Chorley
Borough Council

Report of	Meeting	Date
Director of Finance	Audit Committee	29 March 2007

INTERNAL AUDIT PLAN 2007/8

PURPOSE OF REPORT

1. To remind members of the respective roles of senior officers, members and Internal Audit to maintain a sound system of internal control within the Council.

2. To summarise and explain the basis of the Annual Internal Audit Plan for 2007/8 and the priority areas to be reviewed during the new financial year.

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

CORPORATE PRIORITIES

4. As an independent appraisal 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, including the economic, efficient and effective use of resources. Internal Audit 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. Perhaps more importantly, the Internal Audit Service has a pivotal role to play in ensuring a strong governance and control framework within the Council, which forms a key element of the external inspection regime including the Use of Resources and Comprehensive Performance Assessments.

THE SYSTEM OF GOVERNANCE AND INTERNAL CONTROL

7.   Corporate Governance is defined as the product of all the interlocking systems and processes through which an organisation manages and directs itself to determine and deliver its objectives. As the phrase implies this includes issues of probity and ethics but its scope is much wider as it relates to all the Council's key business processes. The Audit Commission base their Annual Governance Assessment / Report of the Council on the following areas:

- Strategic and business planning
- Communication
- Performance management
- Risk management
- Value for money
- Probity
- Financial strategy
- Financial standing
- Financial management
- Asset management

8.   When compiling their report the Commission refer to a range of audit and inspection work they have conducted during the year in question, the most prominent of which is the Use of Resources Assessment.

9.   The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) have also recently issued revised guidance on Corporate Governance in Local Authorities. This requires the Council to conduct a self-assessment of our compliance with a set of key governance principles and requirements and publish an Annual Governance Statement alongside the annual accounts advising of any significant non-compliance issues and plans to address them. Due to its wider application, this replaces the previous requirement to publish an annual Statement on Internal Control (SIC).

10.   Although they are separate processes, there is considerable similarity between the areas covered by the internal CIPFA SOLACE governance self-assessment and the external inspection process incorporating Use of Resources and CPA.

11.   The following paragraphs explain the respective roles of management, members and the Internal Audit Service in respect of governance and internal control.

THE ROLE OF MANAGEMENT & MEMBERS

12.   **The responsibility for implementing a sound system of governance and internal control lies primarily with the Council's senior management.** Indeed CIPFA SOLACE requires the Leader and Chief Executive to sign the Annual Governance Statement on behalf of the Council. To facilitate this the Corporate Improvement Board, comprising the following key officers have conducted the governance self-assessment:

- Director of Customer Democratic & Legal Services (Monitoring Officer)
- Director of Finance (Section 151 Officer)
- Director of Policy & Performance

13.   The Director of Customer Democratic & Legal Services is the corporate lead on governance and oversees the self-assessment exercise, the main focus of which is to evaluate compliance with the key governance principles and requirements of CIPFA

SOLACE. This has now been undertaken and **Appendix A** shows the non-compliance issues to be disclosed in the Annual Governance Statement and subsequently addressed via the 2007/8 business planning process.

14. There is also the need to evaluate the robustness of the key business processes covered by the Audit Commission in their Annual Governance Report. To do this the Corporate Improvement Board will seek assurances on the effectiveness of these systems from managers across the Council, as it is they who are charged with embedding them within their directorates. The Council has therefore also introduced Directorate Assurance Statements to coincide with the production of the Annual Governance Statement, requiring Directors to review the operation of the key business systems and procedures within their service areas and indicate whether there are any significant non-compliance issues.

15. Any significant issues identified in the Directorate Assurance Statements will also be disclosed in the Annual Governance Statement and fed into the 2007/8 business planning process to ensure that they are subjected to systematic monitoring and implementation.

16. As the Audit Committee is now responsible for overview and scrutiny of governance, the Committee will soon receive a separate report seeking approval of the 2006/7 Annual Governance Statement prior to its publication. The overall reporting system for governance is shown at **Appendix B**.

THE ROLE OF INTERNAL AUDIT

17. Internal Audit is an independent appraisal function, whose prime objective is to evaluate and report on the adequacy of the Council's system of governance and internal control. This is achieved through the compilation of an Annual Audit Plan which sets out a programme of reviews of the key business risks / systems that are pertinent to the Council at that time.

