Chorley
Borough Council

Report of	Meeting	Date
Director of Finance (Introduced by the Executive Leader)	Management Team Audit Committee Executive Cabinet	21/03/06 27/03/06 30/03/06

INTERNAL AUDIT PLAN 2006/07

PURPOSE OF REPORT

1. To summarise and explain the basis of the **Annual Internal Audit Plan** for 2006/07 and the priority areas to be reviewed during the new financial year.

2. To seek the Audit Committee's approval of the Plan and its subsequent adoption by the Executive Cabinet.

CORPORATE PRIORITIES

3. As an independent assurance function, Internal Audit's prime objective is to evaluate and report on the adequacy of the Council's **governance**, **risk management** and **internal control** framework. In so doing, Internal Audit also contributes to the economic, efficient and effective **use of resources**.

4. The Internal Audit Service therefore makes a vital contribution to ensuring that the Council is **a performing organisation**.

RISK ISSUES

5. All the issues raised and recommendations made in this report involve risk considerations in the following categories:

Strategy	3	Information	
Reputation	3	Regulatory/Legal	3
Financial	3	Operational	
People		Other	

6. The provision of an adequate and effective system of Internal Audit is a statutory requirement.

7. Perhaps more importantly, the Internal Audit Service has a pivotal role to play in ensuring a strong governance, risk management and internal control framework within the Council. This is key to the effective management of the Council as a whole and is now of central importance in CPA terms.

BACKGROUND

8.	The traditional approach to organising audit work involved the production of a rolling **Strategic Audit Plan** covering a 3 to 5 year period, during which time the aim was to review all the Council's **financial systems,** sub-systems and processes. In addition to this core role, Internal Audit also provided specialist input to areas like **computer audit**, **contracts audit**, **value for money** reviews and **investigations**. The amount of time spent on any particular area in any given year was determined by a formal risk assessment.

9.	Although the traditional role has not been discarded altogether, the focus is now on adding maximum value to the organisation by reviewing its **overall governance framework**, including **business-critical corporate systems.** A planning horizon of up to 5 years is also no longer considered appropriate in a dynamic local government environment where extensive organisational, technological and process change has become the norm.

10.	The latest CIPFA Code of Practice for Internal Audit recommends the compilation of an **Annual Audit Plan** each financial year to review the **key business risks** that are pertinent to the Council at the time. The draft Annual Audit Plan for 2006/07 shown at **Appendix A** has been constructed on this basis. **Appendix B** provides an outline of the scope and audit approach for each key review planned. The actual terms of reference will however only be firmed up after consulting with the key stakeholders prior to the start of each assignment.

11.	The Audit Plan is structured into **five sections**, each of which are explained below:

CORPORATE GOVERNANCE

12.	Corporate Governance is the product of the interlocking systems and processes through which an organisation manages and directs itself to determine and deliver its objectives. Whilst as the phrase implies this includes issues of probity and ethics the impact is much wider and CIPFA and SOLACE in their joint publication "Corporate Governance in Local Government – A Framework for Community Governance" point to the following five dimensions:

- Community Focus
- Service Delivery Arrangements
- Structures and Processes
- Risk Management and Internal Control
- Standards of Conduct

**13.	Best Internal Audit practice therefore now involves providing assurance on the effectiveness of all the Council's fundamental business processes, including community and corporate planning, performance management, risk management, constitutional compliance and its arrangements for ensuring the economic, efficient and effective use of resources.**

14.	The Internal Audit Service is increasingly providing **proactive support** in these areas. During the last financial year, this included taking a prominent role in production of the **Statement on Internal Control (SIC)**. In the second half of the year the Audit & Risk Manager was extensively involved in the **Use of Resources assessment** prior to the Audit Commission's formal inspection.

15.	Other key inputs included the production of (or assistance with) corporate policies & procedures in areas like **Anti-Money Laundering** and **Whistle-Blowing**. Internal Audit also co-ordinated the Council's contribution to the Audit Commission's **National Fraud Initiative 2004/5** exercise.

16.   This is an ongoing and developing area of input and an appropriate allocation of time has been built into the 2006/07 Audit Plan for this purpose.

17.   In addition to this direct, proactive input, the aim is also to conduct **reviews of specific governance processes.** The emphasis in early 2006/07 will be to review some of the areas where issues were raised in the recent Use of Resources assessment.

18.   Several other factors have also been taken into account when arriving at a list of governance audit topics next year. These include how recently they have been audited (either internally or externally) or where it would not be appropriate to carry out an audit next year due to process changes that are in progress.

