

**Internal Audit Annual Plan 2006/07
26th April 2006**

Report of Internal Audit Manager

PURPOSE OF REPORT

To seek the Committee's approval for the proposed Internal Audit Annual Plan for 2006/07

This report is public

RECOMMENDATIONS

(1) That the Internal Audit Annual Plan is approved

1.0 Introduction

1.1 The terms of reference of the Audit Committee include: *To approve Internal Audit strategic plans and the Annual Internal Audit Plan* (the Constitution, part 3 section 7).

1.2 The proposed Internal Audit Annual Plan for 2006/07 is attached as **Appendix A**.

2.0 Proposal Details

2.1 Context and Objectives

2.1.1 The context and key objectives of the 2006/07 plan are summarised in the following table:

Objective	How?	Specific Areas of Work
<p>1. Assurance on the Internal Control and Corporate Governance Frameworks, which include arrangements for the following:</p> <ul style="list-style-type: none"> • Financial Management • Performance Management • Legality • Risk Management • Standards of Conduct • Community Focus and Leadership 	<ul style="list-style-type: none"> • Conducting specific audit assignments to consider and provide an opinion on the effectiveness of arrangements • Producing an annual report providing an opinion on the effectiveness of the Internal Control & Corporate Governance Framework“ 	<ul style="list-style-type: none"> • Programme of work to complete financial systems documentation and risk registers • Assurance work on key risks/controls in financial systems • Evaluation of targeted aspects of performance management (e.g. specific PIs) • A programme of audits based on identified/emerging areas of high business risk. • Maintaining, updating and developing the use of the Internal Control & Corporate Governance database.
<p>2. Contribute to the ongoing development of risk management</p>	<ul style="list-style-type: none"> • Helping develop corporate and Service-level arrangements • Helping disseminate good practice and develop understanding of risk management 	<ul style="list-style-type: none"> • Assisting with the development of corporate and Service risk registers • Reporting to and developing the Audit Committee’s role in reviewing risk management. • Considering risk management within the Council’s partnership arrangements
<p>3. Contribute to the Council’s improvement programme</p>	<ul style="list-style-type: none"> • Support and advise management in implementing key initiatives/strategies 	<ul style="list-style-type: none"> • Procurement Strategy • Project Management • Civil Contingencies • Job Evaluation
<p>4. Contribute to the achievement of efficiencies and Value For Money</p>	<ul style="list-style-type: none"> • Help with the development of systems and techniques for identifying, implementing and monitoring potential efficiency programmes. • Contributing to/reviewing specific efficiency programmes/initiatives 	<ul style="list-style-type: none"> • Review of arrangements, focussed on identifying and evaluating examples of best practice in obtaining VFM. • Review of selected initiatives/projects • Participate in relevant project teams
<p>5. Combat fraud and corruption</p>	<ul style="list-style-type: none"> • Providing assurance that the Council’s policies are up to date and effective and that significant risks are well managed. • Providing an investigation service 	<ul style="list-style-type: none"> • Reviewing corporate policies (including Whistleblowing) • Reviewing existing risk assessments • A programme of audits focussed on identified/emerging high risk areas. • Specific fraud related investigations as necessary
<p>6. Help maintain and promote high standards of internal control and governance</p>	<ul style="list-style-type: none"> • Provide an accessible advice service to managers and elected members 	

2.2 Proposals

2.2.1 Taking account of these objectives, and the trends experienced in recent years' audit plans, the following table sets out the proposed approach to the areas of work included in the plan.

