

Audit and Governance Committee

3 April 2007

Report of the Assistant Director (Audit and Risk Management)

Annual Audit and Fraud Plan for 2007/08

Summary

- 1 The purpose of this report is to seek Members' approval for;
 - a) the planned programme of audit and fraud work to be undertaken during 2007/08;
 - b) new terms of reference for the Internal Audit Service.

Background

- 2 Under the Constitution, the Audit and Governance Committee has delegated authority to approve the annual Audit Plan. As reported to this Committee on 4 October 2006, the Audit Plan is based on a detailed risk assessment process, where each 'auditable' area is scored using a series of criteria, including materiality, system complexity, an assessment of the control environment and the risk of fraud and corruption. The results of previous audit work or external inspections together with issues identified through the corporate risk management process are used to inform the audit risk assessment.
- 3 Each 'auditable' area within the risk assessment is prioritised as high, medium or low risk. This assessment is used to help prioritise the allocation of audit resources in the context of an overall five year strategic Audit Plan, to ensure;
 - a) high risk areas are reviewed on an annual basis;
 - b) medium risk areas are reviewed every two or three years;
 - c) low risk areas are reviewed once every five years (subject to resourcing constraints).
- 4 The 2007/08 Internal Audit Plan is intended to address the known key strategic risks and challenges facing the Council over the coming financial year. A Counter Fraud Activity Plan has also been prepared showing the main areas of work planned for 2007/08. The Plan details available resources, proposed anti-fraud activities, and expected outcomes.

2007/08 Internal Audit Plan

- 5 A copy of the draft 2007/08 Internal Audit Plan is attached as Annex 1. The Plan reflects our understanding of the risks currently facing the Council, together with the Council's key challenges and priorities.
- 6 An analysis of the time available to complete the Audit Plan has been completed, based on existing staffing and resources within the Internal Audit team. The total number of planned days for 2007/08 is 1340. However, current staffing levels do not allow all the identified systems and other auditable areas within the Strategic Plan to be reviewed in accordance with the required frequency. The shortfall is approximately 500 days per annum. As with previous annual audit plans, priority has therefore been given to 'high' and 'medium' risk areas. The scope for choice is however also restricted because;
 - a) the Audit Commission place reliance on the work of internal audit to minimise their 'opinion' work, and hence reduce the cost to the Council of discharging their external audit responsibilities. As a consequence of this, Internal Audit will generally review each of the main financial systems on an annual basis;
 - b) specific audit work is required to support the preparation of the annual Statement of Internal Control (which is published as part of the Statement of Accounts) and the Breaches and Waivers report;
 - c) time must be allocated to investigate possible fraud and corruption, and participate in the Audit Commission's National Fraud Initiative;
 - d) contingency time has to be set aside to undertake urgent or unplanned work which may arise during the year.
- 7 The Plan includes specific systems audits and establishment audits identified through the risk assessment exercise. In addition, time has been allocated to undertake six monthly follow up reviews. These reviews are intended to provide assurance that agreed recommendations have been implemented by management. Details of the progress made by managers to implement recommendations is reported to the S151 Officer, relevant Directors and the Audit and Governance Committee.
- 8 Time has also been allocated to provide ongoing support and advice to managers in respect of the design, implementation and operation of appropriate controls. The Plan also includes provision for undertaking special investigations (90 days) in addition to a general contingency of 90 days.
- 9 It is recognised that changes may need to be made to the Audit Plan through the year as a result of new or changed priorities and/or as risks are identified. All variations to the Audit Plan are reviewed and approved by the AD (Resources) ARM who is then responsible for reporting any

approved changes to the S151 Officer and the Audit and Governance Committee for information. It is also important to note that the particular scope and focus of any individual audit may change to reflect any further weaknesses and risks identified during the planning process for that audit. Once the Plan is approved, the timings of the individual audits will be agreed with the relevant chief officers and service departments.

- 10 The Audit and Governance Committee and Corporate Management team will be consulted in the autumn as part of the annual review process for updating the audit risk assessment and 5 year Strategic Plan. This review will ensure that proper account continues to be taken of the key strategic risks and priorities facing the Council.