18. However, given Internal Audit's knowledge and skills in governance, risk management and internal control there is an increasing expectation that we should be more proactive in supporting managers to improve the Council's arrangements in these areas rather than providing a purely reactive evaluation service. This expectation is underpinned by the latest CIPFA Internal Audit Code of Practice, which acknowledges our remit to undertake non-assurance work including consultancy. The draft Annual Audit Plan for 2007/8 is shown at **Appendix C** and has been constructed on this basis.

19. In 2006/7 the key driver for Internal Audit work was to assist management in resolving the issues raised in the 2005/6 Use of Resources assessment. Our main achievements in this regard included:

    - A review of the Council's partnership arrangements leading to a new corporate Framework for Partnership Working;
    - A new Whistle-Blowing policy and reporting procedures;
    - E-enabling Employee Registers of Disclosures on the Council Intranet;
    - E-enabling the reporting of suspected Money Laundering;
    - Improvements to the Council's performance data reporting and quality control process.

20. **In 2007/8 a key focus will once again be on addressing the issues relating to internal control emanating from the latest Use of Resources assessment. The following table lists those issues and the corrective actions to be taken by**

management and Internal Audit via the respective business planning and audit planning processes:

Audit Commission Recommendations	Action by Management (Business Plans)	Action by Internal Audit (Audit Plan)
The Council manages its significant business risks		
Continue to implement recent Internal Audit review to further enhance risk management arrangements within significant partnerships through the development of joint risk registers etc	Establish joint risk registers for all key partnerships, where they currently don't exist	Provide advice to Directors responsible for key partnerships in relation to joint risk registers
Continue to review provision of risk management awareness training for staff and members on a regular basis, especially those with specific responsibility for risk management	All staff to be provided with new guidance and support on Business Improvement Planning, incorporating Directorate risk assessments and risk registers for key projects	Audit & Risk Manager to give a presentation on risk management to Audit Committee after the May elections
The Council has arrangements in place to maintain a sound system of internal control		
Establish the appropriateness of governance arrangements for all significant partnerships and review on a regular basis	Obtain member approval of the new corporate Framework for Partnership Working and ensure it is properly communicated to Directors and staff	Work with relevant Directors to establish appropriate governance and risk management arrangements for key partners in accordance with the new Partnership Framework
Ensure standing orders, standing financial instructions and the schemes of delegation are reviewed on a regular basis, updating them as necessary	Ensure that these documents are routinely reviewed when the Council Constitution is reviewed / revised.	Provide support to the Directors of Finance and Customer, Democratic & Legal Services
Formalise explicit monitoring of compliance with standing orders, standing financial instructions and the scheme of delegation by management	Establish a central record on the Council intranet to capture instances of non-compliance. Ensure the recording system is communicated managers, particularly those in "gate keeper" roles in Exchequer, Accountancy and Corporate Procurement	Monitor the central record, investigate any emerging issues and arrange for corrective action
Fully embed the assurance framework in the Council's business performance management processes	Obtain member approval of new Local Code of Governance incorporating Annual Governance Statements. Ensure that all issues arising from the AGS, Use of Resources and CPA are fed into the Corporate Strategy / Directorate Business Plans	Include specific actions / reviews in the Annual Audit Plan wherever it is appropriate
Ensure corporate involvement in and ownership of the process for preparing the SIC can be	Corporate Improvement Board to conduct a governance self-assessment and produce the AGS.	

