

Report to: Audit, Governance and Improvement Review Committee

Date: 26th March 2009

Subject: Internal Audit Plans 2009/2010 to 2011/12

Report of: Director of Business Support Services

Contact officer: Martyn Kenyon 01942 827550

Purpose / summary: To seek member approval for the proposed Strategy for Internal Audit Coverage for the next 3 financial years.

Alternative options considered and reason for selecting the one recommended: Alternative options are not applicable.

Recommendation / decision: Members are requested to note the report and agree the Strategic Plan.

Key Decision: This report does not involve a key decision.

Risks / Implications:

Financial: Effective Internal Audit helps protect public funds and the Council's assets.

Staffing: None

Policy: Supports effective governance, risk management and achievement of the Council's Vision.

Equal Opportunities - Has a Diversity Impact Assessment been conducted? Not required

Wards affected: none

Property Implications – Does the proposal involve a reduction, addition or change to the Council’s asset base or its occupation?

No

If yes, have the property implications been agreed with the Corporate Property Officer?

Does this proposal have significant implications for the Council and the local population?

A diversity impact assessment is not necessary at this stage, however, equality and diversity implications have been considered when producing this report.

Does this proposal involve a new policy or procedure or significant changes to an existing policy or procedure?

A diversity impact assessment is not necessary at this stage, however, equality and diversity implications have been considered when producing this report.

Has the Service Director - Legal Services confirmed that the recommendations within this report are lawful and comply with the Council’s Constitution? **Yes / ***

Has the Service Director – Corporate Services confirmed that any expenditure referred to within this report is consistent with the Council’s budget? **n/a ***

Are any of the recommendations within this report contrary to the Policy Framework of the Council? **/ No ***

* delete which applicable

For Cabinet reports only :

| | |
|-------------------------------------|----------|
| Categorisation of the report: | X |
| | |
| Discussion leading to a decision | |
| Monitoring | |
| Sharing for corporate understanding | |

| | |
|-------------|----------|
| | X |
| | |
| Discussion | |
| Decision | |
| Information | |

Tracking/Process:

| | Consultation | Ward Members | Partners |
|-------|---------------------|--------------|----------|
| | | | |
| Panel | Overview & Scrutiny | Cabinet | Council |
| | | | |

There are no Background Papers to this Report within the meaning of Section 100D of the Local Government Act 1972.

Proper Officer Dr David Smith

Date 6th March 2009

Subject: Strategic Internal Audit Plan 2009/10 – 2011/12

1. Purpose of the Report

This report provides Members with the Strategic Internal Audit Plan for the next three financial years, showing key areas for Internal Audit coverage. The plans have been developed in full consultation with Management, following detailed reviews of the Strategic and Departmental Risk Registers which link to the Council's Vision either directly or via the Service Planning process.

Based on this, an annual Plan is compiled each year, comprising the priorities within the Strategic Internal Audit Plan (core work) and reviews of operational areas and of issues arising during the year (assurance work).

2. Internal Audit Coverage

Members have previously been advised of the remit of Internal Audit which is based on the most recent (2006) Code of Practice for Internal Audit as issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is accepted as the most appropriate standard to ensure compliance with the 2006 update to the Accounts and Audit Regulations (2003). The effect has been to widen the role and scope of Internal Audit, giving higher levels of prominence to risk management, performance improvement and supporting the CPA assessment process, whilst raising the profile of our assurance work.

To enable the work to be planned and delivered effectively, audit coverage is prioritised, and categorised between:

Core Work which relates to those high risk areas where Internal Audit review or support will add greatest value to the organisation. The projects within this category will be given highest priority in the event of competing demands for Internal Audit involvement.

Assurance Work which complements the work from the core plan and ensures an adequate level of Internal Audit review each year, within each service. Whilst the individual reviews are initially agreed with service managers at the start of the year, it is also accepted that should the need arise, audit work may be redirected towards other emerging risks or investigations as needed. Overall levels of resource input will remain broadly as agreed within each service Department which means that the levels of assurance work are in accord with the initial levels of risk identified.

This approach enables a high degree of flexibility whilst ensuring key risks areas are given priority but still enables a wide range of coverage for a formal audit opinion to be formed.

