

Supplementary Committee Agenda



Overview and Scrutiny Committee Thursday, 2nd March, 2006

Place: Civic Offices, High Street, Epping

Time: 7.30 pm

Committee Secretary: Simon Hill, Senior Democratic Services Officer
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7.a Audit Plan 2006/07 - Plan Documents (Pages 3 - 30)

The attached documents relate to the Audit Plan in draft form for 2006/07.

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Internal Audit Unit

Business Plan

2006/07

INTRODUCTION TO THE INTERNAL AUDIT BUSINESS PLAN 2006/07

Portfolio/Management Responsibilities

The Internal Audit Unit is managed by the Chief Internal Auditor who reports to the Joint Chief Executive (Resources). The work of Internal Audit is within the remit of the Portfolio Holder for Finance and Performance Management.

Context

The Authority retained an experienced team of auditors during 2005/06, with only one vacancy continuing during the year, and one member of staff being on maternity leave for most of the year, which required some external cover. Despite the vacancies the general level of improvement achieved in recent years was maintained.

The planned days allocated and work planned for 2006/07 as detailed in section 4 is based on the updated base budget, though adjusted for a provisional reduction of £8,900 following changes to the Council's methods of service delivery for parts of the Leisure and Highways Services. The audit programme will be prioritised to ensure coverage of the Council's main financial systems, and to reflect the Council's evolving risk management strategy. There is a contingency for investigation work, which may arise during the year, and provision for advice and assistance on a range of topics and new initiatives.

There is flexibility in the Plan so that audits can be substituted in order to accommodate reviews of areas that are assessed as being of greater risk to the achievement of the Council's objectives.

The Audit Commission (formerly District Audit) is regularly updated and there is consultation on the Internal Audit team's programme of work, which amongst other things ensures that there is no unnecessary duplication of work.

The Business Plan includes an explanation of the role of Internal Audit, and some background on how audits are planned, resourced and carried out. The calculations are based on the format suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their national benchmarking exercise.

Following views expressed by Members during last year's consultation on the Plan, extracts from two sets of benchmarking comparisons, one with all other Shire Districts and one with a locally determined 'family' group, are attached for Members' information at Appendix 5. These provide comparative information on EFDC audit costs and work plans based on 2005/06 estimates, and put into context the proposals included in the draft Plan for 2006/07.

This Plan runs from 1st April 2006 to 31st March 2007, and has been prepared following consultations with the Council's Management Board and individual Heads of Service. It will be submitted to the Finance and Performance Management Cabinet Committee for approval, in consultation with Overview and Scrutiny Committee. The Plan will continue to be reviewed on an annual basis and revised accordingly ready for implementation on 1st April each year.

The Internal Audit Unit's Business Plan is divided into the following sections: -

- Section One - Information about the work of Internal Audit
- Section Two – The Internal Audit Unit at Epping Forest District Council (EFDC)
- Section Three - The audit planning process
- Section Four - The work planned

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SECTION ONE – THE WORK OF INTERNAL AUDIT

1.1 Working Practices

As professional Auditors the Team operates under prescribed guidelines as issued by the:

- Chartered Institute of Public Finance & Accountancy (**CIPFA**)
- The Auditing Practices Board (**APB**)
- The Institute of Internal Auditors (**IIA**)

1.2 Definition of Internal Audit

The Official definition of Internal Audit by CIPFA and APB is:

“Internal audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources.”

1.3 Legislation

The Local Government Act 1972

Section 151 requires that:

“every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

At EFDC the Head of Finance is deemed the “responsible officer” and one of the ways in which he exercises his responsibility for financial administration is through the work of Internal Audit.

The Local Government Finance Act 1982

The Local Government Finance Act 1982 requires External Auditors to satisfy themselves that:

“the body whose accounts are being audited has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”.

The existence of an adequate Internal Audit function is an integral part of such “*proper arrangements*”.

As part of their work the external auditors seek to ascertain the extent to which the internal audit meets these requirements and the extent to which they can place reliance on its work.

Local Government Finance Act 1988

Section 114 of the Local Government Finance Act 1988 places on the Head of Finance a responsibility to ensure that all expenditure is legal. Internal Audit seeks to assist the Head of Finance in meeting that responsibility.

Accounts and Audit Regulations 2003

These more specifically require that:-

“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions, and which includes arrangements for the management of risk”.

