

Report to: Audit, Governance and Improvement Review Committee
Date: 20th March 2008
Subject: Internal Audit Plans 2008/09 to 2010/11
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 Director of Legal and Property Services confirmed that the recommendations within this report are lawful and comply with the Council’s Constitution? **Yes / ***

Has the Director of Finance and IT 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 2008

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 Performance Assessment (particularly the Use of Resources Key Lines of Enquiry and Value for Money Assessments)
- 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, for Members' consideration, 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 this Committee in June 2008, 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.

The combined workload equates to around 3300 days ie 18 full time equivalent staff which allows for two vacancies which are in the process of being filled and 2 maternity leave situations within the section and provides 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 areas 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

Members are requested to note the report and agree the Strategic Plan

DAVID.J.SMITH,
Director of Business Support Services
6th March 2008

Strategic Audit Plans 2008/9 to 2010/11

Core Plan – Corporate Audits

Auditable Area	Analysis of Auditable Area	2008/2009	2009/2010	2010/11	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.
CPA	<ul style="list-style-type: none"> Auditors Judgements (Use of Resources) Corporate Support 	Annual	Annual	Annual	Production of Auditors Judgements/Key Lines of Enquiry and VFM self assessment. 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 CPA 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	2008/2009	2009/2010	2010/11	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	2008/2009	2009/2010	2010/11	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

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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
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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
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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	2008/9 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