

AUDIT & RISK COMMITTEE

19th April 2010

ANNUAL AUDIT PLAN 2010/11

Report of the Head of Consortium

STRATEGIC AIM:	To be a well managed organisation
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1. PURPOSE OF THE REPORT

- 1.1 To comply with the CIPFA Code of Practice for Internal Audit by providing the Audit and Risk Committee with the opportunity to approve the Annual Audit Plan produced by the Council's Chief Internal Auditor.
- 1.2 To explain the reasoning behind the move from a four-year rolling strategic plan to a one-year risk based audit plan and the consequences of that change.
- 1.3 To inform the Committee of progress in identifying and delivering an appropriate level of assurance about the Council's IT risks.

2. RECOMMENDATIONS

That the Committee

- 2.1 Approve the Annual Audit Plan set out in Appendix B
- 2.2 Note progress in developing appropriate assurance for the Council's IT risks.

3 INTRODUCTION

- 3.1 The Consortium is required to operate – as far as is practicable - in line with the standards and guidance issued by CIPFA and endorsed by the Audit Commission: to do otherwise carries the risk that external audit will reduce the reliance placed on the Consortium's assurance work. CIPFA guidance now requires internal auditors to move as rapidly as possible to a fully risk-based audit planning process because such an approach provides assurance about the client's most significant areas of risk.
- 3.2 The Consortium's planning process since its establishment has centred on a four-year strategic plan. In producing that document, the Head of Consortium first attempted to identify all aspects of the Council's activities requiring audit assurance [i.e. audit entities]. Next, based upon experience, the views of relevant managers and other available evidence, an opinion was developed as to how soon and how frequently each of those entities needed to be audited. That approach was justified by the auditors' limited direct knowledge of the Council and its risks at the time. It is now both practical and beneficial to move towards a fully risk-based planning approach.

- 3.3 In the course of the recently completed peer review, a risk-based audit planning model “The Stanford University Model” was identified as a tool appropriate for the Consortium’s purposes. The model was used to identify a risk score for every identified audit entity: a risk-based planning approach involves the allocation of available audit days so that those audit entities with the highest risk scores are subject to audit.
- 3.4 The Consortium has taken account in the planning process of the ongoing need to meet the expectations of the External Auditors about assurance on key financial systems. The categorisation of audit entities as “**Financial Systems**”; “**Governance & Performance**” and “**Customer Facing**” has been retained and developed: Fundamental Financial Systems and Financial Management Systems have been identified separately. Fundamental Financial Systems will continue to be audited annually.

4 APPLYING A RISK-BASED AUDIT PLAN

- 4.1 Appendix A to this report shows all of the audit entities identified by the Consortium in respect of the Council’s significant risks. This schedule contains some modifications to that comprising the earlier four-year plan. New entities have been created to reflect the identification of significant new risks [Medium Term Financial Planning; Equalities; and External Communication: a “portfolio risk” relating to Catmose Campus has been identified in light of the recommendations accepted by the Council following an External Audit Report. . Some existing entities have been combined, reflecting experience on other sites. [Democratic Process – combining Democratic Services and Member Services; Use of Planning Processes – combining s106 Agreements, Strategic Planning and Strategic Housing].Others have been refocused [Public Health and Protection has been split to focus on Environmental Health’s roles of inspection and dealing with nuisance; Supporting the Voluntary Sector has been expanded to encompass work with voluntary and third sector organisations].
- 4.2 Appendix A shows the risk score for each of the 88 identified entities [With the exception of the provision for ICT Audit, which is subject to a separate audit needs assessment] and provides an indication of the number of audit days that would be required to provide a basic level of assurance on all of those entities – on the assumption that no material issues were identified in the course of those audits. The entities have been sorted in descending order of risk score within each of the defined categories.
- 4.3 The Audit Plan for 2010/11 has been developed on the basis that 405 days will be available for audit activities. It is considered that the list of 41 audits set out in Appendix B can be delivered within those resources unless significant issues are identified during the audit. If extended testing is required to provide the appropriate level of assurance, then the Plan will be reviewed and adjusted during the year based on the risk scores. Any emerging risks during the year will also be scored and may result in adjustments to the Plan.