Regulation 4 requires the publication of an annual statement on the internal control and risk management processes operating within the Authority, prepared in accordance with proper practices. The statement is designed to provide assurance that the Council's financial management is adequate and that sound systems of control are in place.

Regulation 6 requires local authorities to...”maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices” (as contained in the CIPFA Code of Practice for Internal Audit in Local Government).

The work of EFDC's Internal Audit team is planned, executed and reported in accordance with the CIPFA Code of Practice. The Chief Internal Auditor's annual report is required, under the Code, to include an opinion on the overall adequacy and effectiveness of the Council's internal control environment.

The Code of Practice reiterates Internal Audit's right of access to all records, assets, personnel and premises (including those of partner organisations), and to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Civil Contingency Act Regulations 2005

The Civil Contingencies Act Regulations 2005, along with additional statutory regulations require local authorities to produce specific plans and procedures to deal with major emergencies. The Council has an Emergency Response Team in place to ensure that the requirements are met and Internal Audit is represented on the team.

1.4 Best Value

As with other Services within the Council, Internal Audit needs to apply the principles of Best Value by applying the 5 'C's:

Challenge

Although a statutory service, is it better for the Internal Audit function to be provided internally or externally? Can some aspects of the service be provided in alternative ways, and is there scope for partnership or shared working?

Compare

Is Internal Audit actively seeking comparisons with others, not just those in the same sector or location, to ensure the widest possible options for improving practices and performance?

Consult

Is Internal Audit aware of all of the potential users of its service and those affected by it, not just those to whom it reports directly, such as Management Board and elected Members?
Can it demonstrate effective consultation on its aims, scope and the quality of its work – for example, by feedback questionnaires?

Compete

Can Internal Audit demonstrate that it is providing the most efficient and effective service – for example, through market testing or delivering some or all of its functions externally?

Collaborate

Has Internal Audit identified external audit, inspection and review agencies, and taken account of the reviews of these bodies within its own plans? Does Internal Audit collaborate with other disciplines within the organisation?

1.5 Objectives

The main objectives of Internal Audit as defined by CIPFA and APB Guidelines are to review, appraise and report on:

- The completeness, reliability and integrity of information, both financial and operational;
- The systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the organisation, or externally;
- The means of safeguarding assets.
- The economy, efficiency and effectiveness with which resources are employed.
- Whether operations are being carried out as planned and objectives and goals are being met.

1.6 Requirements

The essential requirements of an Internal Audit Unit as defined in the APB Guidelines are:

- Independence;
- Adequate staffing and training;
- Good working relationships;
- Due care;
- Planning, controlling and recording;
- Evaluation of the Internal control system;
- Evidence;
- Reporting and follow-up.

1.7 Customer Care

It is more difficult to please the customer when a service is being provided that they may not have voluntarily requested. Internal Audit has statutory requirements and has to balance this with providing the customer with a service that is useful to them. The 'old' style Audit which included '*ticking and checking*' with little or no consultation or customer care, has been modified. The checking still has to be done but within an overall package that deal with system control issues and concerns from staff and management together with recommendations on ways to improve.

1.8 Benefits

The Council itself is the beneficiary of Internal Audit. Although some of the benefits are intangible, Audit provides, amongst other things, a resource that can review any area to provide Management with an independent opinion on such issues as:

- compliance with established policies, plans and procedures;
- ensuring assets and interests are properly accounted for and safeguarded against loss;
- reliability of financial and other data on which decisions are based;
- operational assessment and improvements, contributing to economic, efficient and effective provision of services and use of resources.

These issues, and the role that Audit will need to play in monitoring them, are particularly relevant now that the Authority has adopted the Local Code of Corporate Governance and is subject to regular inspection by a number of external agencies.

1.9 Reporting Protocol

At the end of each audit the relevant Head of Service is consulted on the final draft report, prior to publication, for information, comment and appropriate action. The management summary for each completed audit is submitted to Management Board for information and comment. In some cases Management Board will determine that the report contains corporate issues, which need to be discussed more widely, for example at the Senior Management Team.

The Finance and Performance Management Cabinet Committee receives a quarterly report incorporating a commentary on the work of the Audit Team and details of reports issued in the previous quarter, including significant observations and conclusions.

For each audit the client is requested to complete a satisfaction survey to enable the audit staff to identify ways in which they can improve their service.

The results of the satisfaction survey from each individual audit are included in the Annual Report. In 2005/06 the Team averaged a satisfaction rate of 85% (estimated) from returned surveys.

