

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation & Improvement)	Audit Committee	19/3/08

## INTERNAL AUDIT PLAN 2008/9

### PURPOSE OF REPORT

1. To remind members of the respective roles of managers and Internal Audit to maintain a sound system of governance and internal control within the Council.
2. To summarise and explain the basis of the Annual Internal Audit Plan for 2008/9 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.

### RECOMMENDATIONS

4. That the Audit Committee approves the 2008/9 Internal Audit Plan and recommends its adoption by the Executive Cabinet.

### EXECUTIVE SUMMARY OF REPORT

5. This report explains the content of the Internal Audit work programme for the next financial year, which has been determined following a detailed risk assessment and consultation exercise.

### CORPORATE PRIORITIES

6. This report relates to the following strategic objectives

Put Chorley at the heart of regional economic development in the central Lancashire sub region		Develop local solutions to climate change	
Improving equality of opportunity and life chance		Develop the character and feel of Chorley as a good place to live	
Involving People in their Communities		Ensure Chorley is a performing Organisation	✓

## BACKGROUND

7. In addition to being a statutory requirement, Internal Audit has a pivotal role to play in ensuring a strong system of governance and internal control within the Council. The Annual Audit Plan is the vehicle by which audit workload is identified, prioritised and resourced and its delivery is monitored by the Audit Committee on a quarterly basis.

## THE SYSTEM OF GOVERNANCE & INTERNAL CONTROL

8. As the phrase implies, corporate governance deals with issues of probity and ethics but its scope is much wider and 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". The Audit Commission consider the following business processes to be key elements of the Council's system of governance for Use of Resources and CPA purposes:
  - Strategic / business planning
  - Performance management
  - Risk management
  - Financial management & value for money
9. The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) have also recently issued 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 publish an Annual Governance Statement (AGS) alongside the annual accounts advising of any significant non-compliance issues and plans to address them.
10. Although they are separate processes, there is considerable similarity between the areas covered by external audit and inspection, incorporating Use of Resources / CPA and the internal CIPFA SOLACE governance self-assessment.
11. The following paragraphs explain the roles of management, members and the Internal Audit Service in respect of governance and internal control.

## THE ROLE OF MANAGEMENT & MEMBERS

12. **The prime responsibility for implementing a sound system of governance and internal control lies with the Council's senior management.** Indeed CIPFA SOLACE requires the Leader and Chief Executive to sign the AGS on behalf of the Council. To facilitate this the following key officers conduct the annual corporate governance self-assessment:
  - Corporate Director - Governance (Monitoring Officer)
  - Assistant Chief Executive - Business Transformation & Improvement (S151 Officer)
  - Assistant Chief Executive - Policy & Performance
13. This establishes whether there are any significant governance issues to be addressed and these are disclosed in the AGS together with planned actions to address them. The AGS also includes any significant issues that are identified in Directorate Assurance Statements, which have been introduced to evaluate directorate level compliance with key corporate policies, systems and procedures.

14. 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 2007/8 AGS prior to its publication. The overall reporting system for governance is shown at **Appendix A**.
15. **The vast majority of the actions arising from the AGS and the external audit and inspection process are fed into the Business Improvement Plans of the directorates concerned. However in certain instances, Internal Audit are the best vehicle for addressing the issues that have been identified and as such the AGS and Use of Resources in particular have become important drivers of Internal Audit workload.**

## **INTERNAL AUDIT PLAN 2008/9**

16. 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 a programme of reviews of the key business systems following a detailed assessment of audit need.
17. Internal Audit has also become more proactive in supporting managers to improve the Council's governance arrangements and the latest CIPFA Internal Audit Code of Practice acknowledges our remit to undertake non-assurance work including consultancy. The 2008/9 Annual Audit Plan (**Appendix B**) has therefore been constructed on this basis and is explained in the remaining paragraphs.

## **PROACTIVE SUPPORT**

### **Corporate Governance**

18. The Internal Audit Service provides extensive proactive support in this area and during the last financial year this included:
  - overseeing the production of the Annual Governance Statement and Directorate Assurance Statements;
  - overseeing the Use of Resources self-assessment prior to the Audit Commission's formal inspection;
  - assisting Policy and Performance to develop the Council's data quality arrangements and conducting checks on specific Best Value Performance Indicators (BVPI's).
19. A time allocation has again been built into the new Audit Plan for these purposes and to provide general support to the impending CPA application.

### **Risk Management**

20. In recent years we have played a key role in developing the Council's risk management framework, including the establishment of strategic and service-level risk registers. Time has been allowed in the 2008/9 Audit Plan to enable us to provide ongoing support in these areas.
21. The Audit & Risk Service is also responsible for arranging and managing the Council's insurance requirements and providing the contract management role for the Health & Safety partnership arrangement with Bolton MBC as well as undertaking a range of client administration functions.

