

Internal Audit Work Plan 2008/09, revised Audit Opinion Reporting definitions and Final Report format, item 8

Performance Select Committee

Committee: Performance Select Committee

Agenda Item

Date: 29 April 2008

8

Title: Internal Audit Work Plan 2008/09, revised Audit Opinion Reporting definitions and Final Report format.

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Item for decision

Summary

The purpose of this report is to advise Members about the internal audit work plan for 2008/09 and to proposed revisions to the current Audit Opinion reporting definitions and the Internal Audit Final Report format...

Recommendations

1. That members endorse the Internal Audit work plan for 2008/09
2. That members agree the revised Audit Opinion Reporting definitions
3. That members agree a revised Internal Audit Final Report format

Background Papers

Internal Audit Work Plan – appendix 1

Revised Internal Audit Final Report Options – appendix 2

Impact

Communication/Consultation	The Council's Strategic Management Board has approved the Internal Audit Work Plan and revised Audit Opinion reporting definitions and has expressed their preferred option for a revised Internal Audit Report. This has also been circulated to Head of Divisions
Community Safety	None identified
Equalities	None identified
Finance	Part of the Council's corporate governance framework. The Audit Commission needs to rely on the work of internal audit. Internal audit work contributes to the Annual Governance Statement in the Council's

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	Accounts
Human Rights	None identified
Legal implications	Satisfies the requirements of the Local Government Act, Accounts and Audit Regulations
Sustainability	None identified
Ward-specific impacts	None identified
Workforce/Workplace	None identified

Internal Audit Work Plan 2008/09

1. Internal audit is part of the Council’s corporate governance framework. Corporate governance is defined as the system by which local authorities direct and control their functions. The requirement for adequate and effective internal audit is statutory for all local authorities. Annual audit coverage is traditionally linked to a five year strategic work plan, which ensures that all services are reviewed on a cyclical basis. The frequency with which services are audited within the cycle is dependant on the result of a risk assessment, indications of performance and being reconciled to available audit resource. Senior officers and Members are traditionally consulted about the proposed work plan.
2. The attached work plan shows the agreed internal audit coverage for 2008/09, it continues to reflect a minimum level of audit assurance. The emphasis of the work plan for 2008/09 has changed from previous years to reflect the current financial situation facing the Council and follows on from discussions with this Committee and Strategic Management. 31% of available Audit time has now been allocated to Corporate-wide audits areas such as Corporate Income; Corporate Budget (setting); Budget monitoring and reporting; Reconciliations and Information Management.

Audit Opinion Reporting Definitions

3. Audit Opinion reporting has moved away from the full narrative form used currently at the Council to a single word opinion of the level of audit assurance identified, This is supported by a standard set of definitions for the Audit Opinion itself and for the level of the risk identified of the recommendations made within Internal Audit reports. To enable a clear and concise understanding of the Audit Opinion and to facilitate the methods by which the Annual Audit Opinion is reached, I am proposing that from 01 April 2008

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Internal Audit changes to the following standard definitions for assurance opinions and recommendation risks:

4. Audit Assurance Opinion –

OPINION	DEFINITION
Substantial	<p>Good effective management of risk; no significant recommendations arising.</p> <p>Overall there should be no more than six recommendations of which:</p> <ul style="list-style-type: none"> none are risk level 4 or 3 recommendations and no more than two are risk level 2 recommendations
Adequate	<p>Sound satisfactory management of risk; identification of some elements of the control framework that merit attention; Marginal identification of deficiencies in the control framework that result in some risks not being managed effectively and must be addressed.</p> <p>Overall there should be no more than ten recommendations of which:</p> <ul style="list-style-type: none"> no more than one recommendation is at either a risk level 4 or 3 and no more than six are risk level 2 recommendations
Limited	<p>Unsatisfactory identification of deficiencies in the control framework compromising the overall management of risks demanding immediate attention.</p> <p>Overall there should be no more than fourteen recommendations of which:</p> <ul style="list-style-type: none"> no more than four recommendations are at risk levels 4 and 3 and no more than ten recommendations are at risk level 2
Little	<p>Major controls have failed and/or major errors have been detected. There will be:</p> <ul style="list-style-type: none"> more than fifteen recommendations or more than four recommendations at risk level 4 and 3 or more than ten recommendations at risk level 2

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5. Recommendation Risk level -

Risk Level	Definition
4	Catastrophic effect - immediate action required. Matters that are considered fundamental that require immediate attention and priority action.
3	Significant impact – action required. Matters that are considered significant that should be addressed within six months.
2	Some impact – action necessary. Matters that are considered important that should be addressed within twelve months.
1	Little or no impact. Matters that merit attention and would improve overall control levels.

Revised Internal Audit Final Report Options

6. From 2008-09 I propose updating the current layout of Internal Audit Final Reports to a less narrative and more risk and recommendation focussed form of reporting. Attached at appendix 2 are three draft report options for consideration by Members, the Strategic Management Board have expressed their preference for Option 1.

Option 1 Audit Opinion and Risk levels summarised in tabular form on the front page and with risks and corresponding recommendations prioritised by risk levels. This format drastically reduces the narrative element of current reports with controls and risks being presented in tabular format rather than narrative.

Option 2 Audit Opinion and summary of high risk matters on front page Executive summary in narrative form. This format reduces the narrative element of current reports although this is still the basis for the description of risks and recommendations.

Option 3 As current format, updated to reflect the proposed Audit Opinion and Risk ratings.

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Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The Council does not provide for an adequate and effective internal audit function	1 = Little or no likelihood Internal Audit function is an integral part of the Council	3 = Significant impact – action required Statutory requirement, adverse Audit Commission Report	Strategic audit plan approved by Senior Officers and Members, reconciled to available audit resource
The Audit Commission are unable to rely on the work of Internal Audit	1 = Little or no likelihood Managed Audit Agreement	3 = Significant impact – action required Financial and reputational risks	Managed audit status and Joint Working Protocol ensure audit coverage is agreed
The Council's audit environment changes and available audit resource is no longer sufficient	2 = Some likelihood No spare capacity if unforeseen long term absence of staff	2 = Some impact – action may be necessary Review of audit plan leading to reduction of audit coverage. Potential shared / joint working agreements with neighbouring authorities	Regular monitoring and highlighting potential shortfall