- 4.4** Risk-based audit planning involves the recalculation of the Council's profile of risks. In calculating annual risk scores, the Stanford Model takes account of factors including the time since last audit and the assurance ratings arising from the most recent audit. This means that the risk scores of entities not audited in 2010/11 will increase in the 2011/12 planning process relative to those entities that have been audited making it more likely that they will be audited in future years.

5. CALCULATION OF AVAILABLE AUDIT DAYS

- 5.1** The original allocation of audit days between the Consortium's primary clients (The County; East Northamptonshire Council; Harborough District Council; and Melton Borough Council) gave the County a total of 450 days. However this figure included the provision for audit work carried out at the County's schools and colleges: since the individual educational establishments pay directly for the audit services provided it makes sense to identify a separate budget for this area of the Consortium's activity. In 2010/11 planned audits of the County's schools and colleges will require 30 audit days, leaving 420 days for the delivery of services chargeable to the Council.
- 5.2** A further adjustment to audit days available in 2010/11 has been made to reflect the role of one of the Consortium's Auditors as a Role Analyst for the Job Evaluation Scheme. On the basis of experience in 2009/10 it is anticipated that the Auditor will spend 15 days on non-audit activities.
- 5.3** The adjustments referred to in 5.1 and 5.2 leave a total of 405 days available for audit activities. A further provision of 20 days has been made for chargeable activities necessary to the delivery of a complete Internal Audit Service. This comprises time for attending Committee meetings and preparing any Committee reports; regular client liaison meetings; and low-level advice and assistance. In the event of requests for substantial pieces of consultancy work, the Director of Corporate Services would be required to agree to the removal from the Annual Plan of the lowest ranking outstanding audit.

6 CONSEQUENCES OF ADOPTING A RISK-BASED PLANNING MODEL

- 6.1** When managing an internal audit service using a multi-year strategic plan, it is accepted practice to roll forward into the first quarter of the following year audits not completed in the year planned, allowing the audit results to be included in the Annual Report of Internal Audit. Such an approach allows audit management to cope with audits that take longer than planned and unanticipated levels of unplanned work. As the strategic plan does not specifically address the relative risk of different audits, some of the audits in each year of the plan have relatively low risks: scheduling is intended to spread both the range of assurance and the pressure on individual managers.

- 6.2** The core purpose of a risk-based approach is to ensure that the available audit resources are applied to give assurance about the highest rated audit risks. The annual risk assessment takes account of the risk associated with an entity not being subject to frequent audit: that an audit is not completed in the planned year does not necessarily justify its inclusion in the following year's plan.
- 6.3** In the transitional year of a switch from multi-year to risk-based planning, reported performance against the Indicator "percentage of plan delivered" will inevitably decline. In substantive terms, the impact is not significant as all the high risk audits not completed at 31st March 2010 are included in the 2010/11 Annual Plan.

7 ICT AUDITING

- 7.1** The Consortium has contracted with KPMG and NTA Monitor to obtain specialist ICT support. NTA is a company specialising in penetration testing while KPMG offers access to a range of skill sets. During 2009/10 KPMG undertook an ICT Audit Needs Assessment for all of the Consortium's client local authorities. The audits identified as necessary for the Council are listed in Appendix C: they will be delivered:
- By KPMG's specialist IT Auditors;
 - By NTA Monitor where the audit involves penetration testing and assurance about firewalls and similar security controls;
 - By the Consortium's own auditors where administrative controls are involved; or
 - Through joint working between KPMG and the Consortium where there are opportunities for skill transfer.
- 7.2** The Consortium is currently working to determine the costs of the various audits required so as to make use of a limited budget for specialist support. In view of changes to the GovConnect scheme, it will be necessary to commission a review by NTA of the Council's security against penetration. KPMG are working to produce outline terms of reference for a range of possible audit assignments so that indicative costings can be developed.

8 RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Low	No time critical issues arise from this report
Viability	Low	There are no issues arising from this report
Finance	Low	No financial issues arise from this report
Profile	Low	The report does not raise any controversial issues
Equality and Diversity	Low	There are no specific equality and diversity issues arising from this report.

Background Papers
None

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A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.