

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

25th JUNE 2007

2007-2010 INTERNAL AUDIT STRATEGY AND SELF ASSESSMENT

Responsible Portfolio Holder	Councillor Geoff Denaro
Responsible Head of Service	Head of Financial Services

1. Summary

- 1.1 To present a summary of the Internal Audit self assessment against the standards detailed in the new CIPFA Code of Practice for Internal Audit in Local Government.
- 1.2 To present the 2007-2010 Internal Audit Strategy.

2. Recommendation

- 2.1 The Audit Board is recommended to note the Internal Audit self assessment against the standards detailed in the new CIPFA Code of Practice for Internal Audit in Local Government.
- 2.2 The Audit Board is recommended to note and approve the 2007-2010 Internal Audit Strategy.

3. Background

- 3.1 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom sets out the proper practices for the Internal Audit service. A revised Code of Practice was issued during 2006.
- 3.2 To enable Internal Audit functions to evaluate their compliance with the revised Code of Practice, a self assessment document was circulated. A copy of the self assessment document was obtained and completed by Internal Audit during February 2007. The self assessment evaluates the sections compliance with all of the Code's standards and enables the Internal Audit service to detail full, partial or no compliance with each standard.

4. CIPFA Code of Practice for Internal Audit Self Assessment

4.1 The self assessment has 195 standards under eleven subheadings. The table below details the level of compliance with each subheading as at February 2007:

Subheading	No of Standards	Full	Partial	No
Scope of Internal Audit	21	14	6	1
Independence	17	14	2	1
Ethics for Internal Auditors	11	9	2	0
Audit Committees	11	9	2	0
Relationships	14	9	2	3
Staffing, Training and CPD	11	11	0	0
Audit Strategy and Planning	21	13	2	6
Undertaking Audit Work	18	11	3	4
Due Professional Care	11	8	3	0
Reporting	32	28	1	3
Performance, Quality and Effectiveness	28	25	1	2
TOTAL	195	151	24	20

4.2 Where partial or no compliance has been established, an Action Plan of improvements has been collated. The main improvements under each subheading are:

- Scope of Internal Audit:
 - define the role and resource requirements for fraud and consultancy work.
 - consider the Council's risk management arrangements as part of the annual audit planning process.
 - determine how the audit service can be provided in partnership and how assurances will be obtained.

- Independence:
 - define how declarations and/or conflicts of interest will be documented.

- Ethics for Internal Auditors:
 - establish a rotation process for Internal Audit assignments.

- Audit Committees:
 - seek approval for the 2007-2010 Internal Audit Strategy and the section's objectives.

- Relationships:
 - define how Internal Auditors work with other Council staff in obtaining assurance.
 - establish a good working relationship with the Council's external auditors, including regular meetings.
 - establish a dialogue with the necessary regulatory and inspection agencies.

- Audit Strategy and Planning:
 - collate the 2007-2010 Internal Audit Strategy, include the necessary areas as detailed in the Code of Practice and seek Audit Board approval.
- Undertaking Audit Work:
 - collate an audit document retention policy.
- Due Professional Care:
 - define Auditor confidentiality and disclosing material information.
- Reporting:
 - establish audit report circulation process.
- Performance, Quality and Effectiveness:
 - establish a process for reviewing service objectives against the 2007-2010 Internal Audit Strategy and Financial Services Business Plan.

4.3 The Action Plan of improvements will be implemented by January 2008. Detailed in the table below is a summary of compliance with the Code before and after the improvements have been implemented.

Compliance Level	Pre-Action Plan Implementation	Post Action Plan Implementation
Full compliance with the Code's Standards	151	185
Partial compliance with the Code's Standards	24	5
No compliance with the Code's Standards	20	5
TOTAL	195	195

4.4 The ten areas detailed in 3.4 were there will be partial or no compliance with the Code are:

Subheading	Standard	Comment	Compliance
Independence (2.1.2)	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?	The sections preferred approach is to involve Auditors at any stage where there experience is required.	No
Undertaking Audit Work (8.1.1 c)	Does the Audit Brief set out timing of the audit?	The timing of the audit is agreed during the annual planning process.	No

