

# **Internal Audit Annual Plans**

## **2006/7 to 2008/9**

This document sets out the work programme for the internal audit service over the next three financial years. Year one is a detailed plan and years two and three reflect outline plans. It reflects a risk-based approach and has been arrived at through examination of the council's risk registers and through risk-based discussions with a range of officers, primarily Executive Directors and Directors.

The plans follow the recommendations contained in the CIPFA Code of Practice for Internal Audit in Local Government in the UK and are deliverable within the anticipated resources available.

The plans will be reviewed and updated annually in consultation with the risk registers and stakeholders, namely the Corporate Management Team, External Auditors and senior management. It will be presented to the Audit Committee for comments and approval each year.

The work programme contained within this document will be delivered alongside the service development objectives set out in the Internal Audit 3 Year Development Strategy.

### **Mission Statement**

Internal Audit's mission is to provide a high quality and respected service that seeks to give independent assurance to management on the effectiveness of the council's internal control environment and make recommendations for their continual improvement.

We aim to be flexible, pragmatic and deliver a range of services to suit customer needs.

Through a risk based approach we will make a valuable contribution to the council's corporate governance arrangements and provide managers with a framework for achieving objectives within acceptable levels of risk.

Internally, we will provide a supportive and challenging work environment for members of the internal audit team in order to develop and retain high calibre audit staff.

## **Internal Audit Terms of Reference**

### **Introduction**

This Terms of Reference outlines the purpose, authority and principal responsibilities of the Council's Internal Audit section. It aims to provide a clear statement on:

- The reasons for having an internal audit function
- What internal audit will do and cover
- How it will undertake the work
- Expectations of internal audit and its clients

### **Legislative Requirements**

Internal Audit is a statutory service. The Accounts and Audit Regulations 2003 state that:

“A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body requires

- make available such documents of the body which relate to its accounting and other records as appear to be necessary for the purpose of audit; and
- supply the body with such information and explanation as the body considers necessary for that purpose.”

This legislative requirement is recognised and endorsed within the Council's Financial Regulations, which provides Internal Audit with the authority for access to officers, members, documents and records and to require information and explanation as necessary.

### **Professional Requirements**

Guidance accompanying the Accounts and Audit Regulations 2003 makes it clear that the 'proper audit practices' referred to are defined within the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2003 (the CIPFA Code). The code provides standards on:

- Scope of Internal Audit
- Independence
- Audit Committee
- Relationships with Management, Other Auditors and Other Review Bodies
- Staffing, Training and Development
- Audit Strategy
- Management of Audit Assignments
- Due Professional Care
- Reporting
- Quality Assurance

The CIPFA code has been adopted and implemented by the Council's Internal Audit section and reference is also made to the professional standards laid down by the Institute of Internal Auditors (IIA).

## **Objectives of Internal Audit**

Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment (comprising risk management, control and governance) by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Whilst the Internal Audit section's primary role is to review, appraise and report upon the adequacy of internal controls, it also undertakes other, non-assurance (consultancy) work at the request of the organisation. Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related work and also provides specific consultancy services such as facilitation, process design, training, advisory services and fraud and irregularity related work.

## **Reporting Lines and Relationships**

Audit Committee and Management:

Internal Audit is part of the Business Development Directorate reporting to the Director of Financial & Business Strategy (the Council's S151 officer). Strategic and annual development and operational plans are endorsed by the Corporate Management Team (CMT) and the Audit Committee.

Internal Audit provides the Audit Committee with a mid-year and year-end report on progress against the annual plan. The year end reports includes an Audit Opinion on the standard of internal control within the authority and this feeds into the authority's Statement of Internal Control. In addition, Audit Committee members are provided with a summary of every audit report.

Reports on individual reviews are issued to the appropriate Service Manager and Senior Management (once finalised) within the relevant directorate. Reports on audits of schools are issued to the Headteacher, Governing Body and to appropriate managers within the People First Directorate. A traffic light reporting system is in place and red reports (high risk) are subject to an escalation process where they are reported in full to CMT and the Audit Committee.

The Council's Financial Regulations affords Internal Audit direct access to senior managers and elected members where appropriate and require Executive Directors and Directors to immediately report discovered or suspected financial impropriety to the Director of Business Services and the Group Manager (Audit & Risk).

