



# ISLINGTON

**FINANCE DEPARTMENT**  
222 Upper Street, London N1 1XR

**Report of: Director of Finance**

Meeting of	Date	Agenda Item	Ward(s)
Corporate Services Committee	20 March 2007		
Standards Committee	19 June 2007		

Delete as appropriate	Non exempt	
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## **Subject: Internal Audit Programme 2007/08**

### **1. Synopsis**

- 1.1 The provision of an effective internal audit service is an essential component in giving assurance on the efficient provision of services that help to underpin the Council's One Islington Strategy.
- 1.2 This paper indicates the programme of internal audit work for 2007/08 and also identifies strategic issues to be looked at through to March 2010.

### **2. Recommendation**

- 2.1 To approve the Strategic Audit Plan 2007 – 2010 and operational plan 2007/08.

### **3. Background**

- 3.1 Internal Audit plays a key role in ensuring that the council conducts its business in accordance with proper standards of corporate governance and that public money is safeguarded and properly accounted for. To this end, it aims to provide an independent, objective, assurance opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.
- 3.2 Internal Audit achieves this by examining, evaluating and reporting on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources within the authority.

- 3.3 The Accounts and Audit Regulations 2006 sets down the statutory requirement for the council to provide an internal audit service. The Chief Internal Auditor (CIA) discharges this function on behalf of the Council's Section 151 Officer (The Director of Finance).
- 3.4 The internal audit service operates to relevant professional standards including the CIPFA Code of Practice for Internal Audit and its' work is closely co-ordinated with the Council's external auditor, the Audit Commission, through the Managed Audit process.
- 3.5 The Managed Audit process is an arrangement whereby internal audit cover a number of areas that the external auditor wishes to see reviewed on an annual basis. These are usually key/fundamental systems such as Payroll, Creditors, Debtors, Council Tax etc. The external auditor reviews the results of this work which informs their opinion of internal control within the Council. If this work is not carried out by internal audit, the external auditor would need to undertake in depth reviews of each area with a consequent increase in the external audit fee. The Managed Audit arrangement for 2007/08 covers approximately 20% of the programmed work.
- 3.6 The Audit Commission also carry out annual reviews and report on the performance of internal audit as part of their work programme.
- 3.7 Internal Audit services are currently provided by a combination of an in-house team working in conjunction with an external provider, PriceWaterhouseCoopers (PWC), who have contributed significantly to the assessment of risk and audit planning process. The CIA maintains overall responsibility for the discharge of the Internal Audit function and reports on progress against the plan, on a quarterly basis, to this committee.
- 3.8 As part of the planning process for audit work within the authority, it is necessary to produce an annual plan of work, which shows the emphasis of audit coverage, based on perceived areas of risk within the authority. The audit plan is initially based on an assessment of the business risks facing the council and their potential impact on the Council's reputation, strategic and financial systems, and service delivery.
- 3.9 Key risks identified in Departmental and Corporate Risk Registers are used in conjunction with audit's previous knowledge and experience of the robustness of the control environment in the service areas, supplemented by discussions with Service Management, to provide an overall audit needs assessment for the level of audit coverage for the year.
- 3.10 Systems / activity areas were evaluated in terms of their potential risk impact and allocated a risk rating of high, medium or low, based on the net result of a matrix of risk factors of: - likelihood and impact. Systems designated as high risk are accorded higher priority and more frequent coverage within audit plans.
- 3.11 The factors used to assess risk and materiality include both objective criteria (budget, turnover, level of transactions, etc.); and also a judgmental element which takes into account audit's previous knowledge/experience of the area, the adequacy of the control environment, management effectiveness and other issues such as vulnerability/impact on other systems. This is then supplemented with the results of the ongoing discussions held with Directors, Assistant Directors or their Heads of Finance where they were requested to identify key business risks or areas of concern for inclusion within the plan.
- 3.12 The process to produce the strategic plan, based on risk assessment, has been in accordance with recommended best practice as laid down by the CIPFA Code of Practice for Internal Audit.

- 3.13 This is further enhanced by an agreed working protocol with the Council's external auditor, whereby both internal and external audit plans and progress are regularly reviewed and monitored to ensure that audit services are delivered in a properly planned and co-ordinated manner to achieve maximum efficiency and effectiveness.
- 3.14 A copy of the 2007/08 annual plan is attached to this report at Appendix A. This shows the planned audit reviews by service area, giving a brief description of the parameters for each project to be audited with a projected input of 1750 days. This plan is a 3 year plan and also details audit reviews to be completed over the coming 3 years through to 2010. Also included are follow up reviews, aimed at providing assurance that adequate action has been taken by Management to implement previously agreed audit recommendations.

## **4. Implications**

### **4.1 Financial Implications**

- 4.1.1 The programme of audit work can be fully met from within the existing Internal Audit revenue budget.

### **4.2 Legal Implications**

- 4.2.1 The Council has a duty to maintain an adequate and effective system of internal audit in accordance with proper internal audit practices (Accounts and Audit Regulations 2006). Due regard must be had by the Council to the CIPFA code of practice for internal audit. Any officer or member must supply necessary documents and other records and provide any necessary information and explanation required in the course of an internal audit.

### **4.3 Equality Implications**

- 4.3.1 Client satisfaction survey forms are issued with each piece of completed audit work and contain a section where the client can indicate if any equality issues were, or needed to be, addressed. This procedure has been in place for the past four years and no survey has ever indicated that an equality issue required addressing.

## **5. Conclusion and reasons for recommendations**

- 5.1 Corporate Services Committee can have confidence that internal audit work has been properly planned to reflect the risks and issues facing Islington and is being properly co-ordinated with the Council's external auditor.
- 5.2 Progress reports on the achievement of the audit plan will further serve to give assurance on key control issues.

Final Report Clearance

Signed by

Date:

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Director of Finance

Received by

Date:

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Head of Democratic Services

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**Background Papers:** Risk Registers, Internal Audit Reports

**Date:** 12 March 2007