

**BABERGH DISTRICT COUNCIL**

**FROM:** Director of Finance

**REPORT NUMBER:** **H209**

**TO:** OVERVIEW & SCRUTINY  
(STEWARDSHIP) COMMITTEE

**DATE OF MEETING:** 24 March 2009

**INTERNAL AUDIT STRATEGY AND AUDIT PLAN FOR 2009/10**

1. **PURPOSE OF REPORT**

1.1 This report details the proposed Internal Audit Strategy and Audit Plan for the next financial year.

2. **RECOMMENDATIONS**

2.1 That the Internal Audit Strategy (**Appendix A**) be approved.

2.2 That the 2009/10 Internal Audit Plan (**Appendix B**) be approved.

The Committee is able to resolve these matters.

3. **FINANCIAL IMPLICATIONS**

3.1 There are no financial implications, as the Audit Plan will be funded from within approved budgets. Ongoing savings on staffing/resource levels of around £10,000 p.a. were, however, achieved in 2008/09.

4. **RISK MANAGEMENT**

4.1 The Council is required by statute to maintain an adequate and effective Internal Audit function. This function forms an integral part of the Council's corporate governance and internal control arrangements. It is essential therefore, that the Audit Plan directs resources to areas of highest risk and has the approval and support of management and Members.

4.2 The Audit Plan is based on priority ratings of risk and importance, which ensures that the highest risk areas are examined.

4.3 This report is most closely linked with the Council's Significant Business Risk No. 7 – Financial, Performance & Risk Management: The key risks associated with internal audit work and its effectiveness are summarised below.

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
Internal control weaknesses and potential for fraud exists.	Low	Critical	Work programme that focuses on key areas, including fundamental systems.

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
Inefficient processes or systems in place.	Low / Significant	Marginal / Critical	Audit work considers efficiency issues and appropriate recommendations are made.

## 5. **KEY INFORMATION**

### **Background**

- 5.1 The Accounts and Audit Regulations require that the Council maintains an adequate and effective system of Internal Audit. The guidance accompanying this legislation states that proper internal control practices for Internal Audit are those contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (hereafter referred to as the Code) issued in 2006. The Code sets out the definitions and principles (the standards), which establish how a professional Internal Audit Section should operate in the modern local government context. It provides a framework for measurement, management and monitoring of the function.
- 5.2 The Code defines Internal Audit as an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's aims and priorities. Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment to contribute towards the proper economic, efficient and effective use of resources.
- 5.3 The review of systems and procedures that are carried out by the internal audit function is embodied in the Annual Governance Statement, which is scrutinised and approved by this Committee. The statement looking back at 2008/09 will be brought to this Committee in accordance with the workplan.

### **Audit Strategy**

- 5.4 The Internal Audit Strategy is a high-level statement of how the Internal Audit Service will be delivered and developed in accordance with the terms of reference, (which set out the purpose, authority and responsibility of Internal Audit), and how it links to the Council's aims and priorities. The Strategy has been updated in accordance with the requirements of the Code and is shown as **Appendix A**. Its contents are not substantially different from the 2006-2009 Strategy.

### **Audit Plan 2009/10**

- 5.5 The Internal Audit Service is provided in-house with external support as required, for example in conjunction with neighbouring Local Authorities.

- 5.6 The audit work programme is based on 515 days. This includes 395 days procured from Suffolk County Council through the joint working agreement. This agreement includes the management of the function by an appropriately qualified member of staff, reporting to Committees, liaising with senior officers and the external auditor, for example. All costs will be met from existing budgets.
- 5.7 Where necessary, to ensure an adequate, effective and professional service, the Acting Audit Manager will use the existing arrangements and/or external providers to supplement internal resources. An example of this is for IT computer audits, where a high degree of specialist skill and knowledge is required.
- 5.8 The 2009/10 Audit Plan (excluding benefit fraud investigations and management) is attached as **Appendix B**.
- 5.9 The audit assignments listed come from the assessment of risks across the Authority, taking into account various factors such as, when the area was last audited, the financial and organisational significance, local knowledge of systems and processes, and those areas which the External Auditor expects to be reviewed each year. The audit assignments have been grouped in order of priority, 1 to 3, with 1 being the highest priority. This ensures that available resources are allocated to meet the requirements of External Audit and the risk to the Authority. The key areas are:

**Fundamental Financial Systems** – This is the most significant area of work and includes: audit of each key financial system, process mapping, review of system documentation and procedure notes to ensure that they are comprehensive, up-to-date and are reviewed on a regular basis. This is a core requirement of the External Auditors.