Corporate Governance:

The Group Manager (Audit & Risk) is a member of the Corporate Governance Group. From 2005/06 feedback from the Line Management Assurance process will be analysed by Internal Audit and reported to the Corporate Governance Group for consideration and inclusion within the Statement of Internal Control.

Corporate Anti – Fraud Team:

The authority also has a Corporate Ant-fraud Team (CAFT) that is also part of the Business Development Directorate, reporting to the Director of Business Services. Internal Audit and CAFT are currently developing a joint approach toward the investigation and management of irregularity/fraud investigations.

External Audit:

The Council' External Auditors are provided with copies of all reports arising from reviews undertaken as part of the annual audit plan. The External Auditors specifically place reliance on Internal Audit's work on the Council's core financial systems and the scope of this work is agreed annually. Internal Audit also consult the External Auditors on the content of the annual audit plan to avoid duplication of work.

Independence

Internal Audit is independent of the activities that it audits and this enables auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Internal Auditors have no operational responsibilities. The Group Manager (Audit & Risk) has managerial responsibility for the Risk (including Emergency Planning and Business Continuity), Insurance and Health & Safety functions as well as the Internal Audit function however he does not undertake any operational internal audit duties.

Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it. Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

### **Scope of Internal Audit**

The scope of work undertaken by Harrow's Internal Audit function embraces the whole of the Authority's control environment comprising risk management, control and governance. This includes all its operations, resources, services, and responsibilities in relation to other bodies e.g. the West London Waste Authority, and all financial, managerial and operational systems. The results of the Council's risk management process, i.e. the risk registers, will be used in developing the audit annual plan, which is part of a three year rolling plan. Work undertaken for reliance purposes on behalf of the Authority's External Auditors, although not risk based, is also included in the plan. Meetings with Executive Directors, Directors and Group and Service Managers (as necessary) will be held to identify specific risk based reviews linked to the risks identified in the risk registers and the corporate objectives.

If managers responsible for Internal Audit or Corporate Governance consider that the level of audit resources limits the scope of Internal Audit, or prejudice the ability of

Internal Audit to deliver a service consistent with the CIPFA definition of Internal Audit, CMT and the Audit Committee will be advised accordingly.

### **Internal Audit's Approach**

Internal Audit will apply a risk-based systematic audit approach based on the independent acquisition and examination of relevant evidence. Through its work Internal Audit will:

- Alert managers to significant risks and control weaknesses
- Assist management with its responsibilities for establishing and maintaining systems of internal control
- Provide managers with assurance on the adequacy of their systems of internal control
- Advise managers, and provide assistance where necessary, on the investigation of suspected financial irregularities
- Maintain a record of suspected financial irregularities and report significant issues to the Audit Committee

Following the risk evaluation process the following types of review will be included in this plan:

### **Corporate Reviews**

Cross cutting assurance reviews of Council-wide processes. Identified and prioritised through risk evaluation.

### **Core Financial Systems**

External Audit reliance work designed to confirm the presence, or otherwise, of critical high level controls within each of the Council's core financial systems. Coverage of each system is assessed annually having regard to a range of factors including changes to systems and personnel. This work is also used to provide assurance to the chief finance officer and is particularly important as the business transformation partnership project develops and the new systems rolled out.

### **Local Financial, Managerial and Operational Systems**

Risk-based reviews of processes within council services, including external establishments (such as schools). Diversity issues will be included in the scope of individual audits to a much greater extent over the next three years.

### **IT Systems**

Security and control reviews of identified IT systems together with reviews of management arrangements surrounding IT projects. This is again a key area during the design and roll-out of the BTP systems.

### **Anti-Fraud & Corruption Arrangements**

Internal Audit will seek to minimise the scope for fraud and corruption and irregularity by evaluating the internal control systems established by management and making recommendations to improve control and minimise risk. Reviews will be identified

annually to specifically target anti-fraud and corruption arrangements and the Council's Anti-fraud and Corruption Policy and Corporate Anti-fraud Team (CAFT) will be subject to Internal Audit review.

Internal Audit will advise management, and provide assistance where necessary on the investigation of suspected financial irregularities, and where fraud is suspected will refer cases to CAFT. In cases of irregularity and fraud Internal Audit will identify control issues and make recommendations to improve control and minimise the risk of a reoccurrence.

### **Advisory Service/Non-Assurance Work**

On an ad hoc basis Internal Audit will provide objective, constructive and timely advice on such matters as risk management, control improvement and the application of Financial Regulations.

