



AUDIT COMMITTEE

Public

Date of Meeting: 12th June 2006

Title: Internal Audit – Procedures and Reporting Process

Report of: Head of Audit Services

Report reference: Financial Memo FS10/06

Summary:

This report appraises Members of the information that will be provided in order for Members to be fully aware of the work of Audit Services and to fulfil their role as the Authority's Audit Committee.

Recommendations:

Members are requested to note and comment on the contents of this report.

Contact Officers: Ian Beckett, Head of Audit Services

Ext 7292

Audit Committee – Procedures and Reporting Process

1 Introduction

1.1 The purpose of this report is to inform this Committee of the information that will be provided in order for Members to be fully aware of the work of Audit Services and to fulfil their role as Audit Committee members.

1.2 The following areas are dealt with in detail below –

- CIPFA Code of Practice for Internal Audit in Local Government
- Strategic and annual audit planning process
- Quarterly Progress Reporting
- In-year changes to the Audit Plan
- Annual Out-turn Report
- Audit Reports
- Audit Recommendations
- Performance Indicators for Internal Audit

2 CIPFA Code of Practice for Internal Audit in Local Government

2.1 In accordance with the provisions of the Accounts and Audit Regulations 2003, and the explanatory note issued by the (then) Office of the Deputy Prime Minister, the Authority is required to comply with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The Accounts and Audit (Amendment)(England) Regulations 2006, which came into effect from 1st April 2006, require that the Authority “at least once in each year, conducts a review of the effectiveness of Internal Audit”. This requirement is considered elsewhere on this Agenda (Report FS9/06 refers).

2.2 In its annual Audit Letter for 2004/05, the Audit Commission stated that Internal Audit is “substantially compliant” with the requirements of the Code. This clearly implied that there are areas where some improvements are required. Following a request for clarification of this issue, the Audit Commission stated that “*Internal Audit meets all of the requirements of the Code, except those where audit independence and/or an Audit Committee are implied*”.

2.3 The Authority has dealt with the second of these points, by the setting up of this (Audit) Committee in line with the CIPFA publication on Practical Guidance (on Audit Committees) for Local Authorities. The question of Internal Audit’s independence remains unresolved, however, as there are currently two main trains of thought nationally on

this issue. One opinion is that retaining Internal Audit's reporting structure to the Section 151 Officer is acceptable and does not compromise Audit's independence. The opposing opinion is that the change made to the Accounts and Audit Regulations in 1996, which removed the link between Internal Audit and the Section 151 Officer, clearly indicated the Government's intention that the Section 151 Officer should no longer have the responsibility for the provision of Internal Audit.

- 2.4 No guidance is currently available on this issue, and Members will be notified of any relevant changes or proposals that may arise in due course.

3 Strategic and Annual Audit Planning Process

- 3.1 Each year, in preparation for the forthcoming Financial Year, Members will be presented with the updated Strategic and Annual Plans for their consideration and approval. The Plan is now fully risk-based, using a risk-model approach which was developed "in-house" and which has been in operation for the past three years. A risk-formula is used to give each area in the Plan a risk-rating. This is based on 5 factors – "Value of Transactions"; "Adequacy of Control"; "Corporate Risk and Materiality"; "Frequency of Change" and "Period since last Review".
- 3.2 For the current Financial Year (2006/07), the formula has resulted in a table of risks that range from a rating of 279 (high risk) to 80 (low risk).
- 3.3 The Strategic Audit Plan and Audit Plan for 2006/07 (Financial Memo FS40/05), together with an Addendum, were presented to, and agreed by, Members of the Corporate Resources Overview and Scrutiny Committee at the meeting of that Committee on 23rd February 2006.
- 3.4 A copy of Financial Memo FS40/05, together with the Addendum, are attached to this report for Members' information as **Appendices A and B**.

4 Quarterly Progress Reporting

- 4.1 The Head of Audit Services will produce a report for submission to this Committee, on a quarterly basis, providing Members with details of the progress made cumulatively to the end of each period against the agreed Plan. This will give details of audit reviews started, completed and followed up as appropriate.
- 4.2 Any emerging issues will also be brought to Members' attention in these reports.