RISK MANAGEMENT

19.   The Internal Audit Service has an ongoing role in developing the authority's **risk management framework and systems**, largely through the Audit & Risk Manager's work on the corporate **Risk Management Board.**

20.   This involves overseeing the establishment and revision of **strategic and service-level business risk assessments**. More recently, the Audit & Risk Manager also assumed responsibility for arranging and managing the Council's **insurance** requirements.

BUSINESS CRITICAL SYSTEMS

21.   In addition to auditing governance-related processes, we undertake reviews of other **corporate systems or processes** whose effective operation is also critically important to the overall performance of the organisation. Such systems appear under the following broad headings:

- Corporate Planning
- Performance Management
- Risk Management
- Asset Management
- Human Resource Management
- Management of ICT
- Information Management

22.   Again, when arriving at a list of individual systems for review during 2006/07, consideration has been given to how recently they have been audited or where process changes are in progress.

FINANCIAL MANAGEMENT

23.   This section covers our continuing responsibility to provide assurance that **effective financial controls remain in place within the Council**. This is underpinned by an annual evaluation of the key controls in all the main financial systems; together with more detailed reviews of specific systems on a cyclical basis according to audit need. Our work in this area ensures compliance with the Director of Finance's formal obligations regarding audit, under S.151 of the Local Government Act.

CONTINGENCY

24.   This aspect of the Audit Plan is to enable us to provide **ongoing advice** to managers, respond to requests for **investigations** and to **follow-up recommendations** made in earlier audit reports.

25.   It also contains a provision for preparing reports for **Audit Committee** and to follow up the key issues raised in **Audit Commission reports** on behalf of the Council.

AUDIT RESOURCES

26.   The Internal Audit Plan for 2006/07 is based on a resource of **675 audit days**. This is the number of chargeable days available within the existing budget (after deducting for annual leave and other non-productive time) and is comprises of a mix of in-house and bought-in resources from Lancashire Audit Services (LCC). The total chargeable days are to be allocated as follows:

	Days	**%**
Corporate Governance	235	35
Risk Management	90	13
Business Critical Systems	110	16
Financial Management	120	18
Contingency	120	18
Total	**675**	**100**

27.   Our partnering arrangement with Lancashire Audit Services continues and is producing a **practical service solution** and a **better overall audit product** in a variety of ways:

- Access to **specialists** and a wider skills mix (e.g. ICT audit);
- The retention of **local knowledge**, experience and relationships in-house;
- Continuous **on-site contact** and ongoing availability for advice;
- Enabling direct input to corporate policies and procedures on **governance** and **risk management**;
- Retaining **ownership** of the risk assessment and audit planning processes;
- Retaining a **responsive** service (e.g. investigations);
- **Sharing** of ideas, approaches & information.

28.   We are also continuing to work closely with the **Audit Commission** in a number of areas and have formalised this arrangement in a **Protocol for Joint Working and Co-operation**, which is periodically reviewed and updated.

THE CHANGING ROLE OF THE AUDIT COMMITTEE

29.   Consistent with the changing role of the audit function, the latest guidance on Audit Committees have also "raised the bar" in terms of their expected role and jurisdiction. The latest guidance stresses that they have a key role to play in monitoring the organisation's overall **governance arrangements, including risk management and performance** and holding the executive to account on these matters. CIPFA have produced a new model terms of reference to reflect this.

30.   This was endorsed by the Audit Commission in their recent Use of Resources report. The Commission recommended the Council to "extend the Audit Committee's terms of reference to more clearly specify its risk and governance remit and to support this with more awareness training". The Commission also recommended that the Audit Committee should be "**independent of both the Executive and Scrutiny functions**".

31.   There are therefore important issues to be resolved regarding the Audit Committee's **remit, composition, membership, training and reporting lines**. These issues are explored more fully in a separate report on the Role & Membership of the Audit Committee (also on this agenda).

COMMENTS OF THE HEAD OF HUMAN RESOURCES

32.   Not applicable to this report.

RECOMMENDATIONS

33.   That the Audit Committee approves the 2006/07 Internal Audit Plan and recommends its adoption by the Executive Cabinet.