demonstrated	Introduce a system of Directorate Assurance Statements as a feed into the AGS. CIB reporting to Strategy Group / Executive Cabinet and Audit Committee	
Ensure the Audit Committee can demonstrate it is embedded through the impact of its work. In that it provides effective challenge across the Council, including independent and explicit assurances on the risk management framework and associated internal control environment to members and the public	Undertake a self-assessment of the operation of the Audit Committee using the latest CIPFA Audit Committee Toolkit	
The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business		
Assess standards of conduct, including how effectively members are complying with the code of conduct, the number and type of complaints received and whether appropriate action has been taken		Conduct a full system review of the operation of members and officers Codes of Conduct
Review registers of interests and of gifts and hospitality on a regular basis to ensure that members and staff are making appropriate disclosures	Remind members at the annual Code of Conduct Training of the need to make disclosures (officers were recently informed upon the launch of the e-enabled notification process)	Test the operation of the new officers e-enabled disclosure process. Review the operation of the members disclosure process and consider e-enabling possibilities
Further develop proactive counter fraud and corruption work, determined by a formal risk assessment, which is adequately resourced		Dedicate an entire section in the Audit Plan to Anti-Fraud & Corruption. This incorporates a Fraud Risk Register and corresponding action plan and the introduction of fraud bulletins on the Council Intranet

INTERNAL AUDIT PLAN 2007/8

21. The full content of the 2007/8 Internal Audit Plan is explained in the remaining paragraphs. The Audit Plan is structured into the following seven sections, each of which are described in detail below:

- Corporate Governance
- Risk Management
- Anti-Fraud & Corruption
- Review of Key Business Systems
- Review of Financial Systems
- Review of Key Operations
- Contingency

PROACTIVE SUPPORT / CONSULTANCY WORK

Corporate Governance

22.   The Internal Audit Service provides extensive proactive support in this area. During the last financial year, this included:

- improving corporate policies and procedures in areas like whistle-blowing and registers of disclosures;
- facilitating the production of the Annual Governance Statement,
- involvement in the Use of Resources assessment prior to the Audit Commission's formal inspection;
- assisting the Director of Policy and Performance to improve the Council's performance data quality control process as well as conducting checks on specific Best Value Performance Indicators (BVPI's).

23.   An appropriate allocation of time has once again been built into the new Audit Plan for these purposes and in providing general support to the Council's impending CPA application.

24.   Worthy of specific mention is our planned work Corporate Policies & Procedures. We have been concerned for some time that officers throughout the Council find it difficult to absorb and implement the wide range of policies, frameworks, strategies, procedures and protocols which are generated at the corporate centre. We are therefore planning to introduce an e-enabled guide on the Loop which lists the key policies and summarises their content, including directorate obligations in a user friendly manner. This will contain electronic links to the source documents themselves and will support Directors with their new responsibility to produce Directorate Assurance / Compliance Statements.

Risk Management

25.   In recent years the Internal Audit Service has played a key role in developing the Council's risk management framework and systems, including the establishment of strategic and service-level business risk registers. Time has been allowed in the 2007/8 Audit Plan to provide ongoing support in these areas.

26.   In 2006/7 the Audit & Risk Manager assumed responsibility for arranging and managing the Council's insurance requirements. This remit has now been extended further so that the Audit & Risk Section will provide the contract management role for the new Health & Safety partnership arrangement with Bolton MBC as well as undertaking all the residual client administration functions.

Anti-Fraud & Corruption

27.   This is a new development for 2007/8 and involves the creation of a section of the Plan devoted entirely to the prevention of fraud and corruption. Although the Council has experienced very few incidents of fraud in recent years, the Audit Commission are keen to see all councils commit more resources to this area.

28.   Internal Audit is the Council's local co-ordinator / contact for the Audit Commission National Fraud Initiative (NFI) whereby various data on the authority's computer systems is centrally collated and "matched" with similar data from other councils / public bodies in order to identify any potential irregularities. An example would be where an individual is claiming housing benefit from more than one council. These are then investigated by Internal Audit or the Benefit Enquiry Unit.

29.   On an entirely local level, we are also developing a suite of computerised interrogations of our own systems to identify any incidence of fraud or error.

30.   During 2006/7 we worked with Directors to compile a Fraud & Corruption Risk Register, which seeks to identify and address any specific fraud risks in their individual services. This register will now be reviewed and maintained on an ongoing basis.

31.   In order to raise officers' awareness of fraud we are aiming to publish regular fraud bulletins on the Loop to bring any current issues or scams to their attention.