5 In-Year Changes to the Audit Plan

- 5.1 From time to time, situations may arise which result in changes to the Audit Plan – in particular where frauds/special investigations need to be given instant attention.
- 5.2 If any such instances arise which are likely to take more than two days, or if a request is received to “accelerate” a specific review which is already included in the Plan, a Variation Form will be completed, by the Head of Audit Services, for signature by the appropriate Director and by the Director of Corporate Services. Such changes will be brought to Members’ attention as part of the quarterly reporting process referred to above.

6 Annual Out-turn Report

- 6.1 At the end of each Financial Year, the Head of Audit Services will produce a report to Members that will provide details of all of the work undertaken by Internal Audit during the year. This will show, for each of the “elements” of the Plan, the time originally allocated to each area of activity, the time actually taken and the reasons for significant variances.
- 6.2 This report will also include the Head of Audit Service’s opinion on the overall adequacy and effectiveness of the Authority’s internal control environment, and will disclose any qualification to that opinion, together with the reasons for the qualification.

7 Audit Reports

- 7.1 At the conclusion of each individual audit review, a Draft Report is produced which summarises the work undertaken. A standard format is used for each report, as shown at **Appendix C**.
- 7.2 At each meeting of this Committee, Members will be supplied with the Management Summary and Appendix B (Summary of Recommendations and Action Plan) for each audit which has been completed since the previous meeting.

8 Audit Recommendations

- 8.1 All audit recommendations are graded, depending on their perceived level of risk, as detailed in section 5 of Appendix C.

9 Performance Indicators for Internal Audit

- 9.1 At present, there are no “industry standard” Performance Indicators relating to Internal Audit – despite many attempts over the past few years, both locally and nationally, to establish such indicators.
- 9.2 The Authority was a member of the IPF Audit Benchmarking Club some years ago, but decided at that time not to continue with membership, as there was a significant problem in obtaining information which would enable comparisons to be made with other Authorities on a genuine like-for-like basis.
- 9.3 The Authority has, however, re-joined the IPF Benchmarking Club for Internal Audit for this year, and it is hoped that indicators will arise, from this year’s information provided by the Club members, which will enable more realistic comparisons to be made.
- 9.4 Further information will be provided to Members later in the year, once all of the information from the Benchmarking Club has been collected and analysed.

10 Recommendation

- 10.1 Members are requested to note and comment on the contents of this report.

Head of Audit Services
June 2006.



OVERVIEW & SCRUTINY – CORPORATE RESOURCES

Public *

Date of Meeting: 23rd February 2006

Title: STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2006/07

Report of: Director of Corporate Services

Report reference: Financial Memo FS40/05

Summary:

This report gives details of the Strategic Audit Plan and outlines changes which have been made to the planning process.

Recommendations:

Members are requested to: -

- **Consider the revised Audit Risk Assessment (Strategic Plan), which is attached at APPENDIX A prior to submission to Council for approval.**
- **Approve the Internal Audit Plan for 2006/07, attached as APPENDIX B.**

Contact Officer: Ian Beckett, Head of Audit Services **Ext:** 7292

STRATEGIC AUDIT PLAN AND AUDIT PLAN 2006/07

1 INTRODUCTION

- 1.1 Under Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988, the Director of Corporate Services is statutorily responsible for the proper administration of the City Council's financial affairs. In addition, the Accounts and Audit Regulations 2003 require the Council to maintain an adequate and effective Internal Audit function. The Internal Audit Section is an important resource in enabling the Director of Corporate Services and the Council to fulfil their duties and it is important to ensure that the work of Internal Audit is effected so as to give assurance of the probity of the Council's financial affairs.
- 1.2 The Corporate Resources Overview and Scrutiny Committee currently acts as the Council's Audit Committee. It is therefore appropriate that the annual Audit Plan should be presented to and approved by the Committee prior to the start of each financial year. This gives Members the opportunity to question the Director of Corporate Services on the proposed work of the Internal Audit Section for the forthcoming year.
- 1.3 It is also appropriate for Members of the Corporate Resources Overview and Scrutiny Committee to consider the longer term Strategic Plan – now re-titled "Audit Risk Assessment (Strategic Plan)" - prior to submission to the Council for approval.
- 1.4 Members should note that performance against the 2006/07 Audit Plan, together with any issues arising, will be reported to Committee on a half-yearly basis.