Services such as facilitation, process design and training will be available on request and subject to the availability of audit resources.

Under each of the above work streams Internal Audit will work with managers to agree the timing of the review, the risks and the audit scope, tailor the style of the audit report to customer preferences, and agree upon an action plan. A traffic light reporting system will be operated with red reports following the escalation procedure and followed up within 3 months. Amber and green reports will be followed-up within 6 months.

Internal Audit have a Charter covering customer relations and expectations.

# **YEAR 1 - 2006/07 RELIANCE REVIEWS**

## **Key Control Reviews**

These reviews are designed to confirm the presence, or otherwise, of critical high level controls within each of the council's core financial systems. Coverage of each system is assessed annually having regard to a range of risk factors including changes to systems and personnel. For 2006/07 2 or 3 of the following systems will be reviewed by agreement with external auditors:

- **housing benefit**
- **council tax**
- **NDR**
- **income**
- **creditors**
- **housing rents**
- **payroll**

These reviews will be undertaken in the early part of the financial year to enable the External Auditor to utilise them for work on the 2005/06 accounts. At the conclusion of this work an assurance statement will also be produced for the Chief Finance Officer for inclusion in the statement on internal control (SIC). Further assurance will be provided following the completion of the detailed risk based systems work outlined within this plan.

Advice/assistance will also be provided to managers of the above systems to enable them to produce system documentation required for CPA, including a walk-through test of each system (as required by the Council's External Auditors) and the development of a self-assessment tool kit.

## **Housing Benefit System Reviews**

The following reviews will be undertaken to satisfy the requirements of the Benefit Fraud Inspectorate:

### **Strategic Management and Customer Focus**

coverage will focus on strategic management and customer services and will be informed by the performance standards published by the Department of Works & Pensions.

### **HB Counter Fraud Arrangements (Anti-fraud and Corruption Arrangements)**

effectiveness of counter-fraud arrangements and compliance with Department of Work & Pensions.

# **YEAR 1 - 2006/07**

## **CORPORATE RISK BASED REVIEWS**

The following reviews are cross – cutting reviews that will cover systems, on a sample basis, across the Council.

### **Contracts Development**

a review of the standard contract requirements in place to ensure that they are consistently used and protect the authority's interests, taking into account issues raised in the use of resources feedback.

### **Maximising Income**

a review of the adequacy and effectiveness of the Council's debt recovery systems concentrating on social care billing, parking enforcement, leasehold housing and housing arrears. (Given the breadth of this review it may be necessary to undertake this over two years).

### **Corporate Software Licensing Review**

a review of arrangements in place to ensure compliance with the licence agreements for software in use across the Council.

### **S17 Crime & Disorder Act**

a review of the adequacy of the Council's arrangements to meet the statutory requirement to mainstream community safety corporately and across all service areas.



# **YEAR 1 - 2006/07 BUSINESS DEVELOPMENT RISK BASED REVIEWS**

## **Risk Management Process**

a review of the effectiveness of the Council's risk management processes.

## **Management Assurance (Strategic risk 15)**

input into the analysis of management assurance statements and advice and support on the preparation of the Statement on Internal Control.

## **HITS Back Up Environment**

to ensure an appropriate method of back up and recovery is in operation within the Council (including Off Site storage).

## **SAP Infrastructure Review**

to ensure that appropriate controls are in place to ensure that the SAP Infrastructure/architecture is appropriately set up (including development, test and production environments) and appropriate controls are in place for secure connection method.

## **BTP (Strategic risk 05)**

support and advice on risk management, internal control and system development plus a review of overall management arrangements and the BTP savings delivery: an assurance review of the benefits cards process and reality checking on how robust and transparent the process is.

## **BVPI's (Strategic risk 15)**

a quality assurance exercise plus assistance with the development of a management information system.

## **MTBS**

a review of the adequacy and robustness of the medium term budgeting process.

# **YEAR 1 - 2006/07 CHIEF EXECUTIVE'S RISK BASED REVIEWS**

## **Corporate Governance Framework**

a review of the authority's framework for governance.

# **YEAR 1 - 2006/07 PEOPLE FIRST RISK BASED REVIEWS**

## **Joint Commissioning - Pooled Budgets. (Strategic risk 24 & Community Care risk 2b)**

input into the development of arrangements for pooled budgets with the Primary Care Trust.