REASONS FOR RECOMMENDATION
(If the recommendation is accepted)

34.   To ensure that the Council has in place an adequate and effective internal audit of its system of governance, risk management and internal control in accordance with best practice and professional standards.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

35.   None

GARY HALL
DIRECTOR OF FINANCE

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Accounts & Audit Regulations 2003 Code of Practice for Internal Audit in Local Government in the United Kingdom 2003	2003	FINANCE UNIT	Gillibrand St. Offices

Report Author	**Ext**	**Date**	**Doc ID**
Garry Barclay	5468	10/03/06	AnnualPlanReport.doc

Audit Area	Estimated Days
CORPORATE GOVERNANCE (Proactive Work)	
External Assurance (CPA / Use of Resources / SIC)	40
Corporate Governance Policies & Procedures (Production & Raising Awareness)	30
National Fraud Initiative (NFI)	20
Efficiency & Transformation	15
BVPI's	20
Corporate Governance - General	10
	135
CORPORATE GOVERNANCE - (Reviews)	
Corporate Strategies & Policies	25
Management of Partnerships and Partnering Contracts	35
Corporate Anti-Fraud & Corruption Arrangements	20
Compliance Review of Standing Orders, Financial Procedure Rules & Scheme of Delegation	20
	100
RISK MANAGEMENT (Proactive Work)	
Risk Management Board	15
Risk Management Policies & Procedures	15
Strategic Risk Assessment	10
Service Unit Risk Assessment	15
Insurance	25
Risk Management - General	10
	90
BUSINESS CRITICAL SYSTEMS (Reviews)	
IT Security	20
Data Protection	20
Freedom of Information	20
Business Continuity Planning	20
Project Management	20
Business Risk Areas General	10
	110
FINANCIAL MANAGEMENT (Reviews)	
Key Systems / Interrogations	40
Debt Management	15
Benefits - Security	15
Cash Collection & Banking	15
Charging Policies	25
Main Financial Systems - General	10
	120
CONTINGENCY	
Irregularity Investigations	35
Post Audit Reviews	25
Audit Commission Reports	20
Unplanned Reviews	20
Audit Committee Reporting	20
	120
TOTAL CHARGEABLE DAYS	675

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KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
CORPORATE GOVERNANCE		
Corporate Strategies & Policies *The purpose of the audit is to evaluate the processes in place to produce, promote and monitor the effectiveness of and compliance with key corporate strategies and policies.*	• Definitions (strategy / policy / protocol / procedure, etc) • Relevance / importance / link to corporate objectives / prioritisation • Omissions / duplications • Formal approval • Publicity / awareness / access / intranet • Responsibility / ownership / management / monitoring / update • Version Control • Corporate oversight / co-ordination • Corporate format / approach • Capacity to produce / comply	• High level review • Identify all corporate strategies, policies & protocols • Include Constitutional items • Review for omissions or overlap • Collect key data for every strategy (etc) by questionnaire (title, type, date, version, location, approval, ownership, publicity, link to objectives, etc) • Interview key strategy owners • Produce matrix of strategies & issues • Test for awareness, compliance & effectiveness • Identify generic issues
Management of Partnerships & Partnering Contracts *The purpose of the audit is identify the Council's key partnership agreements and partnering contracts and to evaluate the mechanisms for their ongoing performance management and monitoring. This includes an evaluation of the management of partnership risks.*	• Corporate strategy / framework • Definition / list / hierarchy • Classification (strategic, contractual, accountable body, voluntary, etc) • Whether lined to linked to funding (eg PSA, LAA, etc) • Clarity on roles & responsibilities • Documentation / formalised agreements / objectives • Performance management / evaluation / monitoring / reporting	• High level review • Identify all partnerships, contracts & partnering arrangements (inc. LSP) • Collect key data for every partnership (etc) by questionnaire / interview • Produce matrix of partnerships & issues • Evaluate corporate arrangements for recording & oversight • Refer to existing audit & inspection recommendations

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KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
	• Payment mechanisms / contract Variations • Risk management / financial vetting / due diligence • Link to strategic objectives • Link to Procurement Strategy	
Anti-Fraud & Corruption Arrangements *The purpose of the audit is to work in tandem with the Audit Commission to test the adequacy and effectiveness of the Council's core governance policies and procedures, including those to prevent and deter fraud and corruption.*	• Whistle blowing policy • Anti fraud & corruption strategy • Internal investigation procedures • Registers of interests, gifts & hospitality • Codes of conduct • Corporate & devolved responsibilities • Training & awareness • Members & officers • Standards Committee process • Recruitment / vetting	• Joint review with Audit Commission using AC auditing tool
Standing Orders, Financial Procedure Rules & Scheme of Delegation *The purpose of the audit is to ascertain levels of awareness of and compliance with the key provisions laid down in the Council's contract and financial procedure rules and the scheme of delegation.*	• Process for reviewing / maintaining documents • Publicity & training	• Compliance audit • Testing of awareness & understanding of main provisions • Interview and questionnaire / quiz • Possible use of the Loop