**Governance** – audits which contribute to the development of the Council's Corporate Governance Framework and feed into the Annual Governance Statement. Additional time has been allocated to the Annual Governance Statement and the Use of Resources Assessment, in recognition of the increased work required to meet the more demanding requirements.

**Fraud Prevention and Investigation** – Proactive fraud and corruption work is determined by an annual Council-wide fraud risk assessment exercise, which identifies the fraud risks of each specific service and profiles them according to likelihood and impact. Reviewing and raising awareness of the Anti-Fraud and Corruption Policy and Whistleblowing Procedure is also included.

**Contracts and Procurement** – The Council relies on contractors and works with partners to provide several key services. Audit work in this area will ensure that there are processes in place to monitor contractors and partnerships performance and risks. Governance arrangements, including financial monitoring arrangements in respect of partnerships will also be reviewed.

**Other** – Internal Audit are regularly called upon to provide help and advice on all aspects of the Council's services and operations, including special investigations. For this reason time is built into the Audit Plan to cover contingency resources that will be set aside and used to react to unforeseen issues as they arise and to assist. It should be appreciated that there may need to be some flexibility in the Audit Plan for 2009/10 to reflect changing priorities, risk and general uncertainty for the year ahead (see paragraph 5.14).

5.10 The Audit Plan balances the following requirements:

- The need to ensure the Audit Plan is completed to a good practice level;
- The need to ensure the controls mitigating the key risks facing the Council are in place and operating effectively;
- The need to appropriately review other strategic, operational and governance arrangements; and
- The need to have uncommitted time available to deal with unplanned issues which may need to be investigated.

5.11 The Audit Plan will be kept under review. Should significant amendments be necessary these will be discussed with management and reported to this Committee at the earliest opportunity.

5.12 Internal Audit follow up all high-risk recommendations to ensure that these are dealt with in a timely manner. It is management's responsibility to ensure that agreed recommendations are implemented. Recommendations that have not been implemented by the agreed date, without just cause, will be reported to both Management Team and this Committee.

5.13 Local Government Review (LGR) – A 'business as usual' Audit Plan has been prepared and agreed with Director of Finance (the Council's S151 Officer). If and when a decision is made on LGR, this could impact on the Audit Plan if audit staff are needed to support that and therefore a change to the Audit Plan may be required. The allocation of audit assignments are prioritised as described in 5.9 above. Any such change will be brought to the attention of this Committee.

## 6. **APPENDICES**

- A – Audit Strategy
- B – Audit Plan 2009/10

## 7. **BACKGROUND PAPERS REFERRED TO**

None.

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## INTERNAL AUDIT STRATEGY 2009-11

### 1. BACKGROUND

#### Introduction

The Audit Manager is required to produce an audit strategy, which is the high-level statement of how the internal audit service will be delivered and developed in accordance with its Term of Reference. The Terms of Reference defines the purpose, authority and responsibility of Internal Audit and is updated by the Audit Manager.

The overall strategy of Internal Audit is:

'To provide an independent and objective opinion to the Authority on risk management, control and governance by evaluating their effectiveness in achieving the Authority's objectives. The Internal Audit Section will objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.' (CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006).

The Financial Procedure Rules within the Council's Constitution require the Chief Finance Officer to maintain an adequate and effective internal audit of accounting, financial and other operations of the Council. These briefly set out an overview of Internal Audit's role within the Authority.

The existence of Internal Audit does not replace the responsibility of management to establish systems of internal control to ensure activities are conducted in a secure, efficient and well-ordered manner.

