

Audit Committee

On 21st March 2006

Report Title: **Annual Audit Plan 2006/07**

Report of: **Director of Finance**

Wards(s) affected: **All**

Report for: **Non-key decision**

1. Purpose

1.1 The purpose of this report is to inform members of the proposed operational Annual Audit Plan for 2006/07.

2. Recommendations

2.1 That the Audit Committee approves the Annual Audit Plan for 2006/07.

2.2 That the Audit Committee approves the proposal to amend the assurance classification of final reports.

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3. Reasons for any change in policy or for new policy development (if applicable)

3.1 None

4. Local Government (Access to Information) Act 1985

4.1 List of background documents:

The following background documents were used in production of this report:

- Deloitte strategic audit needs assessment;
- Departmental and Business Unit risk registers

5. Background

- 5.1 Local authorities are required by law to maintain an internal audit function. In addition, The Accounts and Audit Regulations 2003 reinforce the statutory requirement and restate the need for the Council to maintain an adequate and effective system of internal audit.
- 5.2 Within Haringey, the Internal Audit function is comprised of Deloitte, who undertake the majority of the internal audit work in accordance with the contract in place, which was extended for 12 months, in accordance with the terms of the contract and Procurement Committee approval. During 2005/06, approval was also given for Deloitte to take over the contract and procurement audit function for the remainder of the contract term. The in-house team is currently responsible for investigations into allegations of financial irregularity.
- 5.3 The annual audit plan takes account of the Audit Needs Assessment of the Council activities, completed by Deloitte at the start of their contract. This considers the risk and materiality (financial and other), of services and systems of the Council and classifies them as high, medium or low risk. This ensures that, over the life of the contract, all of the Council's systems and services will be reviewed.
- 5.4 Over the last 2 financial years, Haringey has put resources into improving the risk management arrangements across the Council. A series of risk registers are now in place at business unit, departmental and corporate level, which highlight the key risks at each of the levels across the council. The 2006/07 annual audit plan has
- 5.5 Work to embed the risk management process across the council was continued during 2005/06, including developing risk registers at Business Unit level. As this work has neared completion, Internal audit have been able to use the risk registers to develop the 2006/07 audit plan. The revised risk management strategy and implementation plan will ensure that the council can move towards a fully integrated internal audit and risk management process during the next financial year.

6. The Annual Audit Plan 2006/07

- 6.1 The annual audit plan for 2006/07 is attached as Appendix A to this report. It gives details of the planned audit work on the key financial and other systems of the Council. Appendix A is divided into individual directorates.
- 6.2 In order to enhance the reporting process, we have included details of the reasons for inclusion, the planned scope and an identified client for each project are specified. Timings for the projects have been agreed with the clients to take account of any cyclical or other work pressures, although these may be subject to change during the course of the year.
- 6.3 The proposed projects have been discussed and agreed with each director and the client for each piece of work. All completed projects are subject to a formal follow up review process. The results of the follow up reviews, together with a summary of the key findings and recommendations for all finalised projects, will continue to be reported for information to the Audit Committee, on a quarterly basis.

6.4 We will continue to work with the Council’s external auditors, the Audit Commission, to ensure that audit coverage is maximised and duplication is avoided wherever possible in order to make the best use of our combined resources. This is especially important as the changes to the Comprehensive Performance Assessment and international accounting standards are implemented. We will endeavour to ensure that the Council continues to make the most effective use of its audit resources.

6.5 The following table summarises the numbers of projects planned for 2006/07 by department. There are a number of areas where the final versions have not yet been agreed and these are highlighted below:

Department	Total
Corporate	6
Chief Executive	2
Children’s Service	6
Environment	4
Finance	15
Social Services (incl Housing Strategy and Needs)	5
Chief Executive – IT audit	To be completed (100 days planned)
Procurement and contract	To be completed (100 days planned)
Total	38

6.6 Included in the above table are audits of key financial systems. We consider key systems to be those which are essential to the successful management of the Council, and where failure of the system would have a material effect on the organisation. These key systems, including payroll, accounts payable, accounts receivable, council tax, housing benefits etc. are therefore subject to regular review. This programme of work has been agreed with both the managers responsible and the external auditors.

6.7 The number of projects listed in the table above excludes the follow up reviews and visits to individual establishments as part of the schools and social services programmes. The above table also excludes the work we will be completing as part of the risk management development programme to support the directorates.

6.8 One of the key new developments is the inclusion of specific resources to assist the council’s new project management framework. We will provide support to key projects, including advice to project boards at key stages of the scheme, as well as undertaking reviews of individual projects to ensure that the project is complying with the required framework, and financial, reporting and other functions are being managed appropriately. This is included as one project, although a number of smaller reviews will be completed.

7. Assurance classification of final reports

7.1 Since the contract with Deloitte has been in operation, final reports have been issued with a classification which indicated the level of assurance which could be obtained based on the audit work completed. The current classification applied is shown at Table 1 below.

Table 1 – Current classification

Assurance Level	Definition
Green Assurance	There is a sound system of control designed to achieve the system objectives.
Amber Assurance	While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk.
Red Assurance	Control is generally weak leaving the system open to significant error or abuse.

7.2 The classification in Table 1 provided a recognisable and readily understandable summary for managers and members to assess the risks within the council's systems. Since the contract with Deloitte has been in place, the council has made progress and improvements to its key financial and non-financial systems and it is now considered an opportune time to review the assurance classification.

7.3 The proposed classification is detailed at Table 2 below. Using the proposed system would provide managers and members with a more accurate summary of the state of the system and allow a greater focus to be put on those systems classified as 'providing limited' or 'no' assurance.

7.4 Using the proposed classification, the majority of the council's key financial and non-financial systems would receive a 'full', or 'substantial' assurance rating.

Table 2 – Proposed classification

Assurance Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives.
Substantial Assurance	While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk.
No Assurance	Control is generally weak leaving the system open to significant error or abuse.

8. Recommendations

- 8.1 That the Audit Committee approves the Annual Audit Plan for 2006/07.
- 8.2 That the Audit Committee approves the proposal to amend the assurance classification of final reports.