3. Liaison with External Audit

External Audit, in performance of their work, place reliance on Internal Audit reviews of key financial systems and the assessment of system controls, supported by appropriate testing. This reliance is a key element within an Audit Commission arrangement termed the "*Managed Audit*". This arrangement has operated successfully at the Authority since its inception in 1995. The key conditions required for the Managed Audit process to be utilised are :-

- a governance structure that recognises the importance of financial reporting and audit functions
- risk based planning of resources and effective risk management strategies
- clarity of officers' roles and responsibilities
- establishment and maintenance of a strong control environment and good internal controls

- staff of the right calibre and expertise supported by a training strategy
- maintenance of appropriate contact and co-ordination with the External Auditor
- appropriate documentation of procedures and processes
- an adequately resourced Internal Audit function that operates to fulfil its professional and statutory duties
- a track record of delivery

The Authority's External Auditor continues to be satisfied that this Authority meets the necessary criteria required for the Managed Audit process as confirmed in the *Annual Audit and Inspection Letter*. However, the conditions that enable the principles of the "Managed Audit" to be applied need to be kept under constant review and it is therefore important to maintain and improve standards wherever possible and liaise effectively with the Authority's External Auditor.

This takes place through monthly meetings between the Managers of Internal and External Audit, along with higher level meetings each quarter between officers from the Strategic Management Team and the Council's Relationship Manager and District Auditor.

The External Auditors also regularly attend the Audit, Governance and Improvement Review Committee to present the various reports that they produce during the year and to obtain a first hand experience of the effectiveness of the challenge and review provided by the Committee

The continuing revision of the Internal Audit remit reflects the requirement to place greater significance on issues that assist the Authority in achieving its corporate objectives while still reviewing the controls within the Authority's material systems (as required by Statute).

The Authority's Internal Audit remit now embraces a review of, or support for:-

- Corporate Governance and Disclosure Statements
- Risk Management and Service Planning
- Fundamental (Material) Systems
- Asset Management
- Business Continuity Planning
- Project Management
- Interim payments within capital schemes
- Partnerships and Joint Working
- Published Performance Information
- Improvement and Performance Monitoring
- Comprehensive Area Assessment (particularly co-ordinating the Use of Resources Key Lines of Enquiry and supporting the "Managing Performance" Assessment)
- Procurement
- Efficiency Statements
- National Fraud Initiative
- Probity Reviews, Special Investigations and Management Consultancy
- Enhanced Audit Commission liaison
- Systems development and implementation
- IT security

The timetabling of certain areas of work is planned to ensure the results are relevant to the external inspection regimes. Crucial work on material systems to maintain probity is also undertaken albeit now in a revised manner. The Accounts and Audit Regulations 2003 introduced a requirement to annually assess the quality and effectiveness of the entire internal control environment, which is a much wider remit than only focusing on financial controls. However, the role of External Audit, under the International Auditing Standards

(ISA) regime, has reverted to a more prescriptive format for the review of financial systems and transactions.

The relative daily charge rates between Internal and External Audit mean that it is more cost effective for Internal Audit to perform the transaction testing and provide a formal opinion on the adequacy (or otherwise) of the controls in place. This allows fundamental systems work completed by Internal Audit to be used by the External Auditor.

Attached at Appendix A, is the three year Strategic Plan which has been developed to ensure that adequate levels of audit coverage are provided over a longer term period. This helps in planning and developing resources with the right levels of skills to carry out the work to a professional standard. The main headings within these key areas remain constant each year although different aspects or issues within them will be reviewed each year.

The Plan is updated each year to take account of emerging risks and service developments so that our work remains relevant to the Council's Vision and current priorities.

4. Monitoring Arrangement.

The Internal Audit Plan will continue to be monitored via monthly progress meetings between the Audit Management Team, regular update meetings with the External Auditors and Senior managers along with reports on individual areas to relevant Chief Officers. Each audit report is followed up after 6 months to ensure recommendations have been implemented as agreed. This arrangement allows progress against the plan to be discussed, management actions taken to be confirmed, and ensures audit resources are directed towards priority areas.

A half yearly monitoring report is presented to the Audit, Governance and Improvement Review Committee, which provides an update of audit coverage, an outline of key issues arising from this work and assists in ensuring recommendations are actually implemented. This adds major value to the work performed.