## **Anti-Fraud & Corruption**

22. Internal Audit is the Council's local co-ordinator / contact for the Audit Commission National Fraud Initiative (NFI) which enables data on the authority's computer systems to be collated and "matched" with similar data from other councils / public bodies in order to identify any potential irregularities. These are then investigated by Internal Audit or the Benefit Enquiry Unit.
23. On a local level, we are also developing a suite of computerised interrogations of our own systems to identify any incidence of fraud or error.
24. During 2007/8 we worked with directorates to compile a Fraud & Corruption Risk Register, which identified a range of service specific fraud risks and an action plan to address them. This register will be reviewed and maintained on an ongoing basis.
25. In order to raise officers' awareness of fraud we will also publish regular fraud bulletins on the Loop to bring any current issues or scams to their attention.

## **REVIEWS**

26. The remainder of the Audit Plan is set aside to evaluate and test compliance with controls in established business / financial systems and **Appendix C** provides an outline scope for each review planned in 2008/9. In arriving at the individual topics for audit attention next year, a number of risk factors have been taken into account, including:
  - Whether a system was criticised in external inspection;
  - The materiality of the respective business systems;
  - The susceptibility to error or fraud;
  - The time lapsed since the most recent audit.
27. Directors have also been consulted on potential audit topics and the draft Audit Plan has been discussed by Strategy Group prior to being submitted to the Audit Committee for approval.

### **Review of Key Business Systems**

28. This area of the Plan is dedicated to reviewing the key corporate systems and processes which impact on the Council's overall strategic performance. A significant number of these have recently been audited and therefore there is reduced focus in this area in 2008/9.

### **Review of Financial Systems**

29. This section covers our responsibility to provide assurance that effective financial controls remain in place within the Council. This involves 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. Our work in this area ensures compliance with the Council's formal obligations regarding audit under the Local Government Act.

### **Review of Key Operations**

30. In addition to corporate level systems we also 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

31. 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. It also contains a provision for preparing reports for the Audit Committee.

## AUDIT RESOURCES

32. The Internal Audit Plan for 2008/9 is based on a resource of **670 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 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	110	16
Risk Management	80	12
Anti-Fraud & Corruption	95	14
Review of Key Business Systems	90	13
Review of Financial Systems	120	18
Review of Key Operations	55	9
Contingency	120	18
<b>Total</b>	<b>670</b>	<b>100</b>