2 STRATEGIC PLAN

- 2.1 In accordance with the provisions of the Accounts and Audit Regulations 2003, the Authority is required to comply with the "CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom". This Code states that "*Internal Audit should prepare*

a risk-based audit plan designed to implement the audit strategy which is approved by the organisation, taking into account the organisation's risk - management process".

- 2.2 Members of this Committee agreed, at their meeting on 31st March 2005 (Financial Memo FS56/04 refers) that we should now follow this approach - which accords with current thinking in the Audit Profession - and plan only for one year ahead, based on the perceived and changing risks that the Authority is facing at any given time.
- 2.3 Members also agreed, at the above meeting, the Authority's approach to risk-based audit planning and the risk-assessment model which is used to calculate the relative risk related to each area of the Authority's activities subject to audit review.

3 RISK ASSESSMENT MODEL

- 3.1 The agreed Risk Assessment Model (entitled "Audit Risk Assessment – Strategic Plan"), outlined as **Appendix A**, has been updated based on known changes, findings arising from Audit reviews etc. Operational Risk Registers have now been produced and these have been used in the risk-assessment process as appropriate. Where an audit reflects an area which has been identified in the Corporate Risk Register, this is indicated on Appendix A as - **(CRR1 etc)**

N.B. Whilst still in effect an Audit Plan, this approach does not envisage coverage of all audit areas over any pre-determined period. Instead, this model is dynamic by identifying the "risk-areas" which can be addressed on any given time-scale, depending on the number of Audit staff available, ad-hoc demands etc.

- 3.2 Where possible, audit reviews have been grouped together to develop the "themed-based" approach.

4 OPERATION OF THE REVISED RISK-BASED ASSESSMENT

- 4.1 As will be seen from the Audit Risk Assessment – Strategic Plan attached as Appendix A, which covers in all some 107 areas for review, the "Calculated Risk Indicator" ranges from 80 to 279. This gives a difference of 199 "risk-points" between the highest and lowest risks, from which the "high", "medium" and "low" risks can be calculated :-

High risk = 213 – 279 (Eleven audits fall into this category)

Medium risk = 147 – 212 (Sixty-six audits fall into this category)

Low risk = 80 - 146 (Thirty audits fall into this category)

- 4.2 This method of calculating the risk is, of course, dynamic and, necessarily, to some extent subjective. Once an audit review has been completed, a decision will be made as to whether or not, based on the findings of the review and management action taken on the recommendations made, any of the elements in the calculation need to be changed.
- 4.3 Members are asked to note that it is intended to use the time allocated to Value for Money (VFM) Performance Review/Best Value studies, for 2006/07, primarily in undertaking completing the VFM elements of the Use of Resources.
- 4.4 As shown in **Appendix B** the “core reviews” required by the Audit Commission will always be undertaken regardless of what other work is carried out, and therefore do not appear in the Risk Assessment.
- 4.5 Previous Audit Plans have included a specific allowance for “Contract Audit” and “Computer Audit”, but as the Plan is now fully risk-based, any work required in these areas has been incorporated into the Plan according to its risk-assessment as appropriate. Any more specialised computer-audit requirements – e.g. the recent “Network Vulnerability Testing” exercise undertaken by the Audit Commission – will be bought in as there is no expertise available within the Audit Team to undertake this specialist work.
- 4.6 In previous years, an allowance has been made in the Plan for “contingency” – i.e. chargeable unplanned time. By definition, however, there is no way to forecast how much time will be so required during the year – this has varied, over the past 6 years, from 81 to 164 days, with an average of 114 days. As the Plan is now undertaken on a “top-down” basis, there is no need to include any allowance for contingency. Any extra demands on Audit time which are made during the year will be recorded and reported to Members in the Head of Audit Services’ half-yearly reports; any major variances will be authorised by the Director of Corporate Services as necessary.
- 4.7 The intended method of operation for Internal Audit is therefore to work “from the top down” on the risk indicators as far as staffing levels etc permit – there will be no set “Annual Plan” (i.e. pre-specified reviews) as in previous years. It is important to note that the Risk-Indicator shows the order in which the reviews are to be considered – not necessarily the order in which they will be undertaken. For example, where a particular area has a high risk rating, but where recent work has been undertaken by Internal (or External) Audit in this area, the decision may be just to keep a “watching brief” on developments, rather than to undertake a full review again. Consideration will, wherever possible, be given to the timing of the audit reviews in order as far as possible to minimise the disruption to day-to-day operations. As a guide, however, it would be expected that

