

Appendix A

Assessment of HBC Internal Audit against the Internal Audit Code of Practice
**(Taken from Audit Commission Report “Review of Internal Audit
Harrogate Borough Council 2004/05”)**

Standard	Standard Met?	Comments
Organisational Standards		
1. Scope of Internal Audit	Yes	The Council's financial regulations require updating and closer links should be made to the Council's risk management processes.
2. Independence	Yes	Procedures have been put in place to maintain the IA Manager's independence.
3. Audit Committees or equivalent	Yes	Audit Committee remit recently adopted by the Overview and Scrutiny Resources Commission.
4. Relationships with management, other auditors and other review bodies	Yes	There is some scope for the Audit Commission and Internal Audit to develop the managed audit approach further.
5. Staff, training and development	Yes	Impact of reduced resources assessed as part of the planning process for 2005/06.
Operational Standards		
6. Audit Strategy	Mostly	A full audit needs assessment should be carried out when the audit strategy is next updated.
7. Management of audit assignments	Yes	Standard approach taken on each audit and standard documentation need.
8. Due professional care	Mostly	Policy on due care requires updating in light of the revised standard.

9. Reporting	Yes	A formal annual report, giving an overall opinion on the internal control environment, was submitted to the Audit Committee on 13 June 2005.
10. Quality Assurance	Mostly	The Internal Audit Manual requires updating.

Appendix B

Action Plan from Audit Commission Report “Review of Internal Audit”

Audit Commission Report			Internal Audit Comment
Recommendation	Priority	Date	Progress on Implementation
1. The Council’s Financial Regulations, updated to refer to the Accounts and Audit Regulations 2003, should be circulated as part of the planned update of the Constitution in October 2005.	Low	October 2005	Completed. Updated financial regulations (Financial Procedure Rules) approved by Council in October. New version is available on the Council’s intranet.
2. Internal Audit should consider the risks identified in the Council’s risk register, both at the strategic and individual assignment planning stage. Mitigating controls should be tested on a cyclical basis, dependent on the risks identified.	High	2005/06	In hand. Internal Audit already uses the risk registers to inform strategic and annual plans. Audit to test mitigating controls recently commenced.
3. The IA Manager needs to take action at an early stage to ensure his independence is not compromised during the period he is more actively involved in day-to-day work done by Internal Audit.	High	Ongoing	Already in hand. Protocols are in place to ensure that independence of the Audit Manager is not compromised (eg direct reporting from the Internal Auditors to the Director of Resources where there is an identified conflict of interest).

Audit Commission Report			Internal Audit Comment	
Recommendation	Priority	Date	Progress on Implementation	
4.	The Audit Programmes for individual audit assignments should include a proposed timetable for the work. This would help service managers to plan their work around the audit visit, ensure relevant staff are available etc.	Low	2005/06	Actioned.
5.	The Internal Audit Manager should discuss the managed audit approach with the External Auditor to ensure Internal Audit's work is sufficient to provide the level of assurance needed on the ledger and budgetary control systems and to agree any proposed sharing of the work at an early stage.	High	January 2006	The next liaison meeting between External and Internal Audit will discuss this issue. Both parties need to take responsibility for early discussion of audit plans and planned audit coverage.
6.	In the light of the introduction of a number of new systems within the Council, Internal Audit should carry out a full audit needs assessment. Initially this should be done without regard to constraints such as time or resources. System coverage should then be prioritised, based on risk.	Medium	March 2006	Full audit needs assessment to be undertaken in Jan/Feb to feed into planning for 2006/07.

Audit Commission Report			Internal Audit Comment
Recommendation	Priority	Date	Progress on Implementation
7. The Internal Audit Manager should ensure that a risk-based approach is taken to all audit planning and resourcing.	High	March 2006	Already in place.
8. Internal Audit should consider identifying resources for anti-fraud and corruption work both within their strategic and annual audit plans.	High	March 2006	Director of Resources has agreed that additional funds can be made available to Internal Audit for temporary additional resources to undertake further work on anti-fraud and corruption in 2005/06
9. Wherever appropriate, Internal Audit should try to ensure that samples are taken over a 12 month period.	High	Ongoing	Already in hand where practicable and necessary.
10. The Section on due care in the Internal Audit Manual should be updated to include the areas relating to individual auditor conduct in the Internal Audit Code of Practice.	Medium	2005/06	Internal Audit Manual will be reviewed and updated by March 2006. Substance of the Standard in Code of Practice is already met.
11. Internal Audit should consider introducing a target timescale for issuing both draft and final reports. This could then be used to monitor the performance of the service.	Low	2005/06	Actioned. Clients were already given a target of ten working days to respond to draft reports. The timing of the issue of final reports is subject to client responses to drafts being within this deadline.

