Days	
Annual Leave	33
Bank Holidays	9

Sick	5
Elections	2
Other Leave	1
Total "Lost" Days	50
"Non-Chargeable"	
Training	8
Updating Knowledge	5
Admin/Corporate Issues	27
Harmonisation / Rationalisation of Shared Service	5
Total "Non-Chargeable" Days	45
"Chargeable"	
Responsive work including audit advice	25
Cheques & Tenders	5
Audit Plan Work	100
Contingency estimate	35
Total "Chargeable"	165
Total Lost + Non-Chargeable + Chargeable	260
NB Proportion of working time as Chargeable as per this allocation is 79%	
NB CIPFA benchmarking average chargeable days per auditor 167.6 days	
<u>Part 2: Estimated Days Available for Audit Plan:</u>	
3 x FT Auditors in post	300
1 x Vacant Auditor Post ESTIMATE 9/12 FTE in 2007/08	75
Contract	75
Est Senior Auditor days available for audits	80
Total Days available across both sites for Planned Audits:	530
Days available for planned audits per authority, per year:	265
Plus additional contingency days per authority, per year:	90

APPENDIX 2

AUDIT RECOMMENDATIONS - RISK CRITERIA

CRITERIA	RISK
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<ul style="list-style-type: none"> • Actual financial loss identified or risk of significant financial loss identified. • Lack of internal controls. • Significant embarrassment to the Council (e.g. lack of adequate operational disaster recovery plan). • High/significant percentage error rate identified from testing. 	High
<ul style="list-style-type: none"> • Risk of financial loss. • Breakdown/lapse of internal controls not identified by management. • Actual/potential embarrassment to the Council (e.g. incorrect information given to press). • Lack of evidence as to the existence of control. • Medium percentage error rate identified from testing. 	Medium
<ul style="list-style-type: none"> • Breakdown/lapse of internal controls known and being managed by management. • Lack of evidence of operation of control. • Low percentage error rate identified from testing. 	Low

The list of criteria is not exhaustive and the context in which an issue arises will dictate the risk category. The auditor considers both the likelihood of a risk being triggered and the consequences should it occur.

APPENDIX 3

AUDIT OPINION

The primary purpose of Internal Audit reports is to provide independent and objective opinion to the organisation on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the organisation's objectives.

Internal Audit has introduced criteria in order to establish an opinion for each area/system audited. The four categories of opinion are:

Good	Sound effective control framework.
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	<p>Minor risk identified.</p> <p>No control deficiencies requiring immediate action.</p> <p>A few minor recommendations made.</p> <p><u>Additional/alternative criteria</u></p> <p><i>Good, clean well documented processes with knowledgeable and capable management and staff.</i></p> <p><i>Compliance with procedural and local legal and regulatory requirements established.</i></p> <p><i>No repetition of previous audit exceptions.</i></p> <p><i>Previously agreed internal audit recommendations implemented.</i></p>
Satisfactory	<p>Most areas have an effective control framework.</p> <p>Some risk identified and some recommendations made.</p> <p><u>Additional/alternative criteria</u></p> <p><i>Operations or processes displaying weaknesses that are known to management and towards which progress has been made to effect resolution.</i></p> <p><i>Start up systems exhibiting minimal controls but under management control.</i></p> <p><i>Repetition of previous audit exceptions.</i></p> <p><i>Ongoing progress being made to implement previously agreed internal audit recommendations.</i></p>
Unsatisfactory	<p>Unacceptable risks identified.</p> <p>Recommendations made which require immediate management attention.</p> <p><u>Additional/alternative criteria</u></p> <p><i>Operations or processes that display weaknesses in terms of procedural compliance, financial management, internal controls, where management are unable to exercise proper control.</i></p> <p><i>Poor management grasp of issues, no initiatives in place to address issues, no knowledge of issues.</i></p> <p><i>Lack of policies or plans in keeping with good business practice.</i></p> <p><i>Repetition of previous audit exceptions.</i></p> <p><i>Previously agreed internal audit recommendations have not been implemented</i></p>
Poor	<p>Major risk exists.</p>

	<p>Fundamental improvements are required by management immediately.</p> <p><u>Additional/alternative criteria</u></p> <p><i>Operations or processes in place that display significant problems in terms of procedural compliance, financial management, and internal controls, where management refuses to exercise proper control.</i></p> <p><i>Management lacks a grasp of issues, and where there are either no initiatives in place to address issues or no knowledge of such issues.</i></p> <p><i>There is a lack of policies or plans in keeping with good business practice.</i></p> <p><i>There is repeated repetition of previous audit exceptions and/or an unwillingness to implement previously agreed internal audit recommendations.</i></p>
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Audit Plan 2007/08

APPENDIX 4

Joint Audits					Vale only Audits	
System Name	VWH Risk Score	2007/08 Days	SODC Risk Score	2007/08 Days	System Name	VWH Risk Score
Proactive Anti-Fraud	115	11.2		10	Main Accounting	109
Housing & Council Tax Benefits	101	9.9	105	10	Cash	85
Sundry Debtors	99	9.7	99	10	Recycling	83
Council Tax	98	9.6	102	10	Refuse & Street Cleansing	82
NNDR	96	9.4	99	10	ISO Audits	78
Treasury Management	92	9.0	110	10	Abingdon LSP	78
Creditors Payments	91	8.9	90	10	Health & Safety (Council)	77
Capital Accounting	87	8.5	69	10	Insurance	76
Payroll (inc post implementation review)	87	8.5	98	10	Land & Property	75
Information and Communications Technology	86	8.4	74	10	Discretionary Grants	71
Data Protection	83	8.1	62	5	Benefit Counter Fraud	70
Housing Allocations	80	7.8	72	5	Environmental Protection	68
Concessionary Fares	60	5.9	65	5	Affordable Housing	68
Post Implementation Review - Finance	104	5.1	107	5	White Horse LC Contract	67
Post Implementation Review - Revenues	104	5.1		5	SOLL Leisure Contract	66
					Homelessness & Temporary Accommodation	64
					Rent Accounting	59
					Excess Charges	53
					IA role for external body: Oxfordshire Waste Partnership	
Total Days		125.0		125.0	TOTAL DAYS:	