between 25 and 30 reviews, as listed on Appendix A, would be undertaken during a typical year. This means that **all** of the high-risk areas will be addressed, together with a proportion of the medium-risk areas, should there be no major interruptions, additional requests, fraud investigations etc.

- 4.8 As requests for any new areas of work which are likely to take more than two days arise during the year, or where a request is received to “accelerate” a specific review which is already included in the Plan, a Variation Form will be completed for signature by the appropriate Director and the Director of Corporate Services. Where a situation arises which requires an instant response – e.g. fraud investigation – this will immediately go to the top of the list.

Under this revised approach, the plan is therefore “self-determining” in terms of the work required. Such changes to the Plan will be reported to Members periodically.

- 4.9 A full record will be maintained for each review, explaining why it was partly/fully/not undertaken in any given year.
- 4.10 As the Plan is now fully risk-based, and therefore not linked to any predetermined checklist, it is not possible to determine, as part of this initial planning process, how many days each review will take for completion. (For example, until detailed discussions have been held with the appropriate Director/s, it is not known what work will be required in relation to Carlisle Renaissance, as this is a wholly new area for review). At the commencement of each review, an Audit Brief will be prepared and agreed with/by the Head of Audit Services or the Principal Auditor based on the systems in operation, perceived risks, changes since previous review etc. A view will then be taken as to the time that will be required for that review. It is the responsibility of the Head of Audit Services and/or the Principal Auditor to ensure that time taken on each review is reasonable.
- 4.11 Finally, it is obvious from this approach that some areas are extremely unlikely ever to rank highly enough to warrant an audit review based on their current risk indicator. We would, however, expect adequate controls to exist for all systems whether or not subject to an audit review, and it is individual Directors’ responsibility to ensure that this is the case. The method detailed above ensures, however, that attention is always given to those areas that are considered to be of the highest current importance/risk.

5 RECOMMENDATIONS

5.1 Members are requested to :-

- **Consider the “Audit Risk Assessment – Strategic Plan” that is attached at APPENDIX A prior to submission to Council for approval.**
- **Approve the Internal Audit Plan for 2006/07, attached as APPENDIX B.**

Director of Corporate Services

February 2007

Audit Risk Assessment
Strategic Plan 2006 - 2007

Appendix A

Key: Last Audited

Key: Audit Type	1 = within the last year
Corporate - Authority-wide review	2 = within the last 2 yrs
Risk Based - operational review	3 = within the last 3 yrs
Computer - computer related review	4 = within the last 4 yrs
Contract - contract related review	5 = more than 4 yrs <i>or</i> new audit area for review