The totality of Internal Audit work performed during the year, the willingness of managers to take on board audit recommendations and the subsequent improvements in controls and processes enable a formal opinion to be prepared by the Head of Internal Audit as to the quality of the overall internal control environment. This formal opinion will be presented to members within the **Annual Report** for the Section.

This feeds directly into the annual **Governance Statement** (previously the Statement on Internal Control) which is a statutory statement supporting the Statement of Accounts and reviewing the quality of the whole internal control environment. It highlights any significant risks or control failures along with the action taken to manage the issue identified, as evidenced primarily by the work of the Internal Audit Section.

Both documents are scheduled for consideration and approval by the Audit, Governance and Improvement Review Committee in June 2009, in line with the statutory timetable for the approval of the Statement of Accounts which has a 30th June deadline.

5. Resources Required

The Audit work is resourced from the Internal Audit section at Wigan Council which includes a range of qualified and part-qualified staff, along with specialists in Computer Audit, Contracts Audit and Investigative work. The Section has an establishment of 21 staff involved in audit work, which includes 3 Audit Managers who are fully qualified and have many years experience at a senior level in Internal Audit. They manage the scheduling and performance of audit work in relation to Wigan Council's services and for the audit coverage for GM Fire, Wigan & Leigh Housing and Wigan Leisure & Culture Trust. An additional client in Wigan Economic Development Company is expected to be added to the Section's portfolio which will assist in ensuring the quality of the governance arrangements for this

major partner are aligned as far as practicable with the established best practice within the Council.

The combined workload equates to around 3300 days ie 18 full time equivalent staff which allows for clerical /admin support and two vacancies which are still unfilled due to the ongoing uncertainties of the Support Services restructurings and the Job Evaluation process. The plans include some inbuilt contingency time to respond to requests for support and special investigations (demand-led work). Appendix B provides further details on how this is planned to be allocated between different services for auditing.

The working arrangements within the section include posts with generic job descriptions and grades, which provide for a flexible approach between teams. Audit days or expertise can be reallocated depending upon any specialist or additional work that may be needed. All audits are performed by staff with qualifications and experience appropriate to the work undertaken and the Section's quality control procedures require some supervisory input, by CCAB professionally qualified staff, into all work performed within the Section.

4. Recommendations

The report be noted and the Strategic Plan agreed.

Martyn Kenyon
Head of Audit and Risk Management
2nd March 2009

Strategic Audit Plans 2009/10 to 2011/12

Core Plan – Corporate Audits

| Auditable Area | Analysis of Auditable Area | 2009//2010 | 2010/2011 | 2011/2012 | Nature of the Audit work |
|----------------------------|--|------------|-----------|-----------|--|
| Corporate Governance | <ul style="list-style-type: none"> Governance Arrangements of the Council Partner Organisations Council Companies | Annual | Annual | Annual | Annual compliance review with Local Code of Corporate Governance. Ensuring effective arrangements between Council and external agencies |
| Disclosure Statements | <ul style="list-style-type: none"> Annual Governance Statement (previously “Statement on Internal Control”) | Annual | Annual | Annual | Production of Annual Governance Statement, now includes Governance arrangements of Group Companies. |
| CAA | <ul style="list-style-type: none"> Auditors Judgements (Use of Resources) Corporate Support | Annual | Annual | Annual | Coordination of Use of Resources Key Lines of Enquiry; Liaison with External Auditors |
| Best Value | <ul style="list-style-type: none"> Performance Indicators | Annual | Annual | Annual | In year consultation and pre – inspection / publication verification of selected Performance Indicators. |
| Performance Management | <ul style="list-style-type: none"> Helping Develop Current framework | Annual | Annual | Annual | Assessment following CAA review. |
| Review of material systems | <ul style="list-style-type: none"> Housing Benefits, Council Tax, NNDR, HR/Payroll, Agresso incl. creditors & debtors, bank reconciliations, asset management Pre BFI work | Annual | Annual | Annual | Review of key system controls supported by transaction testing. Ensuring information to be used in the accounts is complete, correct and reliable. |
| National Fraud Initiative | <ul style="list-style-type: none"> Matching of data from a number of systems in search of fraudulent claims or payments | Annual | Annual | Annual | A mandatory project, involving all local authorities and Co-ordinated by the Audit Commission |
| | | | | | |

These reviews are performed annually to support the external assessments or as statutory requirements.