## IMPLICATIONS OF REPORT

33. The matters raised in the report are cross cutting and impact upon the authority as a whole.

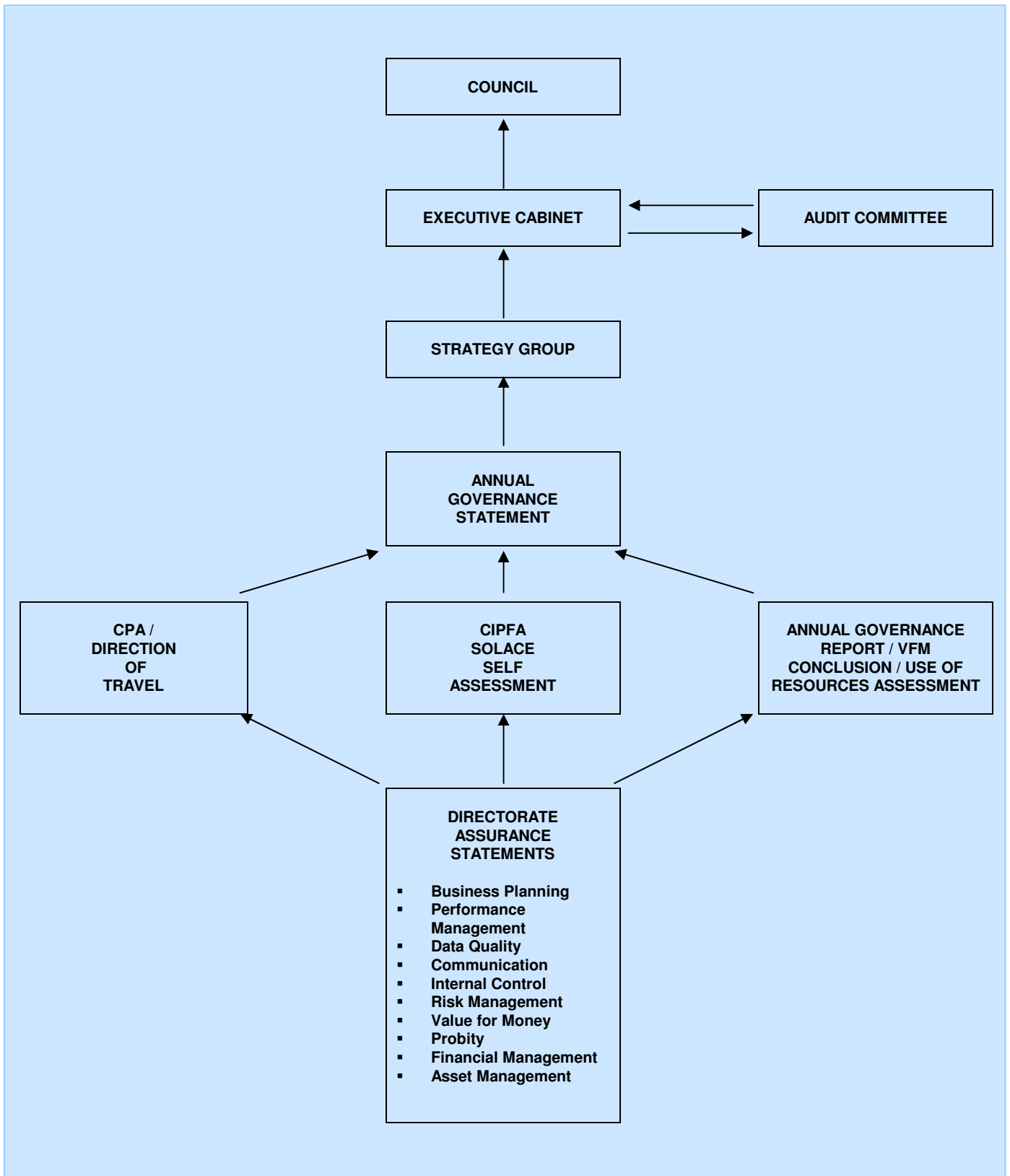
GARY HALL  
ASSISTANT CHIEF EXECUTIVE  
BUSINESS TRANSFORMATION & IMPROVEMENT

Background Papers			
Document	Date	File	Place of Inspection
Accounts & Audit Regulations	2006	FINANCE	Union St. Offices
Code of Practice for Internal Audit in Local Government in the United Kingdom	2003		

Report Author	Ext	Date	Doc ID
Garry Barclay	5468	26/2/08	Internal Audit Plan 2008-9



REPORTING ARRANGEMENTS FOR GOVERNANCE



## INTERNAL AUDIT PLAN 2008/9

AUDIT AREA	ESTIMATED DAYS	QUARTER DUE
<b>CORPORATE GOVERNANCE</b>		
Corporate Policies & Procedures	20	ALL
Governance Assurance Statements	20	1&4
External Inspection (CPA, Use of Resources)	20	ALL
Best Value Performance Indicators (BVPI's)	45	ALL
Governance General	5	ALL
	<b>110</b>	
<b>RISK MANAGEMENT</b>		
Risk Management Policies & Procedures	10	ALL
Risk Registers	15	ALL
Health & Safety	25	ALL
Insurance	25	ALL
Risk Management General	5	ALL
	<b>80</b>	
<b>ANTI-FRAUD &amp; CORRUPTION</b>		
National Fraud Initiative (NFI)	30	ALL
Fraud & Corruption Risk Register	20	ALL
System Interrogations	25	ALL
Fraud Bulletins	15	ALL
Anti-Fraud & Corruption General	5	ALL
	<b>95</b>	
<b>REVIEW OF KEY BUSINESS SYSTEMS</b>		
Procurement Strategy	20	3
Framework for Partnership Working	20	1
Emergency Planning	20	1
ICT Review	15	2
Internet & E-Mail Policy	15	3
	<b>90</b>	
<b>REVIEW OF FINANCIAL SYSTEMS</b>		
Key Systems Review (ISA)	50	4
Inventories	20	4
Stores & Stock Control	20	2
Budget Setting & Control	15	1
New E-Claims System	15	3
	<b>120</b>	
<b>REVIEW OF KEY OPERATIONS</b>		
Election Fees	20	2
S106 Agreements	15	3
Car Parking	20	1
	<b>55</b>	
<b>CONTINGENCY</b>		
Irregularity Investigations	30	ALL
Post Audit Reviews	25	ALL
Unplanned Reviews	45	ALL
Audit Committee Reporting	20	ALL
	<b>120</b>	
<b>TOTAL CHARGEABLE DAYS</b>	<b>670</b>	



