

	Item no: 8
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SUBJECT:	INTERNAL AUDIT: STRATEGIC PLAN 2007/08 TO 2009/2010
DECISION-MAKER:	AUDIT COMMITTEE
DATE OF DECISION:	28 TH MARCH 2007
REPORT VERSION No:	1.0

FORWARD PLAN No: N/a

KEY DECISION? NO

STATEMENT OF CONFIDENTIALITY

Not applicable

WARDS/COMMUNITIES AFFECTED:

None

SUMMARY

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business, activities, systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- Risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The *Strategic internal audit plan* provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

A more detailed *Annual operational plan* is derived from the Strategic plan using a cycle-based risk approach, whereby audits are selected based on the greatest perceived inherent risk. Whilst most effort is focused on inherently high risk areas, the potential for problems to materialise within the rest of the audit universe is not ignored.

Other reviews, based on criteria other than risk, may also be built into the work plan. These may include "mandatory" audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate contribution to the audit opinion on risk management, control and governance.

RECOMMENDATIONS:

- (i) The Audit Committee is invited to comment on and approve the Strategic

Internal Audit Plan for 2007/08 to 2009/10 as attached.

REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with proper internal audit practices and the Internal Audit Strategy, the Audit Committee is required to approve, but not direct, the Strategic Internal Audit Plan.

BACKGROUND

2. Under the Accounts and Audit (Amendment) (England) Regulations 2006, the Council is required to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. The standards for 'proper practices' in relation to internal audit are laid down in CIPFA's Code of Practice for Internal Audit in the United Kingdom (currently under review).
3. The Internal Audit Strategy requires that the Chief Internal Auditor provides a three-year strategic audit plan from which an annual operational plan may be derived. Regular status reports will be made to the Audit Committee, summarising the internal audit work carried out against the annual operational plan.

CONSULTATION

4. Consultation has taken place with members of the Chief Officers Management Team in development of the strategic internal audit plan.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

5. No alternative options have been considered.

DETAIL

6. The plan has been designed in line with the *Internal audit strategy* and reflects recognised good practice to ensure due consideration is given to the following core principles of good governance to support the Statement of Internal Control:
 - focus on the Council's defined purpose and outcomes;
 - effective performance in clearly defined functions and roles;
 - promoting values that underpin good governance;
 - taking informed and transparent decisions within a framework of controls;
 - development of the capacity of the governance team; and
 - engaging stakeholders and making accountability real.
7. The work plan is aligned with the Council's business planning framework to ensure it contains the main business processes, projects, assets, performance and compliance issues significant to the Council's strategic direction, risk environment and business goals.

8. Auditable units have been selected and prioritised on a rational and objective basis, following a systematic appraisal, in consultation with management, of the following predictive factors:
 - criticality to the success of the Council;
 - value at risk;
 - impact on corporate governance, including legislative or regulatory impact;
 - significance of management information provided;
 - impact on the Council's reputation;
 - impact on business continuity or ability to provide customer services; and
 - significance of assets (logical and physical) under the stewardship of the activity.
9. Consideration has been given to the assurance work carried out by others, such as those responsible for the governance of the Council, the external auditors and other review bodies, to avoid duplication and maximise use of available assurance resources.
10. The *Annual operational plan 2007/08* will be resourced through the current approved staffing complement of 13.8 FTE delivering 2000 direct audit days. The Audit Committee will be aware that the Internal audit team is currently operating with a 42% shortfall (6.2 fte) in resource needs. A recruitment campaign is planned for March/April 2007 in attempt to fill vacant posts. It is, however, recognised that there is significant competition in the marketplace for qualified and experienced internal auditors of the appropriate calibre. As such, alternative methods of service provision are also being explored. These include partnering and co-sourcing arrangements with a range of public and private sector external service providers.
11. The audit plan is indicative; it will be subject to ongoing review and amendment, in consultation with the relevant Executive Directors and Audit Sponsors, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Chief Internal Auditor's continued contact and liaison with those responsible for the governance of the Council (i.e. COMT, Audit Committee, Policy Coordinators and the Audit Commission).
12. The type of "review" undertaken will be determined in consultation with the relevant Audit Sponsor. The range of review type includes:
 - Risk based audit: review of design and operation of controls in place to mitigate key risks to the achievement of defined objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
 - Developing systems audit: review of plans and designs of systems under development; and/or assessment of programme/project management controls.
 - Compliance audit: a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations.
 - Quality assurance review: review of approach and competency of other reviewers/assurance providers to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
 - Consultancy or advisory services: provision of advice, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be

noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any consultancy or advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

Fraud and irregularity investigations: provision of specialist skills and knowledge to assist in or lead an investigation as appropriate; and/or review of fraud prevention controls and detection processes.

CRSA: (control and risk self-assessment) a facilitation service to enable identification and review of risks and controls associated with the achievement of defined business objectives.

13. Executive Directors and/or their nominated Heads of Service will be involved in the scoping of the reviews to ensure they are appropriately focused on the key risks to delivery of agreed objectives. The detailed planning stage for each review may result in reviews being combined, extended or replaced. A “Terms of reference” will be produced prior to the commencement of each review to ensure the scope and objectives of the review are understood and agreed.
14. The Internal Audit Plan does not include the plan of work to be undertaken by the Risk and Assurance Manager in developing the Council’s approach to risk management and in supporting members and Directorates in the delivery of their responsibilities under the Council’s Risk Management Strategy. The introduction of Risk Based Internal Auditing does however support development of a sound approach to risk management through clearly linking internal auditing to the organisation’s overall risk management framework, priorities and objectives, enabling internal audit to provide assurance that risks are properly identified and managed effectively, in relation to the risk appetite.
15. To achieve planned coverage, deliver a high standard of customer care and demonstrate the effectiveness of the service, the following internal audit service targets have been established against which performance will be continuously monitored:

Aspect of service	Performance indicators	Target
Cost and quality of input	• Service costs	• Within budget
	• Planned days delivered	• 100%
	• Direct time as % of total time	• 65%
Productivity and process efficiency	• Achievement of annual plan	• 90% minimum
	• Delivery of high risk audits	• 100%
	• Issue of draft report within completion of fieldwork and agreement of action plans	• Within 10 days
	• Client response received to draft audit reports from issue	• Within 10 days
	• Issue of final report after agreement with client of draft	• Within 10 days

Quality of output	<ul style="list-style-type: none"> • Client satisfaction levels 	<ul style="list-style-type: none"> • 80% satisfaction
	<ul style="list-style-type: none"> • External audit reliance on work of internal audit 	<ul style="list-style-type: none"> • Reliance placed
Compliance with professional standards	<ul style="list-style-type: none"> • CIPFA Code of practice for internal audit in local government (2006) 	<ul style="list-style-type: none"> • Complies with Code
Outcomes and degree of influence	<ul style="list-style-type: none"> • Implementation of agreed actions 	<ul style="list-style-type: none"> • 90% of high priority actions

FINANCIAL/RESOURCE IMPLICATIONS

Capital

None

Revenue

None

Property

None

Other

None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Other Legal Implications:

None

POLICY FRAMEWORK IMPLICATIONS

None

SUPPORTING DOCUMENTATION

Appendices

1.	Strategic Internal Audit Plan 2007/08 to 2009/10
2.	

Documents In Members' Rooms

1.	None
2.	

Background Documents

Title of Background Paper(s)

Relevant Paragraph of the
Access to Information
Procedure Rules / Schedule
12A allowing document to be
Exempt/Confidential (if
applicable)

1.	None	
2.		

Background documents available for inspection at: Internal Audit Office, North
Block Basement, Civic Centre

REPORT OF: Chief Internal Auditor

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File Name: G:\DIVISION\COMMITTEE PAPERS\AUDIT COMMITTEE\Reports
200607\Mar 07 Meeting\3. Report - IA Strategic Plan.doc