Area of Work	Recent Trend	Proposals for 2006/07 Plan
Financial Systems	Changes within the Audit Commission's Code of Practice have placed greater emphasis on the Council's documentation and evaluation of financial systems. Good progress made with this work in 2005/06.	Some documentation still to be completed 2006/07. This work is leading to a more focussed audit approach to providing assurance on the reliability of financial systems.
Operational Audits	Following a lower priority in 2005/06, greater emphasis will return to operational audits as the control framework and risk management processes become more firmly established.	Increased resources, the programme reflecting corporate priorities and cyclical risk-based plans.
Computer Audit	Arrangements made in 2005/06 with Lancashire County Council Internal Audit Service to undertake a joint review of Information Security.	Scope for further collaboration with Lancashire CC is to be explored. Same levels of resource planned.
Management Arrangements	The Council has made significant improvements, as witnessed by recent Use of Resources and Direction of Travel judgements.	A wide programme, concentrating on corporate priorities, and contributing to the Council's improvement plan.
Advice & Support Work	Slight increase in levels of ad-hoc advice. Increased unscheduled support work in 2005/06, mainly arising from involvement in Use of Resources self-assessment.	Increase on previous levels
Efficiency & Value For Money	Increasing focus on the efficiency and VFM agenda	Allocate resources to contribute to the development of arrangements for efficiency & VFM.
Non Audit Work	Now minimal impact – limited to the Internal Audit Manager's role as Deputy s151 Officer	Maintain existing levels
Planning and Monitoring	Stable	Retain existing levels
Contingencies	Investigation work limited to those of a financial nature and has been much more manageable.	Internal Audit will continue to provide an investigation service for suspected financial irregularities.

2.2.2 Overall, the plan again reflects the need for development in certain areas of the Council's Internal Control and Corporate Governance arrangements, and in particular the ongoing implementation of risk management and performance management processes. Emphasis is again given to assisting the Council with the development of its Internal Control arrangements in support of the Statement on Internal Control and Corporate Governance.

2.2.3 The development of the efficiency agenda is reflected in the inclusion of resources to provide a variety of services in this area. Whilst this work is not yet scoped, it may include: reviewing corporate and/or service arrangements to secure efficiencies and value for money; considering specific efficiency issues; and involvement in projects relating to efficiency and value for money.

2.2.4 Work will continue to complete the documentation and testing of fundamental financial systems. The approach has been developed in close consultation with the external auditor to ensure that he is able to place full reliance on Internal Audit work.

2.3 Resources

- 2.3.1 The Internal Audit establishment is five posts. Additional resources are available through the deployment of a budget of £18,000 for “bought-in services”.
- 2.3.2 Taking account of leave entitlements, training programmes, etc, it is estimated that 924 days of audit work can be delivered within these existing budgets.

3.0 Details of Consultation

- 3.1 The draft plan has been developed following consultation with Management Team and liaison with the external auditor.

4.0 Options and Options Analysis (including risk assessment)

4.1 Option 1: Approve the proposed audit plan.

- 4.1.1 The proposed audit plan again seeks to make a significant contribution to the Council’s improvement agenda. Internal Audit’s main focus is on providing assurance as to the effectiveness of the Council’s systems of Internal Control and Corporate Governance. The plan does, however, make significant provision for Internal Audit to take a pro-active role in a number of areas of development, and it must therefore be accepted that there will be some reduction in the level of independent assurance work.

4.2 Option 2: Adopt an Internal Audit Plan focussed on assurance work

- 4.2.2 An Internal Audit Plan can be established which concentrates solely on providing assurance as to the effectiveness and efficiency of the systems and arrangements covered. This plan would be compiled with due regard to a risk assessment exercise and would provide sufficient evidence to support an Internal Audit opinion on the Council’s Internal Control System.
- 4.2.3 In the Council’s current position, however, such a plan would be unlikely to provide meaningful and active support to the implementation of its Improvement Plan and the development of its internal control framework.

4.3 Officer Preferred Option and Comments

- 4.3.1 With a programme of work aimed at providing the core assurance function alongside involvement in areas that are key to the Council’s improvement programme, Option 1 is preferred.

5.0 Conclusion

- 5.1 In the latest Audit and Inspection Letter, the Audit Commission has again referred to Internal Audit as being a key element in the effectiveness of the Council’s internal control arrangements. The proposed audit plan seeks to maintain that position whilst continuing to add value to the organisation by actively contributing to the Council’s ongoing improvement programme.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

None identified

FINANCIAL IMPLICATIONS

As referred to in the Resources section of this report the proposed plan can be delivered from existing budgets.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments to add

LEGAL IMPLICATIONS

No specific legal implications arising from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments to add

BACKGROUND PAPERS

Previous years' internal audit plans and reports

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