Risk Indicator	Level of Risk	Directorate	Audit Area	Audit Type	Last Subject to Audit Review
279	High	REN	Carlisle Renaissance (CRR24)	CORPORATE	5
260	High	PEO	Business Continuity Planning (CRR18)	CORPORATE	5
251	High	DEV	Property Portfolio - Maintenance & Development	RISK BASED	5
250	High	DEV	General Management of Property Portfolio	RISK BASED	5
243	High	COR	Procurement	RISK BASED	4
237	High	COR	E-Government (CRR13)	COMPUTER	5
229	High	PEO	Community Safety & Anti Social Behaviour - CDRP	RISK BASED	5
228	High	COM	Customer Services - Front End	RISK BASED	3
217	High	COM	Talkin Tarn (CRR4)	RISK BASED	5
215	High	PEO	Partnership Development (CRR7,8)	CORPORATE	3
214	High	COR	Insurance	RISK BASED	4
212	Medium	COR	IT Management and Financial Controls	COMPUTER	5
208	Medium	COR	E Commerce Controls (CRR13)	COMPUTER	5
202	Medium	COM	Pollution Control & Contaminated Land)	RISK BASED	5
202	Medium	COR	IT Disaster Recovery (CRR12)	COMPUTER	3
201	Medium	COR	IT Strategy (inc Security) (CRR13)	COMPUTER	5
198	Medium	COR	Change Control	COMPUTER	5
196	Medium	COM	Leisuretime / Carlisle Leisure (client)	CONTRACT	1
195	Medium	LEG	Licensing	RISK BASED	5
195	Medium	COM	Recycling	RISK BASED	1
194	Medium	COR	Telephones	RISK BASED	1
193	Medium	LEG	Tendering / Contracting	CORPORATE	4
187	Medium	LEG	Land Charges	RISK BASED	5
183	Medium	PEO	Sickness Monitoring (CRR15)	CORPORATE	2
182	Medium	COR	Concessionary Fares	RISK BASED	4
181	Medium	COM	Health Promotion & Partnerships	RISK BASED	5
181	Medium	COM	Transport and Plant	RISK BASED	4
181	Medium	DEV	Supporting People (Homelessness, Hostels)	RISK BASED	3
178	Medium	COR	Post Implementation Review	COMPUTER	5
178	Medium	DEV	External Funding / Grant Monitoring	CORPORATE	2
178	Medium	LEG	Electoral Registration and inc. Fees and Expenses	RISK BASED	2

178	Medium	COR	Highways Maintenance (inc Claimed Rights)	RISK BASED	1
177	Medium	COM	Community Events	RISK BASED	5
175	Medium	COM	Children & Young People	RISK BASED	5
173	Medium	COR	Internet Controls	COMPUTER	5
173	Medium	PEO	Health & Safety (CRR23)	CORPORATE	2
173	Medium	COR	Network Controls	COMPUTER	1
172	Medium	COM	Sports Development	RISK BASED	5
172	Medium	PEO	Training and Development (employees & Members)	RISK BASED	4
169	Medium	COM	Street Cleaning	RISK BASED	5
169	Medium	COR	Procurement of IT Facilities	COMPUTER	5
168	Medium	COR	Application Controls	COMPUTER	3
168	Medium	COR	Corporate Charge Card	CORPORATE	1
168	Medium	COR	File Controls	COMPUTER	1
167	Medium	COM	Quality Management	CORPORATE	5
167	Medium	COM	Advice Agencies (Benefits Advice, Law Centre, CAB)	RISK BASED	5
167	Medium	PEO	Early Retirement & Redundancy	RISK BASED	5
167	Medium	COR	IT Project Management Controls	COMPUTER	3
166	Medium	COR	VAT	RISK BASED	5
164	Medium	COM	Pest Control	RISK BASED	5
162	Medium	COM	Improvement Grants	RISK BASED	3
162	Medium	PEO	Media, PR, Corporate Identity & Marketing (CRR6)	RISK BASED	1
159	Medium	COM	Refuse Collection	RISK BASED	4
159	Medium	COR	Automated Payments System	RISK BASED	1
157	Medium	COM	Public / Street Lighting	RISK BASED	5
157	Medium	COM	Food Standards inc H and S inspections	RISK BASED	2
156	Medium	DEV	Industrial Estates	RISK BASED	3
156	Medium	DEV	Monitoring service delivery of CHA	CONTRACT	2
155	Medium	COM	Drainage Services	RISK BASED	5
155	Medium	COM	Landscape Services, Countryside Support	RISK BASED	5
154	Medium	DEV	Enterprise Centre	RISK BASED	5
152	Medium	DEV	City Centre Mgmt/Tourism Marketing (CRR6)	RISK BASED	1
150	Medium	DEV	Building Control	RISK BASED	2
150	Medium	PEO	Information Management (FOI/DP/Records Mgmt)	RISK BASED	1
149	Medium	COR	Reprographics	RISK BASED	5
149	Medium	DEV	Development Control inc. Access Grants	RISK BASED	3
149	Medium	COM	Bereavement Services	RISK BASED	2
148	Medium	COR	Physical and Environmental Controls	COMPUTER	5
148	Medium	PEO	Council Complaints Procedure inc LG Ombudsman	CORPORATE	3
147	Medium	DEV	Brampton Business Centre	RISK BASED	5
147	Medium	COM	Parking, Car Park Patrol/Wardens	RISK BASED	1
146	Low	COM	Sure Start	RISK BASED	3
145	Low	COM	Tullie House - arts and museums inc Guildhall	RISK BASED	2
143	Low	COR	PC Controls	COMPUTER	5
143	Low	COM	Dog Warden Scheme and Dog Enforcement	RISK BASED	4
143	Low	DEV	Covered Market	RISK BASED	4
142	Low	COM	Local land and Conservation	RISK BASED	3
142	Low	DEV	Business Development	RISK BASED	3

