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REPORT TO:	Finance and Management Committee	AGENDA ITEM: 12
DATE OF MEETING:	4th May 2006	CATEGORY: DELEGATED
REPORT FROM:	Director of Corporate Services	OPEN
MEMBERS' CONTACT POINT:	Tony Stamper (Extn 5706)	DOC:
SUBJECT:	Internal Audit Strategic Plan 2006/10	REF: FM 09
WARD(S) AFFECTED:	All	

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### 1.0 Recommendations

- 1.1 That Members approve the strategic audit plan for the period 2006/10.
- 1.2 That the annual work plan for 2006/07 be agreed.

### 2.0 Purpose of Report

- 2.1 To provide Members with details of the strategic audit planning process for the four financial years ending 2010 including the work plan for the current year 2006/07.
- 2.2 The strategic audit plan for the period 2006/10 is detailed in Appendix A for Members' approval.
- 2.3 The annual work plan for 2006/07 is attached at Appendix B for Members' approval.

### 3.0 Detail

- 3.1 Internal audit is an assurance function that primarily provides the organisation with an independent and objective opinion on the degree to which the control and governance environment supports and promotes the achievement of the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the internal control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 3.2 The work of Internal Audit is planned in advance to ensure that there is reasonable coverage of all Council activities. With the resources available it is not possible to cover all activities within one year and therefore a strategic planning process is used.
- 3.3 The **strategic audit planning process** comprises **needs, risk and resource assessments** which culminate in the development of a long-term plan.

- 3.4 This process involves professional judgements on:
- a. the definition of auditable systems
  - b. the approach for determining risk and providing assurance
  - c. the priority given to, and frequency of, each audit
  - d. the allocation of audit resources
- 3.5 The **needs assessment** identifies all areas of the Council's activities that need auditing. Our needs assessment has been developed to include corporate and operational systems and has taken into consideration the Council's objectives as well as integrating with our risk management procedures.
- 3.6 All auditable areas are classified within a framework based on Corporate and Departmental Management responsibilities; this is in effect a systems register. This determines the Council's internal control environment.
- 3.7 The **risk assessment** process assesses the level of inherent risk within the identified auditable areas. Use is made of a risk assessment methodology that quantifies risk in degree terms. This determines the frequency, coverage and time necessary to assess that risk in control terms.
- 3.8 The methodology used is based on a combination of CIPFA's Financial Information Service and the Derbyshire Audit Group approaches and employs a weighted scoring system that produces a low, medium, significant or high risk rating.
- 3.9 The **resource assessment** determines the resources necessary to match the needs. Needs are quantified for all identified auditable areas in the form of days and frequency of audit. Capability, in both capacity and expertise terms, is derived in the form of audit days available to meet these needs. This is determined by a rolling approach over a four-year cycle utilizing the audit team's available resources.
- 3.10 The plan, in resource terms, is flexible primarily by its rolling nature, however there may be times when the team does not have the capacity or specialist expertise to undertake certain audits. In such a case the Head of Finance and Property Services will consider additional budget coverage to buy in resources. This is also an option if investigation work, sickness or vacancies occur in any significant manner.
- 3.11 The Corporate Management Team and the Heads of Service are consulted on the internal control framework. The Director of Corporate Services, as the Council's Responsible Finance Officer, agrees the plan.
- 3.12 Joint working arrangements exist between Internal Audit and the Audit Commission, our external auditors, as part of the managed audit approach. Their requirements are included in the strategic planning process.
- 3.13 The plan contains time allocations which are used either for systematic audit programmes or for audit work to be specified as necessary.
- 3.14 Each year a work plan is produced from the strategic plan and progress is monitored on a quarterly basis.

#### **4.0 Financial Implications**

5.1 None stemming directly from this report.

#### **5.0 Corporate Implication**

5.1 The Council has in place a plan that will ensure the internal control environment is systematically audited as part of the corporate governance arrangements.

#### **6.0 Conclusions**

6.1 The Council's Strategic Audit Plan provides a robust mechanism to ensure that the necessary evidence is collected to provide an opinion on the adequacy, effectiveness and reliability of the organisation's internal control environment.

#### **7.0 Background Papers**

7.1 CIPFA Financial Information Service - Audit Management planning guidance  
Audit Commission – Annual Joint Working Arrangements

