

Committee: Performance Select Committee
Date: 03 September 2010
Title: Revised Internal Audit Work Plan 2010/11

Agenda Item

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Item for
Information

Summary

- 1 The Internal Audit Work Plan 2010/11 presented to Committee at its February 2010 meeting is subject to review and revision during the year as changes in resources, work patterns and responsibilities dictate.

Recommendations

That Members endorse the revised Internal Audit work plan 2010/11

Background Papers

Internal Audit Progress Report (16 January 2010 to 15 July 2010)

Internal Audit Work Plan 2010/11

Revised Internal Audit Work Plan 2010/11 (appendix A)

Impact

Communication/Consultation	The Internal Audit Reports and Work Plan referred to in this report have been circulated to Members. The revised Internal Audit Work Plan has been approved by Strategic Management
Community Safety	none
Equalities	none
Finance	none
Health & Safety	none
Legal implications/ Human Rights	none
Sustainability	none

Ward-specific impacts	none
Workforce/Workplace	none

Situation

- 2 The initial Internal Audit work plan 2010/11 drafted in January 2010 for approval by this committee at its February 2010 meeting is subject to review as resources and circumstances dictate. In the Internal Audit Progress Report given to this Committee at its previous meeting, the Internal Audit Manager reported that a review of the 2010/11 Internal Audit Plan would be carried out to accommodate two specific audit work areas which had required or would require additional previously unplanned audit time in 2010/11:
- additional audit time taken to complete the 2009/10 audit plan and
 - no allowance had been made within the Productive Non-Specific Audit Work for taking on the responsibility for Anti-Fraud & Corruption work from 01 April 2010
- and that specific proposals for amendment to the plan will be agreed with Strategic Management and brought to the November meeting of this committee.
- 3 At the previous meeting of this Committee, Members requested the Audit Commission to bring a report to the next meeting identifying areas for audit fees reduction in relation to closer alignment of Internal Audit and External Audit work.
- 4 There are fundamental differences in the auditing work undertaken by an organisation's Internal Audit section and its External Auditors.
- **Internal Audit** is an independent, objective assurance and consulting function within the authority designed to add value and improve an organisation's operations and is responsible for conducting an objective and independent appraisal of all the Authority's operations, financial and otherwise.
 - **External Audit** is responsible for giving an independent opinion on the Authority's financial statements and arrangements for securing Value for Money.
- 5 The Audit Commission have presented the Audit Protocols for 2010/11 outlining the working relationship between the External and Internal Audit functions and, included for the first time in the protocol, are precise details of:
- the specific audits the Audit Commission be undertaking;
 - the type and sample size of testing the Audit Commission will be undertaking;
 - the timetable for the Audit Commission audit testing.
- 6 The Internal Audit plan review and revision has been brought forward to allow the Internal Audit Manger to present the revised Internal Audit Work

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Plan 2010/11 to this meeting following approval by Strategic Management at their meeting 01 September 2010. Consultations already taken place between Internal Audit and the Audit Commission and the revised plan has taken into account and the items in referred to in paragraphs 2 and 3 above,

- 7 The revision of the plan has been completed without prejudicing the independence of Internal Audit. The Codes of Practice, Guidelines and Professional Standards to which Internal Audit work encourage close liaison with external auditors, but are clear that Internal Audit's:
- independence cannot be compromised;
 - its strategy must not being driven by an external auditor's own priorities;
 - it must be free to set its own plan.
- 8 The Council's Internal Audit section has always worked as closely as possible with the Audit Commission in line with previous Audit Protocols. Key financial audits have priority over all other audit work in the drafting of the Internal Audit Work Plan, with all other audits being scheduled around them. In recent years the work plan has centred on the majority of key financial audits being scheduled for quarter 3, the remainder for early quarter 4. The plan has been delivered in line with the agreement that all key financial audits would be completed to draft stage by the 30 April following year end, which had allowed Audit Commission time to rely on the work we had done. Draft work plans are shared with the Audit Commission ahead of their implementation.
- 9 In previous years we have not been given knowledge at the planning stage of the specific areas the Audit Commission would be reviewing in the year and had only been given limited information of their key control testing regime, so we were obliged to complete audits on all key financials each year, carrying out a range of testing much of which matched that within the Audit Commission's regime but there have inevitably been areas which did not.

Revisions to the Internal Audit Work Plan 2010/11

- 10 The Revised Internal Audit Work Plan 2010/11 (appendix A) will ensure that given the anticipated resources available to Internal Audit for the remainder of the financial year, we can:
- prioritise the actual key financials audit areas the Audit Commission will be undertaking in 2010/11;
 - allow for non-specific audit time required for anti-fraud and corruption work;
 - defer low priority audits to 2011/12 according to resource availability.
- 11 Following consultation with the Audit Commission, we have agreed to complete to draft stage the Internal Audits of the actual key financials audit areas the Audit Commission will be undertaking in 2010/11 by 31 December 2010, with the remaining key financials for completion by 30 April 2011.

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- 12 For the revised 2010-11 Internal Audit Plan, in the appropriate key financial audits and where it does not already do so, audit scope will incorporate sample testing to match that to be done by the Audit Commission. Terms of Reference for the relevant audits will be forwarded to the Audit Commission.
- 13 The Internal Audit work plan cannot be fully aligned to that of the Audit Commission as there are fundamental differences between us in requirements and the timing of audit work we each undertake. The auditing requirements to which the Audit Commission work require them to audit and sample test over the whole of the financial year to the end of March, in addition they are required to carry out specific testing for their the Annual Statement of Accounts audit work. To allow the Audit Commission to place maximum reliance on Internal Audit work we have agreed on the 31 December 2010 completion date, which effective only covers 3 of the 4 quarters of the year they will be reviewing. The possibility of Internal Audit carrying out top-up testing in March has been discussed with the Audit Commission but discounted as this would effectively be duplicating Audit Commission testing they are required to undertake at year end.
- 14 These revisions have been made for 2010/11 only, I have been informed of the potential Audit Commission audit areas for 2011/12 and these will be the audits around which the 2011/12 work plan will be drafted.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The Council does not provide for an adequate and effective internal audit function	1 Internal Audit function is an integral part of the Council	3 Statutory requirement, adverse Audit Commission Report	Audit plan approved by Strategic Officers and Members, reconciled to available audit resource
The Audit Commission are unable to rely on the work of Internal Audit	1 Managed Audit Agreement	3 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	2 No spare capacity if unforeseen long term absence of staff	2 Review of audit plan leading to reduction of audit coverage.	Regular monitoring and highlighting potential shortfall, review and revision of audit pan as

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longer sufficient			required
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1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.