

COMMITTEE: AUDIT AND GOVERNANCE

DATE: 15th DECEMBER 2009

SUBJECT: INTERNAL AUDIT STRATEGY 2010/11

REPORT BY: CORPORATE DIRECTOR

CONTACT OFFICER: STEVE HEAPPEY

TEL: 01582 546281

IMPLICATIONS:

LEGAL ☐

COMMUNITY ☐

SAFETY

EQUALITIES ☐

ENVIRONMENT ☐

FINANCIAL ☐

OTHER ☐

STAFFING ☐

WARDS AFFECTED: NONE

PURPOSE

1. To provide an opportunity for the Audit and Governance Committee to consider the annual audit strategy for 2010/11.

RECOMMENDATION

2. **The Audit and Governance Committee to recommend to the Executive that it approves the Audit Strategy.**

BACKGROUND

3. The Council has a statutory responsibility under the Accounts and Audit Regulations 2006 to maintain an effective internal audit of its activities. Internal Audit is an important element of the Council's risk management arrangements in terms of the work that it undertakes in evaluating and reporting upon the control environment across the Council. The Accounts and Audit Regulations also require that the Council shall be responsible for ensuring the financial management of the Council is adequate and effective and that the Council has sound systems of internal control that facilitate the effective exercise of the Council's functions.

REPORT

- 4 The audit strategy has evolved during the last few years to provide a full internal audit service that not only covers the essential assurance work but also undertakes a pro-active and reactive consultancy work in the form of service, departmental or corporate value for money reviews, provision of advice, fraud related work and risk management work.
- 5 A review of internal audit, reported by the Corporate Director – CCS and endorsed by the Head of Corporate Finance and Procurement has found that the added work of the service is at a cost which cannot be sustained with the current financial pressures facing the Council. This is not essential or statutory work and although it adds value to the service the cost and need must be re-considered.
- 6 The CIPFA code of practice for internal audit states that “ IA can also, where resources and skills exist, provide additional services including fraud related and consultancy work.” Audit is primarily assurance work and other work is additional and non-essential.
- 7 As reported in the Annual Audit Report 2008/9 the daily cost of internal audit is above benchmark (£323 against £303). This is partly due to the audit strategy and services provided. This is upper quartile. This could be reduced to approximately £275 per day (lower quartile) with a revised strategy and service.
- 8 The introduction of a revised strategy would result in a reduced audit plan by approximately 300 days to 1415 days. This has been discussed with the Head of Corporate Finance and Procurement and the External Auditor who believe this plan would still have sufficient capacity for all the necessary assurance audit work and some additional consultancy work and advice. It will still enable Internal Audit to fulfil its statutory assurance and scrutiny function and for the Council and the External Auditor to place full reliance on the work of internal audit.
- 9 The Council would need to ensure there is still a robust system of internal audit and for the service to maintain the current standards and depth and quality of audit review. There are already a number of monitoring and consultation roles for audit and this includes:-
 - Audit plan – prepared in consultation with management, Corporate Directors, the external auditor, the Audit and Governance Committee and approved by Executive. The review of the audit plan by the external auditor helps to ensure the plan is robust and covers all main systems and areas of risk.
 - Monitoring - the CIPFA Code of Practice for Internal Audit details the standards that have to be met and ensures the Council can place full reliance on its internal audit service. Monitoring of performance and quality of the audit service is by the Section 151

Officer and the Audit and Governance Committee. There is also an annual review of the work and quality of internal audit by the Council's external auditors. This ensures internal audit work is in compliance with the CIPFA code and of the standard required so the external auditor can place reliance on the work and does not have to undertake extensive audits themselves. This helps to contain the cost of external audit. Therefore, the Council can be re-assured that the current standard and coverage of audit work will not be allowed to reduce.

10 The areas of the strategy it is proposed to reduce are:-

Value for money (VFM) project work.

The current projects are nearing completion (IM, HR and Legal). The cost deployment work and role of the Luton Excellence Support Team includes any area that would be reviewed under a VFM basis and therefore audit, and specifically the Head of Audit will not be required to lead corporate VFM reviews. In addition as the lean programme and lean change agents are developed throughout the Council the need for specific audit VFM reviews will not be required. There are 90 days in the 2009/10 audit plan for VFM work although substantially more than this will be completed due to the full involvement of the Head of Audit as the lead for the HR VFM review. Some of this allocation should be retained for lean agent work as two auditors are being trained in this work. The audit service would still have sufficient capacity to review and scrutinise Luton Excellence to ensure the work programme is being delivered.

Risk Management

There is a risk management service within Corporate Finance and there has always been reluctance for services to engage with the audit risk workshops. Whilst this is valuable work for the services involved in a workshop it can be undertaken by the risk management team or by the individual service. It has been an area of work where time allocation has been used for other audit work and is considered to be an area of work that can be deleted from the audit plan. At least 70 days could be reduced from the plan.

Consultancy

There are 180 days allocated to consultancy in the current audit plan. Whilst some of this work is essential (NFI, Corporate Governance and RIC) other areas are considered as desirable and so the plan could be reduced by up to 100 days whilst still retaining an allocation to provide advice and some consultancy where appropriate.

11 Private Sector Partnership

The private sector partnership with Deloitte has been invaluable especially when this provided resources to backfill vacancies and sickness and maternity leave absence. The partnership with Deloitte should be continued to provide their specialist audit services, on-line information system and emergency resources if required. This could also help when developing a shared service.

12 Audit Structure

If the proposed strategy is agreed the audit structure will be reduced to account for the reduced workload. In order to significantly reduce long-term costs it is proposed for the Head of Audit post to be deleted, the audit manager post to be enhanced and an auditor post to be deleted. The work of the Head of Audit is predominately on overall audit and directorate management and cross cutting corporate reviews. The day-to-day audit operational management for the majority of audit work is already undertaken by the audit manager. This was introduced two years ago to allow the Head of Audit to work on the IM and HR VFM reviews and other reviews but this work is nearing completion and new projects are managed by LEST. If the work is no longer required in this area the more specialist work of the Head of Audit would not be required.

Although it is proposed for Internal Audit to report to the Head of Corporate Finance and Procurement independence will be maintained by a direct reporting line to the Chief Executive, Leader of the Council and the Audit and Governance Committee. This meets with CIPFA regulations and has the support of the Head of Corporate Finance and Procurement and the External Auditor.

RISK IMPLICATIONS

- 13** There are no risk implications to this report other than those set out in the body of the report.

FINANCIAL IMPLICATIONS

- 14** The financial implications to this report are as a result of the implementation of the new strategy. If this is approved and the audit service is restructured annual savings of at least £143,000 from 2010/11 will be achieved assuming any contributions to the pension fund can be met from underspending in 2009/10. This has been agreed with the Head of Corporate Finance and Procurement on 4th December 2009.

LEGAL IMPLICATIONS

- 15** There are no direct legal implications to this report save for those set out in the body of the report. This has been agreed with Richard Stevens, Head of Legal Services on 3rd December 2009.

APPENDICES

16 The following appendices are attached to this report:

Appendix A - the proposed Audit Strategy for 2010/11.

Appendix B - report of the Corporate Director- CCS.

LIST OF BACKGROUND PAPERS

LOCAL GOVERNMENT ACT 1972, SECTION 100D

The Accounts and Audit Regulations 2006.

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.