## INTERNAL AUDIT PLAN 2008/9

## KEY REVIEWS

AUDIT TOPICS	AREAS TO BE COVERED
<b>REVIEW OF KEY BUSINESS SYSTEMS</b>	
<p><b>Procurement Strategy</b></p> <p><i>The purpose of the audit is to ascertain whether the procurement systems and procedures contained in the Strategy are now operating effectively within the Council</i></p>	<ul style="list-style-type: none"> <li>▪ Currency of the Strategy</li> <li>▪ Achievement of strategic objectives</li> <li>▪ Maintenance of the Corporate Procurement Plan</li> </ul>
<p><b>Framework for Partnership Working</b></p> <p><i>The purpose of the audit is to ascertain whether the Framework meets the latest regulatory requirements and is complied with.</i></p>	<ul style="list-style-type: none"> <li>▪ Follow up of previous recommendations</li> <li>▪ Inclusion of the partnership governance requirements in Use of Resources</li> <li>▪ Adequacy of the risk managements for the key partnerships</li> </ul>
<p><b>Emergency Planning</b></p> <p><i>The purpose of the audit is to ensure the Council's arrangements are robust and will operate effectively in the event of an emergency</i></p>	<ul style="list-style-type: none"> <li>▪ Formality of procedures, systems and responsibilities</li> <li>▪ Adequacy of resources and training</li> </ul>
<p><b>ICT Review</b></p> <p><i>The purpose of the audit is to identify and review a "basket" of ICT specific risks which are pertinent to the Council</i></p>	<ul style="list-style-type: none"> <li>▪ To be determined in consultation with the Corporate Director of ICT</li> </ul>
<p><b>Internet &amp; E-Mail Policy</b></p> <p><i>The purpose of the audit is to review the adequacy and application of the Council's Policy</i></p>	<ul style="list-style-type: none"> <li>▪ Testing levels of understanding and sign-up to the Policy</li> <li>▪ Application of monitoring software</li> </ul>
<b>FINANCIAL SYSTEMS</b>	
<p><b>Key Systems Review (ISA)</b></p> <p><i>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).</i></p>	<ul style="list-style-type: none"> <li>▪ Application of the Audit Commission's agreed methodology</li> <li>▪ Updating flowcharts of all key systems and reviewing the key controls</li> <li>▪ Performing tests on one third of the controls to enable full coverage over a three year cycle</li> </ul>
<p><b>Inventories</b></p> <p><i>The purpose of the audit is to ascertain whether all directorates have up to date inventories of equipment and maintain them in accordance with corporate standards</i></p>	<ul style="list-style-type: none"> <li>▪ Adequacy of records</li> <li>▪ Updating arrangements</li> <li>▪ Physical checking arrangements</li> <li>▪ Investigation of discrepancies and write-off</li> <li>▪ Disposal of surplus equipment</li> </ul>

## INTERNAL AUDIT PLAN 2008/9

## KEY REVIEWS

AUDIT TOPICS	AREAS TO BE COVERED
<p><b>Stores &amp; Stock Control</b></p> <p><i>The purpose of the audit is to ascertain which directorates hold significant stocks of consumables and whether the stock recording and control systems are adequate</i></p>	<ul style="list-style-type: none"> <li>▪ Adequacy of records</li> <li>▪ Updating arrangements</li> <li>▪ Physical security and checking arrangements</li> <li>▪ Investigation of discrepancies and write-off</li> </ul>
<p><b>Budget Setting &amp; Control</b></p> <p><i>The purpose of the audit is to ascertain whether the Council's arrangements for setting the annual budget and in-year monitoring &amp; control follow best practice and are effective</i></p>	<ul style="list-style-type: none"> <li>▪ Consultation</li> <li>▪ Approval</li> <li>▪ Monitoring &amp; reporting</li> <li>▪ Variance analysis</li> </ul>
<p><b>New E-Claims System</b></p> <p><i>The purpose of the audit is to review the operation of the new system for embeddedness</i></p>	<ul style="list-style-type: none"> <li>▪ Testing the application of the new system including spot-checks of receipts to support claims</li> </ul>
<b>REVIEW OF KEY OPERATIONS</b>	
<p><b>Election Fees</b></p> <p><i>The purpose of the audit is to ensure there are adequate controls in place in respect of election fees and expenses</i></p>	<ul style="list-style-type: none"> <li>▪ Correct application of tariffs</li> <li>▪ Appropriate checking and certification arrangements</li> </ul>
<p><b>S106 Agreements</b></p> <p><i>The purpose of the audit is to ensure the Council has procedures in place which properly discharge its legal obligations in respect of S106 of the Town &amp; Country Planning Act</i></p>	<ul style="list-style-type: none"> <li>▪ Formality of agreements</li> <li>▪ Systems for collection, recording and accounting</li> </ul>
<p><b>Car Parking</b></p> <p><i>The purpose of the audit is to review the effectiveness of the current contractual / partnership arrangements and contingency plans</i></p>	<ul style="list-style-type: none"> <li>▪ Achievement of objectives</li> <li>▪ Management information &amp; monitoring</li> <li>▪ Exit strategy</li> </ul>