



Audit Committee
22 February 2011

**Report from the Director of
Finance and Corporate Services**

Wards Affected:
ALL

**Audit Needs Assessment and Internal Audit Plan for
2011/12**

1. Summary

- 1.1. This report sets out the approach being taken to undertake a formal Audit Needs Assessment ('ANA') across the Council, the output of which will be used to formulate the Annual Internal Audit Plan ('the Plan') for the 2011/12 financial year.
- 1.2. All Local Authorities are required to make proper provision for Internal Audit in line with the 1972 Local Government Act and the Accounts and Audit Regulations 2003 (as amended). The CIPFA Code of Practice on Internal Audit in Local Government requires the proper planning of audit work.
- 1.3. The completed ANA and proposed Plan will be presented for formal approval at the next scheduled meeting of the Audit Committee. As such, work against the Plan will need to commence from 1 April 2011. On this basis, it is proposed that the completed documents are circulated to members in March for comment.

2. Recommendations

- 2.1. The Audit Committee note the approach being taken to complete the Audit Needs Assessment and formulate the Annual Internal Audit Plan for the 2011/12 financial year

3. Detail

- 3.1. The Audit Committee is required to consider the strategic and annual audit plans, and consider the level of assurance these can give over the Council's corporate governance and risk management arrangements.
- 3.2. The Internal Audit service is delivered through a partnership between the Council's in-house Audit & Investigations Team ('the in-house team') and Deloitte & Touche Public Sector Internal Audit Limited ('Deloitte').
- 3.3. The work to be undertaken is determined on an annual basis through the formulation and agreement of the Plan. This sets out the total number of days of internal audit work to be delivered during the year, and the breakdown of these to individual audits across the Council.
- 3.4. Any area of the Council's operations are potentially subject to internal audit coverage. However, given resource constraints, not all areas can be audited on an annual basis, and this would not be expected in any organisation. The selection of audit areas is therefore determined on the basis of risk.
- 3.5. Risk is the key driver of all internal audit work, not simply in determining which areas to include in the Plan, but also then the specific elements to be covered within each individual audit. This aligns with Internal Audit's core role of providing an independent and objective assurance opinion on the adequacy and effectiveness of the systems of control operated by management in order to manage risk to the organisation.
- 3.6. 'Risk' is broadly defined as being something which threatens the achievement of an objective. When considering risks in relation to the achievement of objectives across the Council, it is therefore important to recognise that the range of potential risks is significant and diverse. Risks don't relate solely to financial systems, and hence the work of Internal Audit isn't focused solely on these areas.
- 3.7. In recent years, the Plan has been formulated on the basis of the following:
 - Internal Audit's own knowledge and understanding of key risk areas across the organisation. This is informed through their general understanding of the concept of risk; their knowledge of the Council's operations, as built up over many years; and their awareness and experience of risks being faced within other Local Authorities, as well as across the wider public sector;
 - Internal Audit's own knowledge and understanding of key developments taking place across the Council, and hence emerging risk areas; and

- Discussions with Directors and Assistant Directors across the Council, so as to clarify and add to the above.
- 3.8. The work of Internal Audit is, therefore, focused on key risk areas, be these in relation to established systems and areas of operation, or connected to new areas of development and transformation. This second aspect is significant. The concept and delivery of change can be a key driver of risk, and this has been of growing significance with changes in the external environment prompting the need for increased change internally.
- 3.9. For 2011/12, whilst the above steps will still be followed, given the increased levels of change that have been taking place and which will continue post March 2011, the approach to formulating the Plan is being further strengthened and formalised.
- 3.10. In order to help ensure that all key risk areas are identified, including new and emerging risks, the ANA for 2011/12 is being focused around the following set of internal and external risk factors:

Internal:

- Achievement of Objectives;
- Compliance with Legislation;
- Income/Expenditure;
- Changes to the Organisation; and
- Key Organisational Projects.