SECTION TWO – Internal Audit at Epping Forest District Council

2.1 Context

Before any audit work begins it is important to understand:

- The Authority's key strategic aims and priorities as detailed in the Council Plan;
- How the Audit team can play a part in delivering the Authority's Service objectives as set out in the Best Value Performance Plan (BVPP);
- Where the team fits into the Authority;
- How the team is structured and the Audit Plan resourced;
- What the team's strengths and weaknesses are together with the opportunities and threats (SWOT analysis);
- Out of the SWOT analysis and appraisal interviews, what training and development requirements there are and how they are to be addressed.

2.2 Corporate Objectives

The Internal Audit Teams' mission statement is "to give assurance on the integrity of EFDC's activities", which assists in the delivery of the Council's Customer Charter.

To that end the Audit Team will

- Consult with customers, listen to what they say, and respond in a positive manner;
- Be open in all financial matters, and remember the Authority is spending public money.
- Constantly search for ways to improve services.
- Be flexible and respond to changes affecting services.
- Be open and honest and treat everyone equally and fairly.
- Strive towards excellence and provide the best value possible.
- Invest in staff through training and development.
- Contribute to care for the environment.

The Best Value Performance Plan part five states;

"Finance and Performance Management is about financial and quality control, providing the foundations needed for financial stability and continuous improvement, and the mechanisms to see whether or not the improvements have been achieved.

Financial and Asset Control...

We aim to actively manage all financial resources, investments and assets to ensure maximum benefit and minimum risk to the people of the district.... reviewing the internal controls for all main systems.... taking steps to combat and prevent fraud..."

2.3 Corporate Governance

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, and effectively. In discharging this accountability, Members and Chief Officers and their managers are responsible for putting in place proper arrangements for the governance of the Council's affairs, and the stewardship of the resources at its disposal.

The Council approved a Local Code of Corporate Governance in July 2003, following its detailed consideration by the Finance and Performance Management Cabinet Committee. The Council has achieved compliance in many areas, with a number of key policies and procedures being in place. Some other areas have been identified that require additional action for full compliance. The Code is consistent with the principles contained in the CIPFA/SOLACE framework (Corporate Governance in Local Government: A Keystone for Community Governance).

The Code sets out how the Council will demonstrate corporate governance and monitor its effective implementation. The work of the Audit Team will check for compliance with the Code and the effectiveness of internal controls.

The Chief Internal Auditor is closely involved in the preparation of the Council's annual Statement on Internal Control. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- a) identify and prioritise the risks to the achievement of EFDC's policies, aims and objectives;
- b) evaluate the likelihood of those risks being realised and the impact should they be realised; and
- c) manage the risks efficiently and economically.

As part of the process, plans are established to address any weaknesses identified, and to ensure continuous improvement in the system of internal control. This includes particular attention to compliance with financial regulations, and a requirement for Heads of Service to provide assurance statements confirming their belief that appropriate controls are in place.

On the basis of the relevant internal audit reports, the unqualified nature of the Council's accounts in recent years, and the assurance statements provided by Heads of Service, it has been possible in recent years to conclude that the internal control arrangements for Epping Forest District Council are adequate and operating effectively.

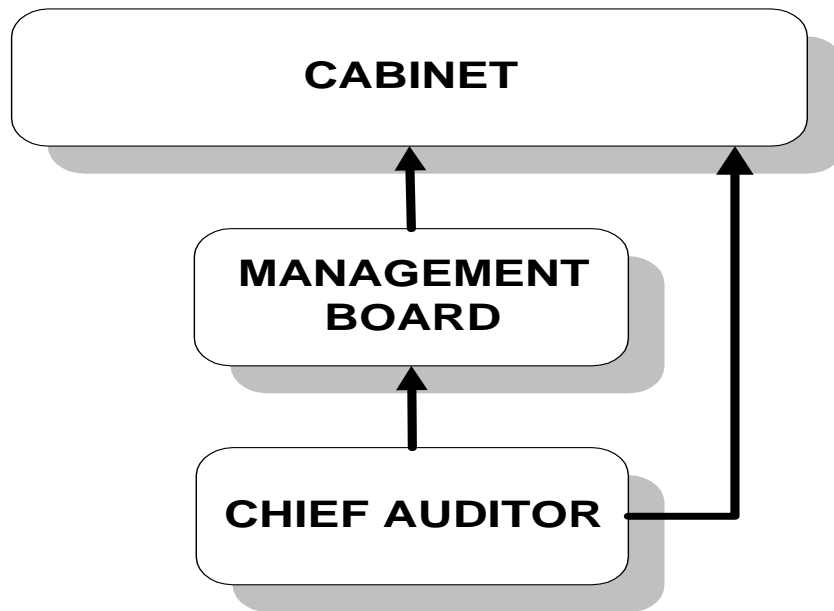
The Audit Team was involved in a number of initiatives to improve the Council's corporate governance arrangements in 2005/06. These included:

- Provision of training to non-finance managers on finance and governance issues.
- Production of a user friendly summary of Financial Regulations
- The issue of a clear reminder to all staff regarding email and internet usage.

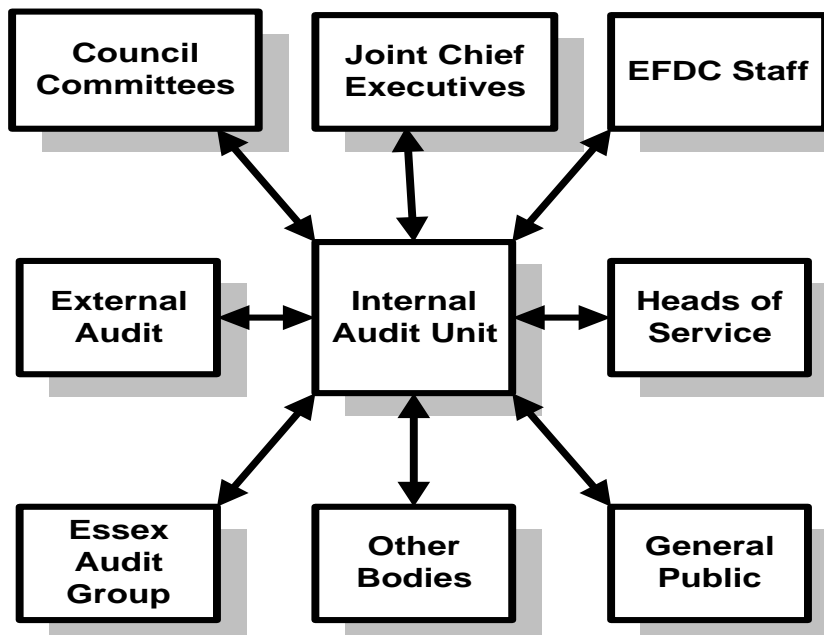
Compliance with the Council's governance arrangements and associated policies will continue to be an important part of the Audit Team's focus during 2006/07.