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KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
BUSINESS CRITICAL SYSTEMS		
ICT Security *The purpose of the audit is to ascertain whether there are adequate safeguards in place to protect the Council's ICT resources, including computer hardware, software, data and communications.*	▪ Corporate policy & procedures ▪ Awareness & training ▪ Central & devolved responsibilities ▪ Risk Assessment ▪ Hardware, software, data, communications ▪ Physical, logical & access controls ▪ Internet / intranet ▪ Internet & e-mail usage / monitoring ▪ Officers & members	▪ Standard system based approach ▪ Review of compliance with corporate policy & ensure consequential control routines are established ▪ Selective testing on main elements of policy (e.g. password change controls)
Data Protection *The purpose of the audit is to ascertain whether the Council has procedures in place to ensure full compliance with the Data Protection Act.*	▪ Corporate policy, procedures & responsibilities ▪ Awareness & training ▪ Partnerships / agencies ▪ Registration control / application ▪ Liaison with DP Officer re new systems ▪ Control over disclosure	▪ Standard system-based approach
Freedom of Information *The purpose of the audit is to ascertain whether the Council has procedures in place to ensure full compliance with the Freedom of Information Act.*	▪ Corporate policy, procedures & responsibilities ▪ Awareness & training ▪ Control over disclosure ▪ Data / document retention	▪ Standard system-based approach
Business Continuity Planning	▪ Corporate management & administration	▪ Review of documentation (policies, procedures,

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KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
The purpose of the audit is to ensure that the Council has a clear, up to date BCP which is regularly tested and fully understood by those responsible for invoking it in the event of an emergency.	▪ Devolved responsibilities ▪ Disaster recovery ▪ Communication & training ▪ Testing ▪ Maintenance / updating	responsibilities, test plans & results, etc) ▪ Testing awareness / understanding of responsibilities
Project Management *The purpose of the audit is to ensure that there are corporate standards in place for project management which conform with best practice and are consistently applied.*	▪ Corporate framework ▪ Corporate & devolved responsibilities ▪ Project management function / resources ▪ Adequacy of procedures (project planning, monitoring & control) ▪ Communication, awareness & training ▪ Monitoring & compliance ▪ Conformity with other relevant corporate policies procedures	▪ Review of corporate framework, policies & procedures ▪ Testing for awareness of / compliance with corporate standards ▪ Sample test specific project documentation
FINANCIAL MANAGEMENT		
Key Systems / Interrogations *The purpose of the audit is to continuously test and interrogate all the Council's main financial systems to ensure that they remain effective and secure.*	▪ Annual review of the operation of key controls in all the Council's main financial systems	▪ High level system documentation, control evaluation and testing for each area in accordance with new international auditing standards (IAS) ▪ Supplementary computerised interrogation of specific systems

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KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
Debt Management *The purpose of the audit is to ensure that debt is minimised through the adoption of alternative income collection methods and efficient and effective debt collection.*	▪ Use of alternative income collection methods ▪ Compliance with DM Policy ▪ Internal communication, training & awareness ▪ Efficiency of internal processes ▪ Collection Agency performance ▪ Write-offs	▪ Revisiting previous relevant audit reports ▪ Analytical review on key debt streams
Benefits System (Security) *The purpose of the audit is to ascertain whether the Benefits Section is complying with the Security element of the DWP Standards for benefits administration.*	▪ Review of the security element of the DWP Standards.	▪ Review of the security element of the DWP Standards using the DWP self-assessment tool
Cash Collection & Banking *The purpose of the audit is to ensure that there is effective control of the receipt, banking and reconciliation of cash income.*	▪ Receipts ▪ Deposits ▪ Reconciliation	▪ Standard system-based review ▪ Evaluate key controls ▪ Testing the operation of the key controls ▪ Follow-up of known problem areas

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KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
Charging Policies *The purpose of the audit is to ascertain whether the Council has identified and evaluated all its income generating powers and opportunities and has corresponding, formally approved charging policies in place.*	▪ Corporate / service level charging policies ▪ Evaluation of income generating powers & opportunities ▪ Management evaluation processes ▪ Optimisation of charges levied ▪ Formal approval ▪ Publication & communication (externally & internally) ▪ Adequacy of audit trails for receipt & deposit	▪ Service by service analysis of income generating powers & opportunities ▪ Review of current tariffs, fees & charges (levied, approved, publicised, etc)