External:

- Economic;
 - Regulatory; and
 - Fraud Risk.
- 3.11. The above areas are inter-related, and changes in the external environment are likely to have an impact on the internal risk factors. This holistic approach is therefore considered to be robust. Change, however, is ongoing and hence it cannot be guaranteed that this exercise will necessarily anticipate and identify all future emerging risks. This has always been the case, hence why the Plan is accepted as being a flexible document which is reviewed throughout the course of the year, with amendments made to the areas of coverage, as appropriate.

- 3.12. The above risk factors are detailed further in Appendix 1. Currently, the Internal Audit team are undertaking an initial assessment against these, on the basis of their own knowledge and understanding of the Council's operations and developments taking place across Local Government, together with the various changes taking place internally as part of the One Council Programme. They are also attending DMT meetings to seek further input from Directors and Assistant Directors. These meetings are taking place in the two weeks commencing 21 and 28 February 2011. Given this, it has not been possible to complete the exercise prior to this Committee meeting.
- 3.13. The output from the process will be nine tables, one at corporate level and one for each of the Service Areas, documenting the assessment against each of the above risk factors. These will then be used to formulate the Plan, with each audit referenced back to the specific risk factors that have determined its inclusion.
- 3.14. As per 1.3 above, work against the Plan will need to commence from 1 April 2011. The intention is therefore to complete the ANA promptly following the scheduled DMT meetings, and then draft the Plan for circulation to members for comment prior to the end of March. Formal presentation and approval of the document will then take place at the next scheduled Committee meeting.
- 3.15. Two final points to note are as follows:
- As in previous years, Internal Audit will liaise with the Audit Commission regarding the content of the Plan. This allows for a further input of knowledge with regards to key risk areas, as well as helping to ensure that the work of each is co-ordinated, thereby helping to avoid both gaps and duplication in coverage; and
 - Given the need to focus on risk, as well as the outlined elements of the ANA process, the Plan should also be linked to an organisations risk management framework. Developments in this area are currently also being taken forward by the Head of Audit & Investigations. As such, these are being undertaken alongside the ANA process and hence it will be ensured that the two are consistent. Once the new risk management arrangements have been embedded, as part of the ongoing in-year review of the Plan, amendments to areas of coverage will be made as appropriate.

4. Financial Implications

- 4.1. None

5. Legal Implications

5.1. None

6. Diversity Implications

6.1. None

7. Background Papers

7.1. None

8. Contact Officer Details

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APPENDIX 1

Risk Factors

Internal Risk Factors	
Achievement of Objectives	<i>Key to the role of Internal Audit is providing reasonable assurance that the control systems will achieve their objectives. In terms of determining audit coverage, a key consideration is therefore the priority of the area in working towards the overall objectives of the organisation.</i>
Compliance with legislation	<i>A primary role of Internal Audit is in ensuring that systems and processes comply with relevant legislation and standards, internal and external.</i>
Income/ Expenditure	<i>In terms of allocating scarce resources, it is key that the significance of the individual area to the overall financial position of the organisation is taken into consideration. Areas of significant income and expenditure may also be required to be subject to internal audit coverage as part of the work with External Audit.</i>
Changes to the organisation	<i>For significant changes to the way in which the organisation operates there is an increase in risk to delivery of systems to meet their objectives, potentially also impacting upon people and their effectiveness. Internal Audit can play a key role in this area through assessing the adequacy of proposed changes and assessing the risk implications of the new control systems.</i>
Key Organisational Projects	<i>Providing assurance regarding the systems in place to deliver key projects helps to ensure that resources are being utilised effectively. In addition, Internal Audit may perform a role in respect of providing risk and control advice throughout the duration of the project.</i>
External Risk Factors	
Economic	<i>The wider economic environment and the implications for the area subject to audit are key to the determination of the relative need for assurance within the area. The current economic climate has implications for all aspects of the organisation's operations, including income collection and funding cuts</i>
Regulatory	<i>As the regulatory environment changes the audit coverage needs to both consider and adjust to the requirements on a continuous basis.</i>
Fraud Risk	<i>Within the current economic climate it is recognised that there is potential for fraud to significantly increase, this may be by staff or parties external to the organisation. Internal changes can also increase fraud risk. Reflecting internal audit work to areas of potential fraudulent activity contributes to the management of fraud risk.</i>