

# CHESHIRE EAST COUNCIL

## Governance and Constitution Committee

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**Date of meeting:** 27<sup>th</sup> May 2010  
**Report of:** Head of Internal Audit and Compliance  
**Title:** Internal Audit Plan 2010/11

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### **1.0 Purpose of Report**

- 1.1 To receive and comment upon the Internal Audit Plan for 2010/11.

### **2.0 Background**

- 2.1 All principal local authorities subject to the Accounts and Audit Regulations 2003 (as amended) must make provision for internal audit in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 2.2 In order to comply with the Code, the Head of Internal Audit has prepared a risk-based audit plan (Appendix A) that is put to the Governance and Constitution Committee for approval, but not direction. The legislation and Code of Practice specifically state that those charged with governance approve the Plan but that this is not in a directing role as the Head of Internal Audit retains the independence and balance of judgement to implement the plan based on their assessment of risk and requirements.

### **3.0 Recommendations**

- 3.1 That the approach to internal audit planning and the content of the internal audit plan be endorsed.

### **4.0 Financial Implications 2010/11 and beyond**

- 4.1 The internal audit team must be appropriately staffed and resourced to comply with statutory and best practice requirements. The budget for the internal audit function currently provides for sufficient staffing levels to fulfil this function. There are, however, a number of key vacancies in the section now that the structure is fully in place and staff appointed to roles based on their competencies. It is expected that these posts will be filled by July. This should resolve some of the skills gaps identified previously and mean that there is adequate resource to complete an effective audit work plan. The current team is highly qualified with seven fully qualified accountants/auditors and several more qualified accounting technicians.

### **5.0 Legal Implications**

- 5.1 The requirement for an internal audit function is either explicit or implied in legislation with s151 of the Local Government Act 1972 requiring Council's to

“make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2003 (as amended) requiring a relevant body to “maintain an adequate and effective system of internal audit ...”

## **6.0 Risk Assessment**

- 6.1 Failure to prepare and approve the risk-based plan will lead to non-compliance with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. In order to mitigate the risk, the plan has been based on the organisation’s assurance and monitoring mechanisms, including risk management arrangements.
- 6.2 The Internal Audit Section could be unable to deliver the annual audit plan due to capacity issues through, for example, failure to recruit staff, loss of key staff etc. Consequently, audit/service planning has included a risk assessment that recognises the issues and introduces various mitigation measures including:
- introducing contingencies to the plan in order that it remains flexible and reflects any changing risks or priorities
  - allocating time to ensuring that performance is managed through the Performance Development Review (PDR) process
  - utilising escalation procedures if the risk manifests itself, such as seeking resolution from the Governance & Constitution Committee

## **7.0 Training**

- 7.1 There are a number of areas of training required to assist continuous professional development of qualified staff, professionally qualify existing staff and to up skill staff as audit practices develop. Officers investigating allegations of fraud and corruption must possess good knowledge of relevant legislation such as the Fraud Act 2006, Theft Act 1968, Theft Act 1978, PACE 1984, Employment Law, DPA 1998, RIPA 2000 and the Council’s investigation procedure. These are being identified through the performance review process and the work force plan. All internal audit staff received training last year in risk-based auditing and lean thinking and this will be further developed in 2010/11

## **8.0 Reasons for Recommendations**

- 8.1 In accordance with the Code, this plan is put to the Governance and Constitution Committee for approval.

### ***For further information:***

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### **Background Documents:**

Local Government Act 1972  
Accounts and Audit Regulations (2003 and updated 2006)  
CIPFA Internal Audit Code of Practice

# Report to Governance and Constitution Committee

## Internal Audit Plan 2010/11

27 May 2010

### **1.0 Purpose**

- 1.1 The Accounts and Audit Regulations 2003 (as amended) state that Cheshire East Council must make provision for internal audit in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 1.2 In order to comply with the Code a risk-based audit plan for 2010/11 has been prepared, which is fixed for a period of no longer than twelve months, and is designed to implement the audit strategy.
- 1.3 In accordance with the Code this plan is put to the Governance and Constitution Committee for approval. In discharging this duty Members should consider whether the scale and breadth of activity is sufficient to allow Internal Audit to provide an independent and objective opinion to the Council on the control environment taking account of whether:
  - the level of resources in any way limits the scope of internal audit, or prejudices the ability to deliver a service consistent with the Code
  - Internal Audit is sufficiently independent of the activities it audits
  - the level of non-assurance work does not impact on the core assurance work