141	Low	COM	Parks and Open Spaces inc Wardens	RISK BASED	3
140	Low	COM	ECCP	RISK BASED	4
139	Low	COM	Energy Efficiency	RISK BASED	4
139	Low	COM	Community Engagement	RISK BASED	1
138	Low	LEG	Mayor & Civic Services	CORPORATE	5
137	Low	PEO	Flexitime	CORPORATE	5
137	Low	COM	Building Resources / Cleaning	RISK BASED	3
136	Low	PEO	Salary Sacrifice	CORPORATE	5
134	Low	COM	Allotments	RISK BASED	5
131	Low	COM	Facilities Management / Building Maintenance	RISK BASED	2
127	Low	COM	Leisure Grants (inc Sports Dev and L&D Grants)	RISK BASED	4
126	Low	COM	Civic Centre Keepers / Building Security	RISK BASED	1
125	Low	LEG	Town Twinning	RISK BASED	5
124	Low	COM	CCTV	RISK BASED	2
122	Low	COM	Playground Maintenance	RISK BASED	2
121	Low	COM	Public Conveniences	RISK BASED	5
121	Low	COM	Grounds Maintenance (inc Arboriculture)	RISK BASED	1
117	Low	DEV	Tourist Information Centres	RISK BASED	2
115	Low	DEV	Carlisle Conference Group	RISK BASED	2
108	Low	COR	Stock & Controlled Stationery	RISK BASED	4
107	Low	PEO	PAYE & NI	RISK BASED	2
107	Low	COR	Car Leasing/Car loans	RISK BASED	1
105	Low	PEO	Non Standard Paymts to Employees	RISK BASED	3
104	Low	COR	Mortgages	RISK BASED	5
104	Low	COM	Garage	RISK BASED	2
102	Low	DEV	Shopmobility	RISK BASED	2
98	Low	LEG	Members Allowances	RISK BASED	2
90	Low	COM	Stores	RISK BASED	4
80	Low	COR	Grants to Parish Councils	RISK BASED	2

CARLISLE CITY COUNCIL
CORPORATE SERVICES DIRECTORATE

INTERNAL AUDIT

SUMMARY AUDIT PLAN 2006/07

Chargeable time – estimated available 756 days

The following are anticipated: -

Core Audit Reviews (“Managed Audit”) (**)	160 days
VFM/Performance Review/Use of Resources	100 days
Follow up reviews(*)	15 days
Corporate - Job Evaluation “secondment” (*)	25 days
Corporate – COCG/SIC/CRSA (*)	25 days
Performance Indicators(*)	10 days
Risk Management (CRMG)(*)	<u>5 days</u>
Total	<u>340 days</u>

* Estimated time required

** The Core Reviews comprise: -

- Main Accounting and Budgetary Control
- Sundry Debtors
- Creditor Payments
- Treasury Management
- Housing Benefits
- Payroll
- Council Tax
- NNDR
- Cash Collection

Based on anticipated staff resources, this leaves 416 days to undertake reviews as detailed in Appendix A above – but also to include the time required for any unforeseen staff changes, additions to the Plan, investigations/financial appraisals etc, as may arise during the year.