Audit Commission Report			Internal Audit Comment
Recommendation	Priority	Date	Progress on Implementation
12. Quarterly reports to the Director of Resources should also be provided to the Audit Committee (Resources Commission).	High	March 2006	Agreed. This report includes information that was submitted to the Director of Resources at the last quarterly monitoring meeting.
13. The Internal Audit Manager needs to consider how he can give an evidenced-based opinion on the overall adequacy and effectiveness of the Council's internal control environment. This should be given in a formal annual report and contain the elements specified in the Code of Practice.	High		Actioned. The Internal Audit report to this Commission in June 2005 was an "Annual Report". There is a need for further dialogue with the Executive Director, Corporate Policy and Improvement to refine the links between the Internal Audit Annual Report and the Statement on Internal Control.
14. The Internal Audit Manual should be updated to reflect the Code of Practice for Internal Audit. Good practice suggests that it should be based on the Chartered Institute of Public Finance and Accountancy (CIPFA) model internal audit manual.	Medium	March 2006	Internal Audit's own audit Manual will be reviewed by March 2006. This had already been identified as a task to complete.
15. Key results from internal questionnaires and the CIPFA benchmarking club should be reported to the Audit Committee (Resources Commission).	Medium	March 2006	Agreed. Results will be reported to the Audit Committee as and when they are available.

Appendix C

INTERNAL AUDIT

ANNUAL PLAN 2005/06

	Approved Plan		Actuals Q1/Q2	
	Days		Days	
Total (5.9 FTE)	1552		780	
Less:				
Annual Leave, Sickness	364		160	
Management, Appraisals	72		38	
Training	98		27	
Administration	79		51	

Available for Audit Work	939		504	
Allocated as follows:				
		%		%
“Authority-Wide Audits”				
Major Financial Systems	220	24	100	20
Corporate Governance	65	7	50	10
Business Support	40	4	5	1
Contract Audit	65	7	30	6
Computer Audit	65	7	30	6
Departmental Services				
Corporate Policy & Improvement	10	1	9	2
Resources	30	3	25	5
Community Services	173	18	100	20
Development Services	55	5	32	6
Harrogate International Centre	35	3	20	4
Other				
Consultancy Provision	10	1	-	-
Planning and Review	122	15	36	7

Contingency Provision	49	5	67	13
	939	100	504	100

Notes:

1. The Approved Plan excludes for a temporary additional resource that was anticipated to help with work on Corporate Governance. The draft plan attached to the report to the Commission in June 2005 included this resource but in the event this did not come to fruition. In part, this resource was intended to provide cover for maternity leave.

2. Major Financial Systems

(i) Work completed at the half-year stage included:

Insurance – High level of Assurance (top level) that internal controls to manage risks are in place and working.

Payroll, Benefits (post handling, processing of claims, claimants in temporary accommodation, claims handling in community offices),
Cash Receipting

All areas given Medium/High rating (2nd highest level).
Recommendations made to cover issues of non-compliance with controls.

(ii) Work to complete before 31 March 2006 includes: Main Accounting System, Council Tax, Non-Domestic Rates, Creditors, Debtors, Treasury Management and Benefits (Customer Services, Visiting Officers).

3. Corporate Governance

Work completed includes, reviews of the Financial and Contract Procedure Rules (new versions approved by Council in October) and the new Code of Practice for Project Management. It is likely that this will be “overspent” by the year end as work to complete includes a review of compliance with the rules on the use of business unit reserves and assessing compliance with the Council’s Code of Corporate Governance.

The impact of not having the temporary additional resource referred to above is that work in this area will be curtailed (eg provision of training events on the new Procedure Rules).

4. Business Support

This is a review of the implementation of the approved recommendations from the business support review which took place at the end of 2004 for implementation with effect from 1 April 2005. At the half year, this audit had only just started but is now nearly completed. The key conclusions are that

the structural changes have largely been implemented, allowing for flexibility at the margin in departments, but actions need to be taken to wholly implement the “quick wins” process changes that were recommended and agreed to improve efficiency in certain areas.

5. Contract Audit

Major areas are the Royal Hall and Nidderdale Pool.

6. Computer Audit

Includes on-going support to the FMS and CRM projects. The new ePayments system was reviewed early in the year – the conclusion was that the procedure and processes were working well.

7. Departmental Services

In terms of the number of audits in this category, 80% were either completed or on-going at 30 September 2005. Analysis by Department is set out in the table below.

	Number of Planned Audits	Number Completed at 30 Sept 05	Number ongoing as at 30 Sept 05
Corp Policy and Improvement	1	1	-
Resources	3	3	-
Community Services	16	9	5
Development Services	7	2	1
HIC	3	2	1
	30	17	7

8. Other

The key point here is that after 6 months the contingency provision was already “overspent”. The main reason is that there were three special investigations into alleged frauds/irregularities during this period. Since then, there has been a further investigation.

Additional contingency time can be found from planning/review and training as for both of these, actual time was only 25% of planned time as at 30 September 2005.