

HARROW COUNCIL

Meeting:	Cabinet
Date:	13 January 2004
Subject:	Internal Audit Strategic Plan 2004-2007
Key Decision:	No
Responsible Chief Officer:	Executive Director, Business Connections
Relevant Portfolio Holder:	Finance and Human Resources and Performance Management
Status:	Part 1
Ward:	All
Enclosures:	Appendix A – Strategic Plan 2004-2007 (Colour copies have been circulated to Members only and may be viewed on the Council's website – www.harrow.gov.uk)

1 Summary

- 1.1 This paper proposes an outline three year strategic plan for future internal audit coverage. The plan assumes a wide role for the internal audit function and the application of modern risk-based audit techniques. Full delivery of the plan is dependent upon a significant increase in the level of internal audit resources.
- 1.2 Fundamental to the delivery of the council's objectives is the adequacy of its risk management arrangements. The current resourcing levels within Internal Audit (IA) are sufficient only to assist the council in managing risks within its financial systems. This leaves the council exposed to a high level of non-financial risks including risks to its objectives, its services, its people and its reputation. This is particularly so now as the council goes through a period of major organisational change. The recruitment of additional internal audit staff would allow for a reduction in the Council's exposure to risk and provide greater support for its improvement agenda.

2. Recommendation (for decision by Cabinet)

2.1 That Cabinet considers the proposed strategic plan and the level of internal audit coverage required to reduce the Council's exposure to risk.

Reason: Statutory requirement to ensure adequate audit coverage and need for risk based auditing to support the delivery of the improvement agenda.

3. Consultation with Ward Councillors

3.1 N/A

4. Policy Context (including relevant previous decisions)

4.1 Cabinet agreed the 2003/04 internal audit plan at its meeting on 15 July 2003. The accompanying report drew attention to staff resource levels and the need to review audit coverage from 2004/05 onwards.

5. Relevance to Corporate Priorities

5.1 The work of internal audit is key to the corporate governance and sound financial management of the Council, both of which underpin the delivery of its key corporate priorities and drive for service improvement. There is a direct correlation between the proposed audit plan and key priorities within the CPA action plan.

6. Background Information and options considered

Background

6.1 Professional guidelines do not prescribe the actual work to be undertaken by local authority internal audit units. The Accounts and Audit Regulations, and the associated guidance issued by the Chartered Institute of Public Finance and Accountancy and the Institute of Internal Auditors, do though make it clear that the role of internal audit extends to all significant systems of internal control and risk management, not just financial systems.

- 6.2 The current Code of Practice for Internal Audit in Local Government refers specifically to the need for internal auditors to review arrangements for corporate governance, risk management and key internal control systems and to provide assurance to support the authority's annual statement on systems of internal control. The Code also requires the application of a risk based approach to audit planning. It does not require internal auditors to provide consultancy or fraud-related work, but allows such work to be undertaken where resources permit.
- 6.3 In practical terms it is for individual organisations to determine internal audit coverage based on an appropriate assessment of risk and having regard to local circumstances.

Current Position

- 6.4 There are a number of emerging issues for IA which need to be resolved:
- Its terms of reference indicate it to have a wide scope yet it is not resourced to deliver this. Resourcing levels are low compared to other London boroughs.
 - It is devoting an increased proportion of these resources to coverage of financial systems. Whilst it is anticipated that this will result in a significant reduction in the external audit fee, there has been no compensating investment in internal audit.
 - There has been some recent demand for IA to undertake quality assurance and value for money style activities. The unit does not have the capacity or remit to respond to this.
- 6.5 In dealing with these issues there are three main options:
- Maintain the current position, which leaves the Authority exposed to a wide range of risks and to potentially failing in its statutory responsibility to maintain the scope and independence of the internal audit function.
 - Leave resourcing levels the same but deliver services based purely on risk assessment. In practice this is likely to shift coverage away from some of the core financial systems, resulting in a significant increase in the external audit fee and possible criticism from the Benefits Fraud Inspectorate.
 - Increase the level of resourcing such that the unit is able to deliver to a wider scope whilst at the same time providing reasonable and regular coverage of financial systems.

Future Resourcing/Coverage

6.6 If this third option is to be adopted, it is suggested that audit resources be increased to such a level that, over a three year period, they provide adequate systems based coverage of:

- core financial systems (sufficient to meet the dual purpose of providing a reasonable, but not absolute, level of assurance/reliance to the Chief Finance Officer and external auditor)
- local/departmental financial systems
- anti-fraud and corruption arrangements
- IT systems, including operating systems, applications, security, strategy and business continuity
- management arrangements, including service planning, performance management, human resource management, partnership, governance, risk management etc

6.7 Provision should also be made for:

- irregularity investigations
- National Fraud Initiative and intelligence work
- reviews of financial regulations and standards and anti-fraud and corruption strategies
- ad-hoc support and advice
- follow-up of audit recommendations

Strategic Plan

6.8 A draft three year plan designed to deliver the approach set out in paragraphs 6.6 and 6.7 is attached at Appendix A.

6.9 It has been prepared on the following assumptions:

- the need to operate to a wide scope
- application of recognised systems based auditing techniques
- control self-assessment not well developed
- risk management not well developed
- strong central core of expertise and support for departments not in place

- 6.10 A pragmatic approach has been used in developing the plan. Areas of coverage have been determined by reference to the Authority's key improvement plans and to the risk based planning workshops held with senior management teams in 2002. Perfect knowledge of all systems, sub-systems and inherent/residual risks is not claimed. Nor has the scope, depth and approach to every piece of work been determined at this stage.
- 6.11 The plan is indicative only. It will be used to formulate the annual audit plan and will need to be updated to reflect external audit coverage (external audit do not prepare a strategic plan), new areas of risk emerging and risks that have been reduced through management actions. This annual updating process needs to be joined up with departmental service planning processes and risk management activities across the authority. The results of the strategic risk management exercise currently taking place will also be used to inform the plan.
- 6.12 No provision has been made for any quality assurance activities or specific value for money studies. The former compromise the objectivity of the audit function and shift its emphasis away from systems appraisal and improvement. The latter is not strictly a requirement of an internal audit function and may be better placed with departmental managers or undertaken as part of best value reviews. Additional resources would be needed if IA were to undertake such work and sufficient time would need to be allowed for staff training.
- 6.13 It is estimated that the 3 year plan will require approximately 5795 days of audit input. IA is currently able to deliver approximately 1340 audit days per annum, or 4020 days over 3 years. This equates to a resourcing gap of approximately 3 FTE staff.
- 6.14 Appendix A shows the coverage that can be achieved within current resources compared to that which could be achieved with an additional 1, 2 or 3 members of staff. Regular and reasonable coverage by IA will assist in the control of risk within each of these areas and reduce the Council's overall high level of risk exposure.

7. Finance Observations

- 7.1 Internal audit provides a vital service to the Council to ensure it is providing value for money and effective services and that it has the control mechanisms in place to ensure it is meeting its statutory requirements. The MTBS for consultation, approved by Cabinet on 16 December 2003, includes funds in the next 3 years to increase the resources in internal audit to help minimise the risks to the Council.

8. Legal Observations

- 8.1 None.

9. Conclusion

- 9.1 There is a need to ensure that the internal audit function has the resources and remit to meet statutory requirements and to support the Council's improvement agenda and help mitigate the additional risks associated with this.

10. Background Papers

- 10.1 Internal audit plan for 2003/04 reported to Cabinet on 15 July 2003.

11. Author

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