OVERVIEW & SCRUTINY – CORPORATE RESOURCES

Public *

Date of Meeting: 23rd February 2006

Title: STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2006/07

Report of: Director of Corporate Services

Report reference: Financial Memo FS40/05 (Addendum)

Summary:

This report advises members of issues which have arisen since Financial memo FS40/05 was forwarded.

Recommendations:

- Members are requested to note the changes made to Financial Memo FS40/05 and the reasons for those changes.

Contact Officer: Ian Beckett, Head of Audit Services **Ext:** 7292

STRATEGIC AUDIT PLAN AND AUDIT PLAN 2006/07

1 Explanation

- 1.1 The Director of Corporate Services' report Financial Memo FS40/05 outlined the Strategic Audit Plan and the Audit Plan for 2006/07. Since that report was forwarded to Members, however, the Authority has received correspondence from the Audit Commission that will have the effect of increasing the "Core Audit Reviews" which are detailed on Appendix B to FS40/05.
- 1.2 The main core reviews have always been the "business critical systems" for External Audit's purposes – i.e. those which **must** be addressed by Internal Audit on an annual basis in order for the Audit Commission to "evidence their understanding" of the systems of control. Nine of these reviews were agreed with the Audit Commission in July 2001, and an additional two reviews were agreed for 2004/05. (This is equivalent to the nine reviews detailed in Appendix B to FS40/05, as "Main Accounting" and "Budgetary Control" have been amalgamated as a single review, as have "Loans" and "Investments".)
- 1.3 For 2006/07, however, 14 systems have been identified as "business critical", the extra three systems being "fixed assets", "planning" and "grants".
- 1.4 It is therefore necessary to include these new requirements as part of the Core Audit Reviews. It is not known at this stage how long these reviews will take, as there is the added complication that the systems need to be fully documented and/or flowcharted. This is a requirement of ISA315 (International Auditing and Accounting Standards). A conservative estimate is that at least 40 days should be added to the "allowance" for core reviews.
- 1.5 The figures on Appendix B to FS40/05 should therefore be amended to show the anticipated time for core reviews as 200 days, and the resulting net time for "other" reviews as 376 days.
- 1.6 Overall, the time allowed in the plan for core audits has risen gradually from 90 days (which included Housing Rents) to (now) 200 – and the Audit Commission have stated that these new additions are only the "initial indicative list" – so it is anticipated that there will be additional pressure in subsequent years.

- 1.7 This extra demand on Internal Audit's time, coupled with the considerable extra demands (primarily on the Principal Auditor) resulting from the VFM work relating to Use of Resources, means that we are now in a position where it is considered necessary to take on additional temporary resources to ensure that we are still able to offer the Authority an "effective and efficient" Internal Audit service as required by the Accounts and Audit Regulations 2003. The funding for the additional temporary staffing can be found from existing resources within the Directorate.
- 1.8 It should be noted that the Audit Commission have stated that if we (Internal Audit) are not able to undertake the additional work, they will need to undertake the work and may need to increase their fee – it is clearly more cost-efficient for the work to be undertaken in-house.

2 Recommendation

- 2.1 Members are requested to note the changes made to Financial memo FS40/05 and the reasons for those changes.

Guidance for Auditees - Responding to Audit Reports

1) Distribution of Audit Reports

Internal Audit sends copies of draft audit reports to the appropriate Heads of Service for action, with copies to the appropriate Director(s) and other key officers involved with the audit, as deemed appropriate by the Lead Auditor.