2.4 How the Audit Team fits into the structure of the Organisation

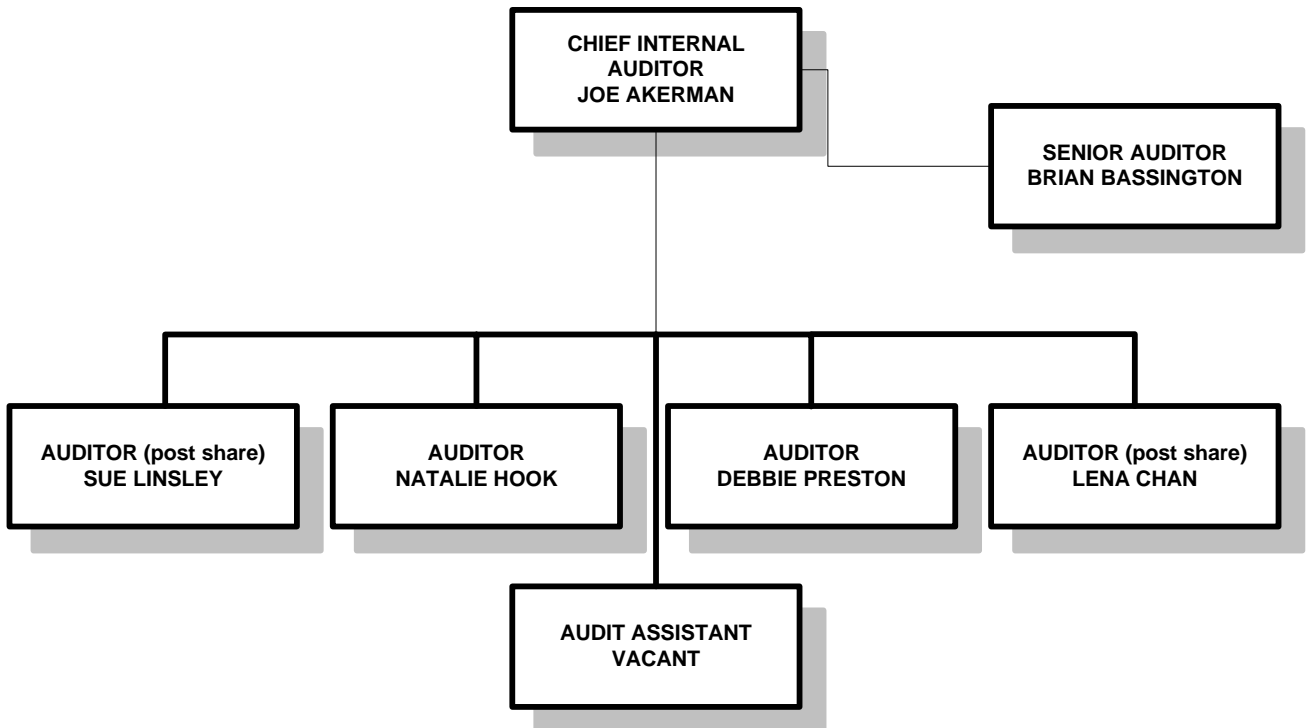
2.4.1 Reporting Structure



2.4.2 Communication Lines



2.4.3 The Audit Staffing Establishment at 1st April 2006



2.4.4 Professional Qualifications/Memberships of permanent team

CCAB

- ACA (1)
- ACCA (1)
- CIPFA (1)

Accounting Technician (2)

Institute of Internal Auditors (Affiliate -1)

Certificate in Management Studies (1)

Environmental Auditor (1)

2.5 SWOT Analysis

The SWOT Analysis has been compiled as part of the continual review process.

Strengths	Weaknesses
<ul style="list-style-type: none"> -Good Team Spirit. -Growing Experience. -Strengthened management. -Authority has a positive attitude to Audit. -Strong mix of different qualifications and backgrounds give a broad and healthy view on all activities. 	<ul style="list-style-type: none"> -Past resource shortages have affected the profile of Audit within the Authority. -Size of team makes it difficult to complete the audit plan when unplanned work, including investigations, takes priority. This can affect the perception of performance. -Poor responses to ads for vacant posts
Opportunities	Threats
<ul style="list-style-type: none"> -Continue to review and improve audit activities, and adapt to risk based approach. -Raise the profile of Internal Audit. -Operate in an innovative way to deliver service in a more cost-effective manner. -Co-operation with other Authorities. 	<ul style="list-style-type: none"> -National shortage of good qualified Auditors. -Salary position bearing in mind the district borders London boroughs and the general difficulty experienced by all professions in recruiting staff.

2.6 Risk Analysis

A risk analysis for the Internal Audit Team is set out in Appendix 3.

2.7 Training Plan

Training and development includes many kinds of activities, some of which can be satisfied by externally run courses but the majority is created internally. Team members are encouraged, via annual appraisals (SDRs), to take ownership of their personal development and identify ways in which their training needs can be addressed.

Auditors require a broad training programme because their work can and often does cover any area that the organisation deals with. The client expects the auditor to have an understanding of their service and the problems that they face. This can then be built on in detail during the audit. Without a basic understanding and assistance from the service area the final audit product will be of a substandard nature and may result in a dissatisfied client. The following Training Plan concentrates on the 'formal' learning events, however, all learning opportunities are embraced and will be further developed.

Training requirement	Auditor	Days
Systems/risk based auditing (basic and advanced)	ALL	5
In-house corporate training	ALL	5
Contract Auditing	ALL	5
PACE/ Other legal updates	ALL	5
EFDC Finance systems	ALL	5
Other professional training/development	NH	10
Total days as shown on page 14		35

2.8 Performance Management

The Internal Audit Team operates within EFDC's Best Value Performance Plan and is committed to continuous service improvement. Within the BVPP there are a number of specific targets relating to Internal Audit. These are set out below.

