

## **NORTH WILTSHIRE DISTRICT COUNCIL**

### **INTERNAL AUDIT STRATEGIC PLAN 2005/2008**

#### **Introduction**

1. This plan is designed to set out how the Council's Internal Audit Service proposes to operate during the next three years. The service was re-established in-house in June 2005 after two and a half years of external contractual provision. It will be line managed by the Finance Team Leader who is the Council's statutory Responsible Financial Officer (also referred to as the Section 151 officer). To support organisational independence there is an agreed direct reporting line to the Corporate Management Board and Members, as appropriate.
2. This plan has been prepared by the Interim Manager appointed in June 2005 to start up the re-established in-house service. There is provision for an in-house team of two fte comprising an Audit Manager and an Assistant Auditor. It is expected that the Interim Service will operate between June and December 2005 with a full handover in the early part of 2006 to the substantive team.
3. This plan also contains provision for some expert contractual ICT audit to be provided by Deloitte and Touche under a three year agreement.
4. The main auditable areas to be covered during 2005/06 are summarised within the operational plan at paragraph 25. Fuller detail on the extent and timings proposed for the majority of internal audit work during the the next 2/3 years is presented in the annex attached which comprise the Strategic Internal Audit Plan for 2005/06 to 2007/08.

#### **Plan Preparation**

5. The plan has been prepared in recognition of the standards which are set out in detail in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2003. These standards will also be used by the Audit Commission when completing their annual assessment of internal audit within this Council and also for CPA Use of Resources related evaluations and assessments.
6. A key aspect of internal audit planning is an ability to demonstrate that a business risk based approach has been used. That means internal audit proposals should be risk based through positive identification and consideration of all activities within the Council (plus those provided by contract or from other agencies) which contribute to the delivery of the Council's services and achievement of its objectives. Historically, Internal Audit activity has focussed primarily on financial systems. This plan makes provision to cover a wide range of financial systems and also makes proposals for the non-financial processes or activities which feature in the services delivered throughout the Council.

7. This plan has been prepared from information which is currently valid. It is important to keep a three-year plan under regular review, both strategically and operationally, to properly reflect any material changes in activities, risks, resources or any other characteristic which could impact on the current proposals for the delivery of planned internal audit work. Therefore, this plan will be reviewed at regular intervals.

### **Approval of Internal Audit Plan**

8. The Code of Practice requires that a Council's Audit Committee (or equivalent) should approve internal (and external) audit plans. This plan therefore is presented to the Council's Finance and Performance Monitoring Sub-Committee (which is the current Member body performing a quasi audit committee role within North Wiltshire District Council) so that, following its consideration, it can recommend its approval to Executive.
9. Any material changes to this plan, once approved by the Executive, should be agreed by that body, subject to initial consideration by Finance and Performance Monitoring Sub-Committee, with a statement summarising the reasons for the changes and any implications from those changes. Minor, or emergency, changes to the plan may be approved by the Finance Team Leader, acting under delegated authority.
10. Future plans should also be approved by the Executive, after consideration by the Finance and Performance Monitoring Sub-Committee. From the autumn of this year, a characteristic of the developing CPA assessment regime is likely to be a focus on the role and status of the member body performing an 'audit committee' role within each council.

### **External Auditor Reliance**

11. The Council's external auditors are the Audit Commission. The Local Audit Commission Manager will be reviewing the Internal Audit Plan and will expect to be able to place reliance on delivery of planned work. The Audit Commission place particular reliance, or dependency, on internal audit work performed on the major financial systems of the Council (known as fundamental systems) as well as work covering other important financial or management information systems (eg, performance indicator systems).
12. A positive dialogue has been established with the Local Audit Commission Manager (Peter Barber at July 2005). Wherever possible, the work of the internal and external auditors will be coordinated – both in content and in timing – so that activities subject to audit within the Council experience optimum exposure.

## **Plan Compilation**

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13. The plan has been prepared after consulting a range of evidence and information sources which include:
- CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2003;
  - Audit Commission's Annual Audit Letters for 2003 and 2004 and various Audit Commission Reports issued since April 2004 (supplemented by dialogue during July/August 2005);
  - KPMG internal audit reports and annual reports to 2005
  - Draft Corporate Risk Register and service risk assessment records
  - Statement of Internal Control 2005;
  - The Council's Code of Corporate Governance;
  - The Council's Key Objectives and Corporate Business Plan;
  - The Council's MTFP and Budget Book;
  - Reports to various parts of the Council's governance structure
  - Financial/non-financial system and process inventories;
  - The Council's CPA assessment.
- 14 All of the above information sources have helped inform the business risk assessment assumptions when compiling this Strategic Internal Audit Plan.

## **Business Risks**

15. These have been examined in detail using a consistent evaluation of the key characteristics of each system, process or activity that contributes to the achievement of the Council's Corporate Plan and which therefore feature in the three-year Internal Audit Plan.
16. The information collated from the wide range of sources within the Council was supplemented by factual data (transactional volumes/values etc). The data has informed the timing and resource requirements for auditing each system.
17. The ICT audit need assessment has been provisionally drawn up, and will be further evaluated by Deloitte and Touche during October 2005. There will also be a comprehensive ICT audit needs assessment prepared by Deloitte and Touche which will be used as a basis for agreeing the auditable ICT areas over the next three years. After that needs assessment is agreed the strategic internal audit plan should be cross referenced to the Council's emerging Corporate Risk Register and should be periodically updated as required.