## **Social Care Establishments**

a review of local systems covering areas such as budgetary control, expenditure, critical incidents/journeys, payroll interface, attendance management, IT security, client finances.

## **Schools**

a review of local systems covering budget management and control and income & expenditure systems.

## **Inclusion & Achievement Service**

a review of the arrangements in place for prioritising and targeting of services and for trading with schools.

# **YEAR 1 - 2006/07 URBAN LIVING RISK BASED REVIEWS**

## **Concessionary Fares**

a review of the adequacy and effectiveness of systems in place for concessionary fares, including taxi cards, bus passes and special needs transport, with particular emphasis on management co-ordination, budgeting and value for money. (Given the breath of this review it will be phased over three years.)

## **Building & Development Control**

a review of the adequacy of controls in place with particular emphasis on the robustness of joined up working arrangements.

## **Finders Fee Scheme (Anti-fraud & Corruption review)**

a review of the adequacy of controls in place to prevent fraud and corruption within the Finders Fee Scheme.

## **Decent Homes (Strategic risk F)**

a review of the adequacy of the management of the Decent Homes Programme and a review of progress.

## **Performance Management (Strategic risk 15 & Urban Living risks 01 & 08)**

a review of performance management systems within Urban Living to establish the adequacy, application and effectiveness of controls in place to achieve objectives and improve services.

## **Emergency Planning (Urban Living risk 13)**

a review of local emergency planning arrangements to assess adequacy and effectiveness of systems in place using lessons learned from the major test exercise to be carried out in June 2007.

# **YEAR 1 – 2006/07**

## **SUPPORT, ADVICE & DEVELOPMENT**

An allowance will be made in the plan for support and advice to managers across the Council and development of the Internal Audit service:

### **Suspected Financial Irregularities**

guidance will be provided, in liaison with CAFT, to managers undertaking investigations and specific investigations will be undertaken on behalf of managers.

### **Professional Advice**

professional advice will be provided to managers, as required, on risk and control management/issues.

### **Development**

Year 1 of the Internal Audit Development plan including the introduction of new audit software.

# **YEAR 2 - 2007/08 OUTLINE**

## **RELIANCE REVIEWS**

### **Key Control Reviews**

On the basis that new systems are to be introduced as part of the BTP during 2006/07 **all** of the following core financial systems will be reviewed in 2007/08:

- **housing benefit**
- **council tax**
- **NDR**
- **income**
- **creditors**
- **housing rents**
- **payroll**

### **Housing Benefit System Reviews**

Reviews will be undertaken to satisfy the requirements of the Benefit Fraud Inspectorate

## **CORPORATE RISK BASED REVIEWS**

### **Customer Care and Complaints**

a review of the operation of the corporate complaints procedure including adequacy of record-keeping, feedback to complainants and links to service improvement.

### **Budget Management**

a review of the adequacy of local arrangements for budget management and reporting and acting on variances.

### **Business Continuity**

a review of the adequacy and effectiveness of guidance and support provided by the Business Continuity Officer and Business Continuity Planning across the Council.

### **Absence Management (Business Development risk 14)**

a review of the adequacy and effectiveness of the Council's absence management arrangements.

## **DEPARTMENTAL RISK BASED REVIEWS BUSINESS DEVELOPMENT**

### **Taxation**

a review of the adequacy of arrangements in place for ensuring that the authority meets its responsibilities for the collection and payment of taxes due.

### **Procurement Fraud (Anti – fraud and Corruption Arrangements)**

effectiveness of overall arrangements in operation for ensuring transparency in the procurement process and for minimising the likelihood of fraud and corruption.

### **New IT Asset System**

to assess the controls in place relating to the Council's IT asset management system (including the disposal of such equipment).

### **Capital Programme**

a review of the adequacy of arrangements in place for compiling and monitoring delivery of the capital programme.

### **Finance Improvement Plan (Strategic risk 15 + External Auditor Request)**

review of the management and progress of the finance improvement plan.

### **BTP**

reviews of the adequacy of new systems introduced as part of the ERP, First Contact and MIS projects will be undertaken. Given the size and significance of the new systems these reviews will be undertaken across two years.

### **SAP User Security**

a review of controls in place to ensure that SAP security administration procedures protect the integrity, availability and confidentiality of the SAP system.

### **BVPIs Quality Assurance Exercise**

a quality assurance exercise.