### **2.0 The Audit Plan**

- 2.1 The outcomes of the Council's risk management, performance management and other assurance processes have been used to determine the scale and breadth of potential audit areas for 2010/11. Furthermore, the Head of Internal Audit has consulted stakeholders (Members of the Cabinet and Corporate Management Team) and a draft plan produced. The programme of work (as detailed in Appendix 1) outlines the assignments to be carried out, their respective priorities where applicable, and the estimated resources needed. The plan differentiates between assurance and other work.
- 2.2 It is anticipated that the outcomes from the Service Delivery Planning/Annual Governance Statement processes, when known, will be used to further define the programme of audit work. This approach will enable Internal Audit to focus work on the key risks facing the organisation and, consequently, provide assurance that these risks have been effectively managed.
- 2.3 The Council's response to Internal Audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Organisation's objectives. In order to achieve this, the Internal Audit Section will carry out a comprehensive range of audits comprising a mix of risk based system auditing, regularity, contract and computer audit.

- 2.4 The plan includes an annual contingency of 100 days, for additional work that may arise over the period that could not have been reasonably foreseen when compiling the plan. There is also an annual contingency of 174 days for the provision of advice to departments in response to ad hoc requests. Such work supports the formulation of Internal Audit's opinion on the Council's governance, risk management and internal control arrangements.

A summary of audit coverage (in days) for 2010/11 is shown below:

	<b>Planned</b>	<b>Comments</b>
<b>Total Available Days</b>	<b>2407</b>	Maximum Days less leave, sickness and maternity leave
Non Chargeable Days	493	Includes training, management, administration and service development
Corporate Duties	60	Representation at corporate meetings, compliance with corporate initiatives. Supporting G&C Committee.
Supporting Corporate Governance	70	Supporting AGS & UoR processes
Fundamental Financial Systems	220	In agreement with External Audit
Service Systems/Risk	850	People, Places, P&C and Cross Directorate, Partnerships and Shared Services
Counter Fraud	330	Promotion & investigations
Strategic Reviews	60	Value for Money exercises
Consultancy & Advice	174	Responding to ad hoc requests
Contingency	100	
Follow up	50	Of outstanding recommendations
<b>Total</b>	<b>2407</b>	

- 2.5 It should be noted that the plan is based on a number of assumptions regarding maternity leave and the filling of vacancies. The audit plan will, therefore be regularly reviewed and updated taking this issue into account along with the results of audit work, the risk management process, and any other factors that may affect the Council's priorities. It is anticipated that more detail relating to the programme of work re the assignments to be carried out, their respective priorities where applicable, and the estimated resources needed will be worked up when the outcomes from the Service Delivery Planning and Annual Governance Statement processes are made available. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to the Governance and Constitution Committee.

### **3.0 Key Themes/Messages within the Internal Audit Plan**

3.1 The plan is split into five key areas as agreed at the last meeting and discussed with a number of members of the Committee. These are:

- work to support corporate governance
- fundamental financial systems
- key departmental systems
- anti- fraud and corruption
- strategic review

In addition time is planned to provide advice and guidance on a responsive basis.

3.2 It has become clear from reviewing the authority's current position that there are a number of key drivers for establishing the audit plan and programme of work and included within the detailed plan is an recognition of these drivers which include:

- considered a strategic risk
- considered a key service risk
- significant in affecting the reputation of the Council
- significant in achieving Corporate Plan priorities
- significant in achieving effective ways of working (e.g. partnerships)
- high risk of fraud or irregularity
- high risk resulting from previous findings
- significant growth area
- high financial value/risk
- issues affecting successful inspection and action points arising from inspections.

3.3 In order to articulate the audit plan to staff, auditees and interested parties the overall emphasis for the year is as follows:

- (1) completing high level risk based audits and in particular covering those areas that are considered strategic risks
- (2) having a broad coverage of establishment audits to reduce the risk of fraud and corruption and to ensure sound financial and general system management. (particularly to cover the reputational risks of the council)
- (3) to have a proactive anti-fraud aspect to the plan
- (4) to support the risks and governance arrangements in relation to partnerships and the localism agenda (a strategic risk). A new post of Principal Auditor (Shared Services and Partnerships) has been created to support this work.