REVIEW WORK

32.   The remainder of the Plan is set aside to evaluate and test compliance with controls in established business / financial systems. **Appendix D** provides an outline scope for each review planned in 2007/8. In arriving at the individual topics for audit attention in 2007/8, a number of risk factors have been taken into account, including:

- Whether a business systems was criticised in external inspection
- Whether a system or process impacts on the Council's overall strategic performance
- The materiality of the respective business systems
- Their susceptibility to error or fraud
- The time lapsed since their most recent audit

Review of Key Business Systems

33.   This area of the Plan is dedicated to reviewing the key business systems and processes which impact on the Council's overall strategic performance. A significant number of these were audited in 2006/7 and therefore there is reduced focus in this area in 2007/8.

Review of Financial Systems

34.   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 in accordance with new International Standards for Auditing (ISA); 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.

Review of Key Operations

35.   In addition to reviewing corporate level systems we also seek to review any material systems operating within directorates, where they impact heavily on the achievement of service objectives and/or are susceptible to fraud or error. These systems are reviewed on a periodic basis according to the degree of risk they pose.

Contingency

36.   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.

37.   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

38.   The Internal Audit Plan for 2007/8 is based on a resource of **620 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	100	16
Risk Management	85	14
Anti-Fraud & Corruption	90	15
Review of Key Business Systems	40	6
Review of Financial Systems	125	20
Review of Key Operations	85	14
Contingency	95	15
Total	**620**	**100**

COMMENTS OF THE DIRECTOR OF HUMAN RESOURCES

39.   Not applicable to this report.

RECOMMENDATIONS

40.   That the Audit Committee approves the 2007/8 Internal Audit Plan and recommends its adoption by the Executive Cabinet.

REASONS FOR RECOMMENDATION

41.   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

42.   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	Union St. Offices

Report Author	**Ext**	**Date**	**Doc ID**
Garry Barclay	5468	28/02/07	InternalAuditPlan 2007-8

CIPFA SOLACE GOVERNANCE FRAMEWORK - ACTION PLAN

High Impact

Priority (2)	**Priority (1)**
▪ **Address capacity / skills issues in statutory functions & communicate roles**	▪ **Develop better consultation / communications strategies to identify and articulate the Council's vision, plans, priorities & targets** ▪ **Roll-out revised policy & procedures for dealing with complaints and address ownership issues (DPP/DCDLS)**
Priority (4)	**Priority (3)**
	▪ **Introduce a mechanism to identify & comply with legislative change** ▪ **Develop protocols for the Leader & CEO to ensure a shared understanding of their roles & objectives** ▪ **Capture the Council's values in the Constitution & HR / Customer Care Strategies** ▪ **Introduce a mechanism to determine the remuneration of senior staff** ▪ **Incorporate the comments of the DCDLS in committee reports & ensure these address the well-being agenda**

Difficult to Change (left)   **Easy to Change** (right)

Low Impact

REPORTING ARRANGEMENTS FOR GOVERNANCE

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COUNCIL

EXECUTIVE CABINET   **AUDIT COMMITTEE**

STRATEGY GROUP

CORPORATE IMPROVEMENT BOARD

CPA / DIRECTION OF TRAVEL

CIPFA SOLACE GOVERNANCE FRAMEWORK

ANNUAL GOVERNANCE REPORT / VFM CONCLUSION / USE OF RESOURCES ASSESSMENT

CORE GOVERNANCE SYSTEMS & PROCESSES

- **Strategic & Operational Planning**
- **Communication**
- **Performance Management**
- **Data Quality**
- **Internal Control**
- **Risk Management**
- **Value for Money**
- **Probity**
- **Financial Strategy**
- **Financial Standing**
- **Financial Management**
- **Asset Management**