## **CHIEF EXECUTIVE'S**

### **Corporate Governance, Members' Interests**

a review of the adequacy of arrangements in place for recording member's interests.

## **PEOPLE FIRST**

### **Social Care Establishments**

a review of local systems covering areas such as budgetary control, expenditure, critical incidents/journeys, payroll interface, attendance management, IT security, client finances.

### **Schools**

a review of local systems covering budget management and control and income & expenditure systems.

### **Workline**

a review of the adequacy of systems in place particularly links and interaction with other Council sections to include an assessment of whether the workline function should be included in the Council's HR function and governance framework.

### **Partnership Management (Strategic risk 24 & Community Care risk 2d)**

a review of the adequacy and effectiveness of arrangements in place to manage partnerships including the effectiveness of community engagement through a partnership approach.

### **Performance Management (Strategic risk 15, People First risk 5 & Community Care risks 1b, 5 & 11)**

a review of performance management systems within People First to establish the adequacy, application and effectiveness of controls in place to achieve objectives and improve services.

## **URBAN LIVING**

### **Concessionary Fares (year 2)**

a review of the adequacy and effectiveness of systems in place for concessionary fares, including taxi cards, bus passes and special needs transport, with particular emphasis on management co-ordination, budgeting and value for money. (Given the breath of this review it will be phased over three years.)

### **Asset Management Plan**

a review of the adequacy of Council's Asset Management Plan in line with ODPM/RICS guidelines and lessons learned from Beacon Authorities.

### **S.106 Agreements**

a review of the adequacy, application and effectiveness of controls in operation over Section 106 agreements and payments.



**Public Realm Services (waste, parks etc.)**

a review of the adequacy of management arrangements.

**Grant Funding**

a review systems in place to identify and maximise grant funding for Urban Living activities.

**SUPPORT, ADVICE & DEVELOPMENT**

An allowance will be made in the plan for support and advice to managers across the Council and for the development of the Internal Audit service:

**Suspected Financial Irregularities**

guidance will be provided, in liaison with CAFT, to managers undertaking investigations and specific investigations will be undertaken on behalf of managers.

**Professional Advice**

professional advice will be provided to managers, as required, on risk and control management/issues.

**Development**

Year 2 of the Internal Audit Development plan.

# **YEAR 3 - 2008/09 OUTLINE**

## **RELIANCE REVIEWS**

### **Key Control Reviews**

In accordance with the agreement with the External Auditors 2 or 3 of the following core financial systems will be reviewed in 2008/09:

- **housing benefit**
- **council tax**
- **NDR**
- **income**
- **creditors**
- **housing rents**
- **payroll**

### **Housing Benefit System Reviews**

reviews will be undertaken to satisfy the requirements of the Benefit Fraud Inspectorate.

## **CORPORATE RISK BASED REVIEWS**

to be determined.

## **DEPARTMENTAL RISK BASED REVIEWS BUSINESS DEVELOPMENT**

### **BTP**

reviews of the adequacy of new systems introduced as part of the ERP, First Contact and MIS projects will be undertaken. Given the size and significance of the new systems these reviews will be undertaken across two years.

## **CHIEF EXECUTIVES**

### **Corporate Governance**

covering an appropriate Corporate Governance theme to demonstrate that Internal Audit feed into the Corporate Governance Framework as required by CPA.

## **PEOPLE FIRST**

### **Social Care Establishments**

a review of local systems covering areas such as budgetary control, expenditure, critical incidents/journeys, payroll interface, attendance management, IT security, client finances.

### **Schools**

a review of local systems covering budget management and control and income & expenditure systems.

## **URBAN LIVING**

### **Concessionary Fares (year 3)**

a review of the adequacy and effectiveness of systems in place for concessionary fares, including taxi cards, bus passes and special needs transport, with particular emphasis on management co-ordination, budgeting and value for money. (Given the breath of this review it will be phased over three years.)

## **SUPPORT, ADVICE & DEVELOPMENT**

An allowance will be made in the plan for support and advice to managers across the Council and for the development of the Internal Audit service:

### **Suspected Financial Irregularities**

guidance will be provided, in liaison with CAFT, to managers undertaking investigations and specific investigations will be undertaken on behalf of managers.

### **Professional Advice**

professional advice will be provided to managers, as required, on risk and control management/issues.

### **Development**

Year 3 of the Internal Audit Development plan.