### **4.0 Conclusion**

4.1 The report supports the establishment of an effective audit planning process which incorporates a high level of understanding of what the organisation wants to achieve, satisfies legal and external requirements and adds value to the organisation in covering areas essential to its reputation and effective management.



# Audit Plan 2010/11

## Appendix 1

Audit Area	Priority Areas	Outline of work to be carried out	Resources (in Days)
<b>Maximum Resources Available</b>		Based on a number of assumptions regarding the filling of vacant posts	<b>3116</b>
Annual Leave, Bank Holidays, Sickness, Medical Absence, Maternity Leave		Outside the control of Internal Audit	709
<b>Available Working Days</b>		<b>77% of maximum available days</b>	<b>2407</b>
Training, Management & Administration, Service Development		Non chargeable days to support employee development, continuous improvement in Internal Audit as well as day to day operations	493
<b>Available Chargeable Days</b>		<b>80% of available days</b>	<b>1914</b>
<b>Corporate Work</b> Attendance at meetings, external audit liaison supporting G & C Committee		Primarily non- assurance work that enables the Section to identify changing risks and priorities of the Council. Helps to determine any amendments to the plan.	60
<b>Available Audit Service Days</b>		<b>97% of chargeable days</b>	<b>1854</b>
<b>Supporting Corporate Governance</b> Annual Governance Statement, Use of Resources	AGS is a statutory requirement	Assurance work that enables Audit to advise the organisation that arrangements are in place and operating properly. Supporting the Governance Working Group and challenging assurance statements/self assessments made by management. Developing the AGS action plan	70
<b>Fundamental Financial Systems</b> Housing Benefits, NNDR, Council Tax, Budget Monitoring, Debtors, Creditors, Cash Receipting, Treasury Management	Strategic Risk areas and work that External Audit relies on.	Audit of controls and accounting records, work that the Audit Commission can place reliance on. Assurance work that enables Audit to advise the organisation that arrangements are in place and operating properly. Extent of work to be determined with External Audit.	220
<b>Key Service &amp; Departmental Systems</b>		Strategic and service risk audits (when known) focusing primarily on the risks within the Strategic Risk Register and key areas highlighted within the 2010/11 Service delivery plans. Assurance work that enables Audit to advise the organisation that arrangements are in place and operating properly.	
<u>People</u> Establishment audits across e.g. Leisure Centres, Schools, Care homes, FMSIS review, Social Care redesign and review of controls in material systems such as PARIS.	Fundamental Financial systems/Strategic risk areas/Key Service risks	Assurance work focussing on "back to basics" type work across key themed areas and establishments.	300
<u>Places</u> Emergency Planning, Waste PFI, Highways maintenance contract, Car parking, Licensing, Planning & Building Control	Strategic/Key service risks		200
<u>Performance &amp; Capacity</u> Compliance with HR policies, Performance Management including data quality, communications, ICT audits, Procurement including tendering/commissioning, Asset Management.	Strategic/key service risks and U o R improvement areas		250
<u>Cross Directorate, Partnerships, Shared Services</u> Governance arrangements, Service delivery Planning, Project Management, Business Continuity	Strategic Risks		100

# Audit Plan 2010/11

## Appendix 1

<b>Audit Area</b>	<b>Priority Areas</b>	<b>Outline of work to be carried out</b>	<b>Resources (in Days)</b>
<b>Counter Fraud</b> Includes administration of NFI & creation of fraud risk assessment	Investigations work	Includes work responsive to notifications under the anti-fraud and corruption policy; will inform opinion on the internal control environment. Pro- active work based on risk assessment including promotion of relevant policies and assessment of key controls.	330
<b>Strategic Review</b>			60
<b>Responsive Work</b>			
Consultancy & Advice		Where resources and skills exist, may contribute to the opinion that Internal Audit provides on the control environment.	174
Contingency		The plan needs to be flexible to be able to reflect changing risks and priorities. This could include non assurance work at the request of management.	100
<b>Follow Up</b>		In order for the Council to derive maximum benefit from the work of Internal Audit, agreed recommendations need to be implemented. Internal Audit, therefore, continually undertakes follow-up work in respect of all audit reviews.	50
<b>Planned Audit Service Work</b>			<b>1854</b>