The recipients of an audit report are clearly listed on the Cover Sheet. Details regarding which officers have received which sections of the report and appendices are also clearly noted, along with which officers need to take action on the report and who has received a copy for information only.

Full copies of all final audit reports are also sent to the Director of Corporate Services, and the Deputy Chief Executive.

The Audit Committee receives a copy of the Management Summary and Appendix B - Summary of Agreed Actions, for information as part of the quarterly reporting cycle.

Please note that audit reports may contain confidential data and in accordance with the *CIPFA Code of Practice for Internal Audit*, these must not be distributed wider than the distribution list without seeking prior permission from the Head of Audit Services.

2) Format of Audit Reports

The audit report is split into 5 main sections:

Cover sheet	Shows name and date of the audit, the report distribution list and the name of the lead auditor.
Management Summary	Includes background information on the audit area, scope of audit work undertaken and overall audit conclusion.
Matters Arising	Details of potential risks and points arising from areas examined during the course of the audit with reference to any recommendations arising.
Appendix A	Provides guidance for auditees when responding to audit reports.
Appendix B	Details the issues of concern and the recommendations arising. Once agreed, this is used as an Action Plan.

3) Acting on Draft Audit Reports

The Head of Service is responsible for agreeing the draft report and providing the necessary feedback to Internal Audit. As part of the feedback process, the Head of Service should review the recommendations made within the report. All Heads of Service must respond to draft audit reports within 10 working days of receipt of the draft report.

A verbal response to a draft report is only acceptable providing the draft report contains no recommendations and the recipient agrees with contents of the draft report and has no further comments to be incorporated into the final audit report.

If there are any recommendations arising from these points arising, these will be clearly referenced and detailed at Appendix B - Summary of Recommendations / Draft Action Plan. Appendix B lists the issue, along with the recommendation arising and its grade (information of the grading scheme is detailed at section 4 below).

A separate Appendix B - Summary of Recommendations / Draft Action Plan will be produced for each Head of Service to respond to. As part of the feedback to the draft report where recommendations have been made, the Head of Service should complete the remaining columns on their Appendix B. The likely courses of action are as follows:

- If a recommendation is accepted, the Head of Service should outline the action to be taken to implement the recommendation, the perceived level of risk (i.e. high, medium or low) and determine the timescale for doing so, which must be within the agreed 6 month follow up period.
- If a recommendation is accepted but can not be implemented within 6 months, the Head of Service must provide further details as to why they feel that this is the case and the matter will be reported to the Audit Committee for their acceptance.
- If a recommendation is disputed, the reason for dispute should be stated (see below for further guidance). Please note, any disputed grade A – C recommendations will be reported in the first instance, to the Deputy Chief Executive. If an agreement can not be reached at this level, the matter will be reported to the Audit Committee. Please note that if the recommendation can not be implemented within the 6 month follow up period, a full explanation will be required along with a timescale of when it can be implemented. This will be reported to the Audit Committee for information. If no reason for implementation within 6 months is provided, this again will be reported to the Audit Committee.

It is essential that the appropriate Director is made aware of and is in agreement with the proposed actions to be taken in response to audit recommendations as these will form part of the agreed Action Plan in the final report and will be subject to formal follow up 6 months after the date of issue of the final report.

4) **Final Reports**

Once the Head of Service has provided feedback to the contents of the draft report and the recommendations made therein, these will be incorporated into the final audit report. Recommendations accepted in the draft report are incorporated into the final report as Agreed Audit Actions, details of which will be listed Appendix B – Summary of Agreed Actions.

Final audit reports will be issued within 5 working days of receipt of all formal responses to the draft audit report.

5) **Grading of Audit Recommendations**

Each recommendation/agreed audit action has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

* A *fundamental* weakness includes non-compliance to statutory requirements, Financial Procedure Rules and Contract Procedure Rules in the audited system and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation).

6) **6 Month Follow Up of Recommendations**

As part of the formal follow up of audit recommendations 6 months after the issue of the final report, where it is found that insufficient or no action has been taken, this will be reported to the Audit Committee along with the reason for non-action.