Core Plan – Corporate Audits (contd)

| Auditable Area | Analysis of Auditable Area | 2009//2010 | 2010/2011 | 2011/2012 | Comments |
|---|---|------------|-----------|-----------|---|
| Partnership Working | <ul style="list-style-type: none"> • Strategic partnering, • Specific (smaller scale) partnerships. | Cyclical | Cyclical | Cyclical | Includes client functions for Housing and Leisure Services. |
| Local Area Agreements and Public Service Agreements | <ul style="list-style-type: none"> • Review of management arrangements to ensure achievement of clear objectives and realisation of funding | Cyclical | Cyclical | Cyclical | Head of Internal Audit certification is required prior to claiming associated funding. Becomes “Area based Grant” from 2008/9 |
| Management of Major Projects and contracts | <ul style="list-style-type: none"> • Individual capital schemes. • Service Delivery (revenue) projects | Cyclical | Cyclical | Cyclical | Compliance Reviews, ensuring effective monitoring and accountability against specified outcomes. |
| Risk Management | <ul style="list-style-type: none"> • Strategic and Corporate Risk Registers • Training as needed • Policy and procedures | Corporate | Corporate | Corporate | Maintaining and improving the corporate framework |
| Business Continuity Planning | <ul style="list-style-type: none"> ▪ Ensuring a consistent approach to planning for local and larger scale incidents | Corporate | Corporate | Corporate | Links to emergency planning (Civil Contingencies) |
| Contracts Audit | <ul style="list-style-type: none"> ▪ Procurement and Commissioning processes ▪ Monitoring arrangements ▪ Stage Payments, final accounts ▪ Support in dealing with Claims | Corporate | Corporate | Corporate | Applies to both revenue and capital contracts |
| Computer Audit | <ul style="list-style-type: none"> ▪ Review of IT Strategy and Management ▪ Review of Systems and Developments ▪ Network security ▪ Information security and compliance with BS7799 | Corporate | Corporate | Corporate | |
| Fraud / special investigations | <ul style="list-style-type: none"> ▪ Independent review of suspected fraud or other sensitive areas | Corporate | Corporate | Corporate | Includes support for the disciplinary process as required |

“Cyclical” audits will adopt the same approach each year but focus on different areas to ensure full coverage over the 3 year cycle.

“Corporate” audits apply to a number of service areas or departments so there is no single client for the work.

| Auditable Area | Analysis of Auditable Area | 2009//2010 | 2010/2011 | 2011/2012 | Comments |
|--|--|----------------|-----------|-----------|--|
| Core Plan - Service- Based Audits | | | | | |
| Business Support Services | | | | | |
| People Services | <ul style="list-style-type: none"> ▪ Data quality ▪ Compliance with Corporate Policies and Standards | cyclical | cyclical | cyclical | Review of different aspects and different service areas each year |
| | <ul style="list-style-type: none"> ▪ Job evaluation | 2008/9 project | | | Ensuring risks are adequately managed |
| Financial Services | <ul style="list-style-type: none"> ▪ Advice and support to Business Process Re-engineering | cyclical | cyclical | cyclical | This will help inform the formal audit reviews of these areas |
| Information Technology | <ul style="list-style-type: none"> ▪ Compliance with Corporate policies and Standards ▪ Procurement | cyclical | cyclical | cyclical | Review of different aspects and different service areas each year |
| Legal Services | <ul style="list-style-type: none"> ▪ Use of external legal advice | | | | |
| Property Services | <ul style="list-style-type: none"> ▪ Maintenance and management of properties ▪ Client role for NPS | cyclical | cyclical | cyclical | |
| Environmental Services | | | | | |
| | <ul style="list-style-type: none"> ▪ Management of DSO /DLO's | cyclical | cyclical | cyclical | Operational reviews, acquisition, management and maintenance of vehicles |
| | <ul style="list-style-type: none"> • Environmental Impairment | cyclical | cyclical | cyclical | Land contamination, waste disposal and recycling issues |
| | <ul style="list-style-type: none"> ▪ Regeneration | cyclical | cyclical | cyclical | ERDF, Housing Renovations, Economic Development |