### **Consultation Process**

18. This has involved seeking views from a wide range of senior managers to help identify, and subsequently validate, assumptions that have contributed to the formulation of the Internal Audit Plan. This consultation activity was also an opportunity to explain in detail the rationale for re-establishing an in-house Internal Audit Service and to raise the profile of Internal Audit's intended approach to delivering the planned programme of work.
19. The consultation process is expected to be continuous. Although the initial detailed planning work has been completed the strategic outcomes from this work and an agreed timing of audit work will be regularly discussed with senior managers.

### **Resource Availability**

20. The internal audit resource will be 2 fte staff (one Audit Manager and one Assistant Auditor). This resource availability has been applied to identified auditable areas and has produced a detailed basis for operational planning during 2005/06. The detailed operational plan sets out the timing of individual audits.
21. There is an additional dedicated resource, contracted from Deloitte and Touche, to provide expert ICT internal audit for this Council. This provision is made in collaboration with two other District Councils within Wiltshire and co-ordination of work planning with these Councils is currently taking place.
22. The detailed outcome from the work to produce this plan, including the allocation of audit resources is summarised in the annex attached.

### **Annual Review of Internal Audit by Audit Commission**

23. The Audit Commission formally reviews the provision of internal audit within each Council on an annual basis. The proposals contained in this plan will be an important part of the review considerations. The Audit Commission will evaluate the extent of coverage, quality of work performed and delivered, client implementation arrangements and/or escalation protocols for disputed recommendations, robustness of risk evaluation assessments, resources available for internal audit, contribution of the contracted ICT specialist audit resource and overall compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
24. A formal assessment report on the achievements from the proposals in this internal audit plan is expected to be delivered to this Council in Spring 2006.

### **Main internal audit work planned for 2005/06**

25. Some work is planned in each of these categories.

- Fundamental System Audits, the key financial systems of the Council. These will usually be subject to internal audit on an annual basis.
- Service Focused Audits, which are mainly customer facing services
- Corporate Systems/Activities Audits, cross-cutting activities or functions which contribute to service delivery.
- ICT Related Audits, work around, or on, the information technology resources which support delivery of the overall objectives of the Council.

The attached Annex indicates work projections for the currency of the strategic plan and the operational plan for 2005/06

26. It is expected that this current plan will be reviewed and/or updated annually. The first review is likely to take place around February/March 2006 and should re-affirm the risk characteristics recently collected. Once that review has taken place, and the implications of any changes in individual or overall risk profiles are incorporated, an amended plan for 2006/09 should quickly be developed. As each audit is completed the risk profile currently in place will also be reviewed.

### **Structure of the Audit Plan**

The Plan as presented shows the following information:

- Auditable activities – a list of detailed systems or processes which will be subject to internal audit appraisal during the currency of the plan;
- Financial and non-financial systems – both types of systems are included as the risk-based planning process has identified key activities that contribute to overall stewardship or integrity of the Council's business processes;
- Service clusters and corporate/support activities – this plan shows proposed internal audit work on a range of activities presented either as customer-facing services or corporate/support activities;
- ICT audit – current proposals for delivery mainly through the specialist contracted expertise from Deloitte and Touche;
- Management time allocation – included for developmental and/or relationship activities integral to the work of the internal audit function;
- Contingency – time provision for advisory or discretionary work (whistle blowing/NFI engagement etc).

### **Scope of Internal Audit Work**

27. Each audit assignment will be agreed with the relevant audit client (usually a senior manager responsible for the activity subject to audit review). This scoping proposal will include the extent of work, timing and duration of manager/staff engagement required, information sources to be accessed, other supporting requirements to aid internal audit work, expected outcomes from audit work (including report timings etc).

### **Reporting from Internal Audit Work**

28. Most pieces of audit work performed will lead to a formal report. The main issues from each piece of work will usually be identified at a closure or exit interview – so there are “no surprises” when the draft report is delivered to the audit client. Standards are being developed for report drafting and finalising and are likely to be:

Draft report to audit client – within 10 days of closure/exit interview;

Audit client responses – within 10 days of draft report issue;

Internal audit final report/action plan to client – within 5 days of client responses.

The agreed action plan will also include any updated risk assessments (to inform audit planning, and risk registers, SIC etc etc).

These reporting standards are currently being developed and should be fully implemented by December 2005.

### **Performance of Internal Audit**

29. Client feedback questionnaires are being produced for each piece of internal audit work. Results from these questionnaires, with other key messages from internal audit work, will be collated and reviewed with the Finance Team Leader, CMB and Members – via formal periodic reports on internal audit activity.

30. Other performance indicators are being developed to include plan delivery, impact of recommendations made, accepted and implemented, risk evaluation implications etc.

**Quality Assurance**

31. As the in-house service develops, there will be a need to demonstrate a robust quality assurance process internally. This requirement now applies to all local authorities. Developing regional and/or local network peer review protocols is one way of achieving a consistent quality assurance routine and will be explored within the Wiltshire Audit Group during 2005.

**Annual Review of Internal Audit by Audit Commission**

32. A formal assessment report on the achievements from the proposals in this plan will be prepared for the Council, by the Audit Commission, during early Spring 2006.

**John Barker**  
**Interim Head of Internal Audit**  
**September 2005**

## **NORTH WILTSHIRE DISTRICT COUNCIL**

### **ANNEXES TO INTERNAL AUDIT STRATEGIC PLAN 2005/2008**

Three-year audit allocation proposals. This sets out the activities proposed and the anticipated resource deployment and frequency. The allocations are proposed for three complete years within this plan. A likely pattern of development from this initial plan will be:

2005/06 – planned work i.e. current year's Operational Plan.

2006/07 - probable audit activity – likely planned work, unless there are

significant changes in the projected risk characteristics during this current financial year.

2007/08 – possible audit activity – an indication at this stage of how a plan will be formulated for that year. Obviously updates to risk characteristics over the next 18 months may identify subsequent amendments to the projected work.