#### Statutory Basis for Internal Audit

The requirement for an internal audit function is either explicit or implied in the relevant local government legislation (Section 151 of the Local Government Act 1972), which requires that authorities "make arrangements for the proper administration of their financial affairs". In England, more specific requirements are detailed in the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, in that a relevant body must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". The guidance accompanying the legislation states that, for principal local authorities, proper internal control practice for internal audit are those contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

The Regulations also require that the Council should conduct a review, at least once a year, of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Manager's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

## **Professional Guidelines**

The CIPFA Code of Practice for Internal Audit sets out the Standards under which the internal audit section should be established and should undertake its functions. Babergh District Council's Internal Audit Section operates in accordance with these professional guidelines.

### **2. PURPOSE**

The purpose of the Audit Strategy is to set out how Internal Audit will deliver:

- The achievement of the outcomes set out in the Council's Strategic Plan;
- Assurance in relation to the Annual Governance Statement;
- A risk-based reactive audit programme to sit alongside the routine audit of the fundamental financial systems;
- Continued advice on Risk Management and assistance on a consultancy basis; and
- Fraud related work.

### **3. RESOURCES**

The Internal Audit Section is provided through a joint working agreement with Suffolk County Council, with one member of staff remaining in-house service. Other resources may be procured where skills gaps or other needs arise.

The County Council provides access to a team of professionally qualified and experienced auditors to deliver the Internal Audit service, principally through a small number of nominated staff to provide continuity. All staff maintain their skills through a professional development programme identified through the Council's annual appraisal process.

### **4. AREAS OF WORK**

The main areas of audit work are set out below:

#### **Assurance**

Internal Audit implements a risk management approach to their work. Furthermore, Internal Audit will look to continue and develop risk assessments as a way of embedding risk management in the Council's business.

This is the most significant area of work and includes: audit of each fundamental system, process mapping, review of system documentation and procedure notes to ensure that they are comprehensive, up-to-date and are reviewed on a regular basis. This is a core requirement of the External Auditors.

A wide range of other systems is reviewed on a frequency determined by levels of risk. The risk assessment is carried out by the Audit Manager in consultation with senior officers and the external auditors, but as the Corporate Risk Register develops supported by risks identified within the service plans this will be used more as an indication of the areas requiring internal audit review. Review of systems provides the service managers and staff with assurance that the controls within the system are effective.

Internal Audit endeavours to review all systems across the Authority where the level of risk is perceived to justify a review. Limited resources prevent the review of every system, but every effort is made to ensure coverage of the mains systems. In this way, management is provided with assurance regarding the overall internal control environment and this assurance is recorded formally in the Audit Manager's annual report.

### **Audit Approach**

A predominately systems-based approach to audit will be adopted concentrating on key controls. Fundamental systems will be mapped as a minimum. The CIPFA Systems Based Approach audit matrices will be utilised where they exist. At the planning stage of each audit, the auditor will carry out research to ensure that current issues affecting the area to be audited are identified. The auditor will examine current legislation, the Council's Strategic Plan and the Strategic Business Risk Register. In addition, the auditor will endeavour to address any concerns that Director, Head of Service or the manager may have.

### **Audit Reporting**

Planned audit assignments will be the subject of formal reports. Each report issued will include the auditor's opinion on the level of assurances that can be given as a result of the findings.

Where the audit report includes recommendations, these will be agreed with management, along with a date for implementation. The auditor will follow up the implementation of recommendations and revise the original audit opinion as a result of the follow up.

All 'Not fully Acceptable' and 'Poor' reports' together with clear officer responsibility for ensuring actions are properly followed through, will be brought to the attention of the Chief Executive and the Deputy Chief Executive.

The Audit Manager and Director of Finance will be reviewing the robustness of the reporting arrangements in 2009/10, and will continue to do so.

All completed audits are reported to the Overview and Scrutiny (Stewardship) Committee, along with their audit opinion, and where there is any revision to the audit opinion as a result of the follow up, this will also be reported.

The regular reporting by the Audit Manager to the Overview and Scrutiny (Stewardship) Committee provides the Members with assurance that management is fulfilling its duty to establish and maintain appropriate risk management processes and internal control systems.

The Audit Manager reviews the significant findings made within the year and produces an annual report in accordance with the CIPFA Code of Practice. This report gives an opinion of the effectiveness of the Council's overall internal control system based on the audit work undertaken during the year and is a key source of assurance for the Council when preparing the Annual Governance Statement.

