

**TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE 22nd MARCH 2011**

**INTERNAL AUDIT PLAN 2011/12 and STRATEGY 2011/12**

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**1 PURPOSE**

- 1.1 To seek the approval of Members of the Audit Committee to the Internal Audit Plan and Strategy for 2011/12.

**2 RECOMMENDATIONS**

- 2.1 That Members of the Audit Committee approve the Internal Audit Plan and Strategy for 2011/12 attached as Appendices A and B to this report.

**3 SUMMARY**

- 3.1 The terms of reference of the Audit Committee include:  
“The approval (but not direction) of and monitoring of progress against, the Internal Audit Strategy and Plan This report presents the Internal Audit Plan and Strategy for 2011/12 for approval.
- 3.2 The Chief Financial Officer (CFO) has responsibilities under s 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2003 (as amended) as follows:

*Responsibility for financial management*

*4. - (1) The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.*

*Internal audit*

*6. A relevant body shall 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 internal audit practices, ...*

- 3.3 Under the Accounts and Audit Regulations 2003 (as amended) Internal Audit provide part of the assurance on the Council's internal controls reported within the Annual Governance Statement. The CFO is therefore responsible for ensuring that the internal audit plans coverage is appropriate and sufficient to meet all these obligations.
- 3.4 The Internal Audit Strategy informs the Internal Audit Service Plan and outlines how the Internal Audit Service will be provided in order to meet legal requirements and the Council's priorities.

#### **4 PREVIOUS MINUTES**

Audit Committee 31<sup>st</sup> March 2009 (2009/10 plan and Strategy 2009/10 – 2011/12)

Audit Committee 30<sup>th</sup> March 2010 (2010/11 plan and Strategy 2010/11 – 2011/12)

#### **5 INFORMATION**

- 5.1 Internal Audit has a statutory obligation under legislation outlined in paragraph 3.2 above and also strives to provide a quality and up to date service for the Council. To do this it follows the CIPFA<sup>1</sup> Code of Practice on Internal Audit in Local Government (2006).
- 5.2 Internal Audit work, in addition to obtaining assurance on controls for the Council, aims to challenge where controls are not required or make suggestions for adjustments to existing controls to make processes more efficient so that managers and their teams can achieve their objectives and contribute to the achievement of the Council's priorities. This is part of the Council's corporate governance framework and the effective management of risks.
- 5.3 Internal Audit resources are limited. To ensure Internal Audit can provide reasonable assurance<sup>2</sup> to managers, Members and the Council as a whole on the internal control arrangements, an annual programme of work (annual Audit Plan) is developed.
- 5.4 In accordance with good practice, Internal Audit planning should be directly linked to the Council's risk management processes. Internal Audit uses the strategic risk register as the starting point for the audit planning process and to identify the key areas for audit attention. This base is then informed and influenced by previous Internal Audit work, external networking intelligence, discussions with the CFO and consultations the Council's service area management teams (including Heads of Service) and the Senior Management Team (CMT and Heads of Service).
- 5.5 The draft plan attached as Appendix A has been drawn up based on the internal audit resources available for 2011/12, the factors in paragraph 5.4 above and detailed discussions with the CFO (see paragraph 5.7).
- 5.6 The planned resources for 2010/11 were 1379 days plus 70 days external specialist ICT audit work. The restructure of the Internal Audit, Risk and Information Governance parts of Governance to form Audit & Assurance produced a staff saving of 23.3%. This has resulted in planned resources for 2011/12 being 1129 days plus 64 days external specialist ICT audit work. Overall this is just under an 18% reduction in resources from 2010/11 due to some internal resource switching to the Internal Plan.

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy

<sup>2</sup> Internal audit can only provide reasonable and not absolute assurance due to undertaking the work at a moment in time and with limited resources.

- 5.7 A draft plan was developed based on the process set out in paragraph 5.4 and has been subjected to rigorous review of the risks and areas being covered by the CFO. The resultant plan provides reduced but reasonable assurance on the areas outlined. It includes the 1129 days plus the 64 days external ICT audit work (extracted from the 3 year ICT audit plan 2010 – 2013). It also includes all the work identified by the external auditor that can be undertaken by Internal Audit to meet their requirements. If this was not included then the external audit fee would increase significantly (by over £150,000).
- 5.8 Due to the nature of the plan and its link to risks, during delivery there will be regular dialogue with the CFO, SMT and managers to ensure that the appropriate risks and controls are being reviewed, maximising the use of resources.
- 5.9 Based on good practice the plan includes just under a 10% contingency to meet any unexpected work requirements, any changes identified from paragraph 5.8 or changes to resources during the year. Any significant changes will be agreed with the CFO and SMT and reported to this Committee.
- 5.10 The external auditor undertakes their own planning process. Internal Audit and Senior Management liaise with them to ensure that duplication is avoided, that the key risks are reviewed and that the external audit fee is minimised.
- 5.11 Members should note that specialist ICT audit work at the Council is provided by an external contractor. The Council retendered this service in November 2009 and Deloitte & Touche Public Sector Internal Audit Limited commenced work on 1<sup>st</sup> April 2010 for 3 years. Due to the 20% non staff saving requirements the original 70 day contract has been renegotiated to 64 days 2011/12 and 58 days 2012/13.
- 5.12 Previous strategies have been developed for 2-3 year periods and it was the intention to update the current strategy and to look forward to 2013/14. However, due to the current external changes to local government finance, potential changes to the external audit regime and internal reorganisations<sup>3</sup> it has been updated to reflect the current position and outlook for 2011/12 only. The changes are minimal and the updated 2011/12 strategy is attached as Appendix B.

## **6 OTHER CONSIDERATIONS**

<b>AREA</b>	<b>COMMENTS</b>
Equal Opportunities	During audit work any equality issues identified are reported to the appropriate level of management. The strategy recognises the Council's priorities in respect to Equality and Diversity and how Internal Audit will meet them.

<sup>3</sup> Service reviews and service restructures

Environmental or Sustainability Impact	During audit work any environmental or sustainability issues identified are reported to the appropriate level of management.
Legal Implications	The legal implications are contained within the main body of this report. Also included in the main body of the report is reference to the CIPFA Code of Practice for Internal Audit in Local Government which is accepted as “proper practice” and outlines the requirement for the Audit Committee to approve the Internal Audit Plan and Strategy. The Internal Audit service will, where appropriate, review compliance with legislation as part of their work.
Links with Corporate Priorities	Internal Audit work through the plan and strategy supports all services in the delivery of corporate priorities.
Financial Implications	The service strategy and delivery of the plan will be met from within the existing budget.
Opportunities and Risks	The preparation of the strategy and annual audit plan has taken into account the adequacy, outcomes of the Council’s risk management, performance management and other assurances processes. In addition the role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (reducing risks) and therefore the delivery of services and achievement of objectives. The Audit Plan will be flexible in order to reflect the changing risks and priorities of the Council and will have an ongoing dialogue with stakeholders.
Ward Implications	Internal audit work covers all wards within the Borough.

## **7 BACKGROUND PAPERS**

Internal Audit Plan 2010/11

Strategic Risk Registers - September 2010 and February 2011.

Internal Audit Strategy 2010/11 – 2011/12

CIPFA Code of Practice on Internal Audit in Local Government in UK (2006)

CIPFA Audit Manual (December 2004).

Networking and Benchmarking information.

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