Value For Money / Special Projects

- 11 Internal Audit are currently preparing a programme of value for money reviews, and other associated specialist audit projects. This work will include complex systems and process reviews designed to identify savings, efficiencies and improvements in performance. The programme will support the achievement of the Council's priorities, particularly that of 'improving efficiency and reducing waste'. The work will also support the Corporate Efficiency Programme and help demonstrate that the Council delivers good value for money (as necessary evidence for CPA – the Use of Resources KLOE). The review programme is expected to examine services and activities across the Council, including those requested by Directorates themselves and any identified through the Corporate Efficiency Programme.

2007/08 Counter Fraud Activity Plan

- 12 A copy of the draft 2007/08 Counter Fraud Activity Plan is attached as Annex 2. The Plan is based on the resources currently available to the Fraud Team, and includes details of;
 - a) planned activities, including joint working;
 - b) proactive work;
 - c) resource allocation.
- 13 Much of the work undertaken by the Fraud team continues to involve the identification and investigation of suspected fraudulent Housing and Council Tax benefit claims. However, the team also works closely with Internal Audit on internal fraud investigations and conducts investigations into a variety of other external types of fraud, for example the misuse of blue badges. Procedures are currently being developed to enable the team to undertake financial investigations in accordance with the provisions of the Proceeds of Crime Act 2002. This will provide the Council with enhanced powers to recover benefits paid fraudulently and/or other financial losses from criminal acts. The current workload for the team however remains above the caseload levels recommended by the Benefit Fraud Inspectorate (BFI), due to the high number of fraud referrals received. The resulting workload issues are however being

managed so as to ensure that resources are concentrated on those cases where the evidence of possible fraud is strongest.

Internal Audit Service – Terms of Reference

- 14 CIPFA has recently updated the Code of Practice for Internal Audit in Local Government. As a result of changes in the Code it has been necessary to review Internal Audit's terms of reference (formerly known as the Audit Charter). New terms of reference have been prepared which define how the internal audit function will be discharged within the context of the wider legal, regulatory and policy framework. It also sets out Internal Audit's responsibilities and objectives, reporting arrangements, relationships and rights of access. A copy of the new draft terms of reference is attached at annex 3.

Consultation

- 15 The Chief Finance Officer (the S151 Officer), and Directors have been consulted as part of the process for preparing the 2007/08 Audit Plan. This consultation process has:
- a) helped to confirm that the risk assessment on which the plan is based is reasonable and comprehensive;
 - b) enabled the scope and coverage of individual audits to be refined;
- 16 The Audit Commission has also been consulted on the Audit and Counter Fraud Plans to:
- c) avoid any possible duplication of work, and,
 - d) ensure that the Council continues to retain its 'managed audit' status.
- 17 Corporate Management Team considered and agreed the draft programme of audit and fraud work on 21 March 2007, for Members' approval.

Options

- 18 Not relevant for the purpose of the report.

Analysis

- 19 Not relevant for the purpose of the report.

Corporate Priorities

- 20 This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

Implications

21 The implications are;

- **Financial** – there are no financial implications to this report.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** – there are no legal implications to this report.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

Risk Management Assessment

22 The Council will not comply with the CIPFA Code of Practice for Internal Audit in Local Government if the Audit and Fraud plans are not approved. The Council will also be failing to comply with Code if it does not formally adopt terms of reference which define Internal Audit's purpose, authority and responsibilities. Any failure to comply with the Code might in turn adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when it is re-assessed.

Recommendation

23 Members are asked to;

- Consider and approve the 2007/08 Internal Audit and Counter Fraud Activity Plans;

Reason

To enable the Audit and Fraud plans to be delivered effectively.

- Consider and approve the new terms of reference for the Internal Audit Service.

Reason

To ensure that the role and responsibility of Internal Audit within the Council is properly defined.

Contact Details

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Report Approved



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Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

- Audit risk assessment and Strategic Audit Plan

Annexes

Annex 1 – 2007/08 Internal Audit Plan
Annex 2 – 2007/08 Counter Fraud Activity Plan
Annex 3 – Internal Audit Service - Terms of Reference