## **Assistance and advice**

Internal Audit is available to assist services with control or operational issues. Internal Audit adopts an 'open door' policy for anyone with any control or operational concerns, and this is managed within existing resources. It has been found that operating this approach is almost 'preventative auditing' where issues are addressed before they become a problem.

Members of the Internal Audit Team are also available to attend working groups etc. where their professional expertise is required, perhaps in considering new systems or operations.

## **Fraud and Corruption**

Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption but it will be proactive in its review of risks and exposures that could allow fraud or corruption. There may also be occasions when Internal Audit is requested by management to assist with fraud related work. The Council also has a Whistleblowing Policy.

## **5. ANNUAL AUDIT PLAN**

The Audit Plan sets out the number of days required for Internal Audit to adequately review the areas involved, and indicates the priority level for each planned assignment. Any differences between the resources available and the work programme will be raised with the Director of Finance (as the Council's Section 151 Officer).

The work programme balances the following requirements:

- The need to ensure that core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control (on which External Audit will place reliance);
- The need to appropriately review other strategic and operational arrangements;
- The need to have uncommitted time available to deal with unplanned issues which may need to be investigated; and
- To enable positive timely input to assist corporate and service developments.

Progress against the Audit Plan will be kept under review by the Audit Manager in liaison with the Director of Finance and amended as appropriate to reflect changing priorities and emerging risks. Members will also be advised of performance against the audit work programme in the Annual Report on Internal Audit. The programme will be flexible and contain a level of contingency to reflect the changing priorities and structures of the Council. Changes to the programme will be agreed with the Director of Finance. When there is a material change, which affects over 20% of the planned assignments, a revised work programme will be submitted to Overview & Scrutiny (Stewardship) Committee for approval.

There will be regular and effective liaison with External Audit to ensure that Internal Audit resources are used as effectively as possible and that appropriate reliance can be placed on Internal Audit's activities.

In the delivery of each assignment, Internal Audit will look to make practical recommendations based on the findings of the work and discuss these with management who will commit to an appropriate action plan for implementing any improvements to the control environment.

## **6. CONTINUOUS IMPROVEMENT**

Internal Audit is continuously seeking to improve the service it provides.

It actively contributes to the Suffolk Working Audit Partnership (SWAPs). This partnership allows local authorities in Suffolk to share resources, knowledge, and experience regarding internal audit issues in order to identify and promote the adoption of best practice, supported through an extranet facility. The partnership identifies common training needs and initiates joint training where necessary. As well as improving the quality of service delivery, efficiency savings are also achieved.

The Audit Manager attends the Chief Internal Auditors Group meetings held regularly during the year. These forums will be utilised to share good practice and raise any concerns. The auditors regularly attend the Suffolk Working Audit Partnership (SWAP) where common issues are addressed and the opportunity to invite guest speakers on audit related matters.

The County Council, through the joint working agreement, will ensure that all Internal Audit staff will achieve continuous professional development, including membership of professional bodies as appropriate and participating in relevant training opportunities.

Training and development needs will be identified and addressed by identifying skills gap for each staff through individual annual appraisal.

## **7. REVIEW**

The Audit Manager and the Director of Finance will review the Internal Audit Strategy and report any significant changes to the Overview and Scrutiny (Stewardship) Committee.