| | | | | | |
|---|---|----------|----------|----------|--|
| | ▪ | | | | |
| Children's Services | | | | | |
| School Visits | <ul style="list-style-type: none"> ▪ Review of financial procedures ▪ Ensuring achievement of Financial Management Standards | cyclical | cyclical | cyclical | Schools have been risk- assessed so a "lighter touch" will be applied where appropriate |
| Extended Schools | <ul style="list-style-type: none"> ▪ Inter Agency working | cyclical | cyclical | cyclical | Ensuring secure and effective working arrangements |
| School Building Programme | <ul style="list-style-type: none"> ▪ Review of all stages from planning to completion | cyclical | cyclical | cyclical | Ensuring effective use of capital resources in line with strategic objectives |
| LEA support to schools | <ul style="list-style-type: none"> ▪ Review of centrally provided services | cyclical | cyclical | cyclical | Improving management and governance arrangements |
| Adult Services | | | | | |
| Supporting People | Maintaining a continuous audit involvement to ensure the major risks are being properly managed (partnering, funding, commissioning, support and monitoring the effectiveness of the care arrangements) | cyclical | cyclical | cyclical | High risk area due to amounts involved and multi agency involvement. Review different aspects of the area each year, liaising with external auditors to ensure most effective coverage. |
| Partnering arrangements and Joint working | Management frameworks and performance monitoring | cyclical | cyclical | cyclical | Ensuring effective management, communication, shared objectives and monitored outcomes |
| All Services | Post-audit reviews to ensure implementation of agreed recommendations | annual | Annual | annual | |
| External / Partner Organisations | | | | | |
| Separate plans have been devised and agreed with the respective management boards for these organisations | | | | | |
| GM Fire & Rescue | Review of Governance arrangements and all major systems to fulfil statutory obligations and support management processes | cyclical | cyclical | cyclical | The main objectives for these plans are: <ul style="list-style-type: none"> • To ensure effective governance arrangements • to ensure financial probity in their operations • helping to minimise the risk of major service failure through supporting their inspection / CPA processes and |
| | | | | | |
| Wigan & Leigh Housing | Governance arrangements, financial management, asset management, capital spending programmes | cyclical | cyclical | cyclical | |
| | | | | | |

| | | | | | |
|---|--|----------|----------|----------|---|
| Wigan Leisure and Culture Trust | Governance arrangements, financial systems, risk management, service development and improvement | cyclical | cyclical | cyclical | continuous review of operational areas <ul style="list-style-type: none"> to provide a support and advisory service |
| Wigan Metropolitan Development Company | Specific coverage to be agreed | | | | |

Assurance Work:

Assurance based projects will be performed each year to complement the review work carried out in relation to key systems and areas of risk. The timing of these over the 3 year period will be driven by ongoing workloads, demand-led work and within reason, auditee availability.

Areas identified for review include:

Business support services

- management of asbestos related issues in Council buildings
- Insurance claims management
- Review and update of financial procedures
- Treasury management
- Cashier services
- Car allowances

Childrens services

- Financial procedures handbook for schools
- Evaluation of software for monitoring internet usage in schools
- Social Care Placements
- Schools Sports Co-ordinator programme
- School Meals income
- Schools e-payment processes

Environmental Services

- Neighbourhood services
- Highways maintenance
-

Adult Services

- procurement and commissioning
- direct payments
- data quality
- care in the community arrears
- aids and adaptations
- clients' monies

- SWIFT
- Metrolite Industries

Allocation of Resources

Unless relative levels of risk change significantly, it is planned that resources will be allocated in similar proportions each year

| Review Classification | 2009/10 Planned Mandays | % |
|--|--------------------------------|------------|
| Governance | 350 | 11 |
| Corporate and major financial systems | 470 | 15 |
| Adult Services | 180 | 5 |
| Business Support Services | 150 | 5 |
| CYPS and schools | 600 | 18 |
| Environmental Services | 180 | 5 |
| Contracts Audit | 330 | 10 |
| Computer Audit | 375 | 11 |
| Fire and Rescue Services | 285 | 9 |
| Wigan & Leigh Housing | 270 | 8 |
| Wigan Leisure & Cultural Trust | 110 | 3 |
| Available days | 3300 | 100 |