Subheading	Standard	Comment	Compliance
Undertaking Audit Work (8.1.1 d)	Does the Audit Brief set out resources?	Each review is allocated to one Auditor, who consults with the customer during the entire process.	Partial
Undertaking Audit Work (8.1.1 e)	Does the Audit Brief set out reporting requirements?	Report distribution is agreed at the end of the review.	No
Undertaking Audit Work (8.2.3)	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	The Internal Audit Manual contains sufficient details on interim reporting.	Partial
Undertaking Audit Work (8.3.3)	Is there an access policy for audit files and records?	The Internal Audit Manual contains sufficient details on audit file security.	Partial
Reporting (10.2.6 b)	Is the report circulation included in the brief for each individual audit?	Report distribution is agreed at the end of the review.	No
Reporting (10.3.3)	Where appropriate, is a revised opinion given following a follow up audit and reported to management?	Audit opinions are given following each full review not when recommendations are followed up.	Partial
Performance, Quality and Effectiveness (11.1.2 a)	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of each individual audit?	The quality review process and "number of recommendations accepted" evaluates audit effectiveness.	Partial
Performance, Quality and Effectiveness (11.3.2 a)ii)	Does the performance management and quality assurance framework include as a minimum a comprehensive set of targets to measure	Performance indicators are monitored monthly and separate report is issued to the Head of Financial	No

Subheading	Standard	Comment	Compliance
	performance which are included in service level agreements?	Services.	

5. **2007-2010 Internal Audit Strategy**

- 5.1 Following completion of the self assessment, the main identified improvement was the need to adopt a three year Internal Audit Strategy. The document sets out the future strategy for the Internal Audit service for the period 1st April 2007 to 31st March 2010. It is intended to demonstrate how Internal Audit supports the Council in delivering its overall vision, values and objectives.
- 5.2 The strategy provides assurances that the Council complies with all legal, audit and inspection requirements. The document also intends to clearly establish how the service will contribute to the Council's corporate governance arrangements, risk management processes and key internal control systems over the next three years.
- 5.3 The Internal Audit Strategy 2007-2010 is based on best practice guidance and documentation. The strategy forms the basis of Internal Audit work over the next three years and the document covers the following areas:
- Aims and Objectives.
 - Role and Purpose of Internal Audit.
 - Internal Audit Service Delivery.
 - Internal Audit Assurance Process.
 - Anti Fraud and Corruption.
 - Advice and Consultancy.
 - Internal Audit Resources.
 - External Assessments.
 - Related Documents.
 - Audit Review Categories.
 - Available Audit Resources.
 - Internal Audit Performance Indicators.
- 5.4 The strategy will be subject to ongoing review to ensure the Internal Audit section is proactive in its response to all internal and external initiatives, standards and regulations.

6. **Financial Implications**

- 6.1 None outside existing budgets.

7. **Legal Implications**

- 7.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) 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 internal audit practices".

7.2 The Internal Audit service is required to comply with the proper practices as detailed in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

8. Corporate Objectives

8.1 Council Objective 02: Improvement.

9. Risk Management

9.1 The main risks associated with the details included in this report are:

- Non-compliance with Internal Audit standards and regulations for Local Government.
- Ineffective Internal Audit service.
- Lack of forward planning and the Internal Audit service not contributing to the Council's improvement agenda.

9.2 These risks are being managed as follows:

- Non-compliance with Internal Audit standards and regulations for Local Government.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Ineffective Internal Audit service.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Lack of forward planning and the Internal Audit service not contributing to the Council's improvement agenda.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

10. Customer Implications

10.1 No customer implications.

11. Other Implications

11.1

Procurement Issues	None
Personnel Implications	None
Governance / Performance Management	None
Community Safety including Section 17 of the Crime and Disorder Act 1998	None
Policy	None
Environmental	None
Equalities and Diversity	None

12. Others Consulted on the Report

12.1

Portfolio Holder	No
Chief Executive	Yes
Corporate Director (Services)	No
Assistant Chief Executive	No
Head of Service	Yes
Head of Financial Services	Yes
Head of Legal & Democratic Services	No
Head of Organisational Development & HR	No
Corporate Procurement Team	No

13. Appendices

13.1 Appendix A: 2007-2010 Internal Audit Strategy.

Background Papers

None.

Contact officer

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