John Snell  
Acting Audit Manager  
1 March 2009

Follow up review March 2010

	2008/09 Proposed Days	2009/10 Proposed Days
<b>Available Days</b>		
Babergh Staff	238.0	120.0
Suffolk County Council Staff	190.0	395.0
Other / Agency Staff	65.0	0.0
<b>Audit Programme Days</b>	<b>493.0</b>	<b>515.0</b>
<b>Contingency</b>	<b>35.0</b>	<b>35.0</b>
<b>Remaining Audit Programme Days</b>	<b>458.0</b>	<b>480.0</b>
<b>Priority 1 Assignments</b>		
<b>Work-in-Progress from previous year</b>	<b>15.0</b>	<b>10.0</b>
<b>Fundamental Systems Audit &amp; Walkthrough</b>		
Asset Register	8.0	8.0
Benefit Assessment	16.0	20.0
Benefit Overpayment	21.0	15.0
Cash & Bank	9.0	9.0
Creditor Payments	11.0	10.0
Debtors	10.0	10.0
General Ledger	21.0	20.0
Housing Repairs	21.0	20.0
Information Technology	8.0	10.0
Local Taxation	10.0	10.0
Payroll/HR	8.0	8.0
Rents	8.0	8.0
Treasury Management	21.0	15.0
Follow -up		20.0
Budgetary Control/Management		15.0
Section 106 Agreements		10.0
<b>Total</b>	<b>172.0</b>	<b>208.0</b>
<b>Governance</b>		
Annual Governance Statement	20.0	26.0
Reports to Members	10.0	16.0
Risk Management	10.0	16.0
Use of Resources Assessment	15.0	22.0
<b>Total</b>	<b>55.0</b>	<b>80.0</b>
<b>Fraud Prevention &amp; Investigation</b>		
Anti-Fraud & Corruption	4.0	10.0
NFI - Co-ordination & Investigation	5.0	10.0
Assistance with Interviews Under Caution	2.0	5.0
Risk Based Anti-Fraud Work	10.0	15.0
<b>Total</b>	<b>21.0</b>	<b>40.0</b>
<b>Other</b>		
Advice	10.0	10.0
External Audit Liaison	5.0	5.0
<b>Total</b>	<b>15.0</b>	<b>15.0</b>
<b>Total Priority 1 Work</b>	<b>268.0</b>	<b>353.0</b>

	2008/09 Proposed Days	2009/10 Proposed Days
<b>Remaining Audit Programme Days</b>	190.0	127.0

	2008/09 Proposed Days	2009/10 Proposed Days
<b>Priority 2 Assignments</b>		
<b>Governance</b>		
Data Quality	11.0	11.0
Risk Based Reviews (Excluding Anti-Fraud Work)	33.0	20.0
<b>Total</b>	<b>44.0</b>	<b>31.0</b>
<b>Contracts and Procurement</b>		
Contract Audit Reviews	15.0	10.0
E-procurement System	19.0	0.0
Partnerships	22.0	18.0
Purchasing Cards	3.0	0.0
Strategic Procurement Framework - c/f from 08/09	10.0	10.0
Joint refuse contract		10.0
<b>Total</b>	<b>69.0</b>	<b>48.0</b>
<b>Other</b>		
Capital - c/f from 08/09	15.0	15.0
Customer Access & Service Transformation	10.0	0.0
Follow-up - Allocation of days transferred to Priority 1 Assignm	15.0	0.0
Job Evaluation Panel	5.0	5.0
Local Area Agreements	5.0	0.0
Business Continuity		10.0
<b>Total</b>	<b>50.0</b>	<b>30.0</b>
<b>Total Priority 2 Work</b>	<b>173.0</b>	<b>109.0</b>
<b>Remaining Audit Programme Days</b>	<b>17.0</b>	<b>18.0</b>
<b>Priority 3 Assignments</b>		
<b>Fraud Prevention &amp; Investigation</b>		
Money Laundering	1.0	1.0
<b>Total</b>	<b>1.0</b>	<b>1.0</b>
<b>Contract And Procurement</b>		
Contract Final Accounts	4.0	4.0
Financial Vetting	5.0	5.0
<b>Total</b>	<b>9.0</b>	<b>9.0</b>
<b>Other</b>		
Business Development Loans	2.0	2.0
Grants	3.0	6.0
Review Computer Audit Work	2.0	0.0
<b>Total</b>	<b>7.0</b>	<b>8.0</b>
<b>Total Priority 3 Work</b>	<b>17.0</b>	<b>18.0</b>
<b>Remaining Audit Programme Days</b>	<b>0.0</b>	<b>0.0</b>
<b>Reserve work:</b>		
Member's declaration of interests and gifts and hospitality		8.0
Officer's declaration of interests and hospitality		8.0
Officer expense claims		9.0
Fees and Charges		10.0
<b>Total</b>		<b>35.0</b>