INTERNAL AUDIT PLAN 2007/8

AUDIT AREA	ESTIMATED DAYS	QUARTER DUE
CORPORATE GOVERNANCE		
Corporate Policies & Procedures	30	1
Governance Assurance Statements	20	1
External Inspection (CPA, Use of Resources)	20	ALL
Best Value Performance Indicators (BVPI's)	25	1
Governance General	5	ALL
	100	
RISK MANAGEMENT		
Risk Management Policies & Procedures	10	ALL
Risk Registers	20	ALL
Health & Safety	25	ALL
Insurance	25	ALL
Risk Management General	5	ALL
	85	
ANTI-FRAUD & CORRUPTION		
National Fraud Initiative (NFI)	25	ALL
System Interrogations	25	ALL
Fraud Risk Register	20	ALL
Fraud Bulletins	15	ALL
Anti-Fraud & Corruption General	5	ALL
	90	
REVIEW OF KEY BUSINESS SYSTEMS		
Strategy Development	20	2
Codes of Conduct / Registers of Disclosures	20	1
	40	
REVIEW OF FINANCIAL SYSTEMS		
Key Systems Review (ISA)	70	4
Charging Policies	35	3
Control of Cash	20	3
	125	
REVIEW OF KEY OPERATIONS		
Members Allowances	15	2
Licensing	15	4
Land Charges	15	4
Planning (Applications, Development & Building Control)	20	3
Improvement Grants	20	4
	85	
CONTINGENCY		
Irregularity Investigations	30	ALL
Post Audit Reviews	20	ALL
Unplanned Reviews	25	ALL
Audit Committee Reporting	20	ALL
	95	
TOTAL CHARGEABLE DAYS	**620**	

INTERNAL AUDIT PLAN 2007/8

KEY REVIEWS

AUDIT AREAS	OUTLINE AUDIT SCOPE
REVIEW OF STRATEGIC AREAS	
Strategy Development *The purpose of the audit is to review the Council's arrangements for developing, communicating and embedding key corporate strategies, policies, procedures and protocols*	▪ Identification of policy gaps and weaknesses ▪ Capacity issues surrounding their production and ability to comply ▪ Formal approval ▪ Communication, training and awareness
Codes of Conduct *The purpose of the audit is to evaluate the effective operation of the Members' and Officers' Codes of Conduct, including the disclosure of pecuniary interests*	▪ Adoption of national / best practice models ▪ Periodic review and publicity ▪ Monitoring of compliance ▪ Follow-up review of new electronic reporting of officers' pecuniary interests
FINANCIAL SYSTEMS	
Key Systems Review (ISA) *The purpose of the audit is to review the operation of the key controls in all the main financial systems in accordance with new International Standards for Auditing (ISA).*	▪ Application of the Audit Commission's agreed methodology ▪ Updating flowcharts of all key systems and reviewing the key controls ▪ Performing tests on one third of the controls to enable full coverage over a three year cycle
Charging Policies *The purpose of the audit is to ascertain whether the Council is utilising all its income generating opportunities and is optimising its income levels from established income generating areas.*	▪ Identification of the Council's income generating powers & opportunities ▪ Review of management processes to ensure that optimum charges are levied in relation to costs ▪ Analytical / comparative review of the charges currently levied ▪ Ensure regular review and formal approval of changes ▪ Ensure publication & communication to customers and staff
Control of Cash *The purpose of this audit is to ensure that adequate control over cash has been retained following the organisational and system changes that have recently occurred*	▪ Cash income ▪ Petty Cash ▪ Corporate Credit Cards
REVIEW OF KEY OPERATIONS	

INTERNAL AUDIT PLAN 2007/8

KEY REVIEWS

AUDIT AREAS	OUTLINE AUDIT SCOPE
Members Allowances *The purpose of the audit is to ensure that members allowances are paid correctly in accordance national regulations*	▪ Compliance with national regulations ▪ Checking and approval systems ▪ Maintenance of records
Licensing *The purpose of the audit is to ensure that the highest standards of probity and propriety are applied to the licensing application process and all planning related income is well controlled and accounted for*	▪ Local policies & procedures ▪ Applications and approvals ▪ Accounting for income ▪ Supervision and monitoring
Land Charges *The purpose of the audit is to ensure that there are sound controls over the administration and processing of Land Charges*	▪ Additions / deletions to the Register ▪ Administration and approval of applications ▪ Fees & payments
Planning *The purpose of the audit is to ensure that the highest standards of probity and propriety are applied to the planning application process and all planning related income is well controlled and accounted for*	▪ Planning Applications ▪ Development Control ▪ Building Control
Improvement Grants *The purpose of the audit is to review the effectiveness of improvement grant control arrangements following the recent establishment of an agency based service*	▪ Compliance with grants legislation ▪ Local policies and procedures ▪ Evaluation and approval of applications ▪ Authorisation of payments