Local Performance Indicator	Actual 2002/03	Actual 2003/04	Actual 2004/05	Target 2005/06	Actual 2005/06	Target 2006/07
% Planned audits completed	40%	72%	86%	85%	80% (est)	85%
% Productive "fee" staff time out of total time	45%	65%	64%	65%	64% (est)	65%
Average cost per productive audit day	£360	£275	£297	£280	£305 (est)	£285
% User satisfaction	80%	80%	80%	85%	85% (est)	85%

The past relatively low performance figures are to a large extent a reflection of the high level of vacancies and staff turnover within the Unit in recent years. The improvement in performance during 2004/05 was generally maintained in 2005/06, but the returns for that year are distorted by the effect of a member of staff being on maternity leave for most of the year.

In relation to the achievement of planned work, the Unit achieved a performance figure of 86% in 2004/05, and the expected return in 2005/06 is in the region of 80% against the target of 85%. In recent years the target has proved difficult to meet, as there is a tendency for the time actually spent on an audit to increase when an activity has not been audited for a while. There is a contingency in the Audit Plan, which caters for this factor to some extent, but in recent years this provision has been fully allocated to investigation and advisory work, the nature of which cannot be predicted before the commencement of the year.

The Team will be looking to maintain at least to the current standard in 2006/07. Close monitoring will be exercised over the achievement of the Plan and quarterly reports will continue to be submitted to Finance and Performance Management Cabinet Committee on the work of the Team and progress against the Plan.

SECTION THREE - The planning process

3.1 Consultation process

The Chief Internal Auditor has met with the Overview and Scrutiny Committee, Management Board and Heads of Service to provide them with an opportunity to raise any issues they feel would be important to include in the Audit Plan for 2006/07. Provision has also been made for follow up audits, investigation work and spot checks.

3.2 Risk Analysis

A risk analysis approach has been developed in conjunction with the Council's Risk Manager and is reflected in the 2006/07 Plan. Advice also continues to be taken from the Audit Commission and this is used to prioritise the work planned alongside the issues raised in previous audits and in discussions with Chief Officers.

3.3 Compiling the Plan

3.3.1 In determining the audit assignments and related time allocation, several factors have been taken into account to measure both the inherent risk in a particular system and the sensitivity. These factors include:-

- Value and volume of transactions
- Value of income and expenditure
- Opportunity for conversion to cash
- Risk register categorisation
- Effect of system on other systems
- Implementation of new I.T systems
- Follow up from past audits

3.3.2 One overriding factor is the Audit Commission's requirement for Internal Audit to review all fundamental financial systems (eg payroll, payment of accounts etc) every year. Whilst there are generally strong controls in place, all financial systems have to be rated as high risk because the consequence of such a system breaking down could be to place the Authority in a vulnerable position. The benchmarking comparisons at Appendix 5 demonstrate that the local coverage of these systems, in terms of audit days, is well above average in comparison with other Districts.

3.3.3 The Benefits systems have again been given a slightly higher proportion of audit time than other systems, due to the external environment and the volume and value of payments annually in the region of £28m. Whilst Internal Audit benchmarking data suggests that EFDC allocates a higher than average level of resources to benefit audit, the Benefit Fraud Inspectorate (BFI) considers that the level of assurance provided by Internal Audit at EFDC could be improved. The audit planning for 2005/06 and 2006/07 seeks to address this issue by incorporating both systems audits and follow up from previous reviews.

3.3.4 A number of other systems outside Finance services have also been deemed high risk because of the value and volume of transactions, and have been included in the Plan for 2006/07. These include housing rents, car parking and income from the Council's commercial portfolio.

3.3.5 A significant amount of time has been allocated to a number of corporate issues and activities, including the audit of Local Performance Indicators, and a review of a sample of the Council's

procurement processes to ensure that value for money is being obtained. Members of the Team will also continue to participate in project teams to ensure propriety of arrangements, eg compliance with Standing Orders and Financial Regulations.

3.3.6 Provision has also been made to participate in the 2006 National Fraud Initiative (NFI), which is the Audit Commission's biennial data matching exercise designed to identify potential fraudulent payments. The Council participated in the 2004 exercise, and from a total of 1190 "potential" matches 717 were prioritised and examined in detail, including referrals to the Housing Benefit Investigation Team. One specific housing benefit fraud amounting to over £15,000 was identified in the last NFI exercise, and resulted in a prosecution.

3.3.7 The main finance systems implemented during 2005/06 were:-

- Purchase Ordering (roll out halted following review)
- Integrated HR/Payroll system

A new purchase ordering system will be fully implemented across Council services during 2006/07 and Audit will provide guidance on the control environment.

3.3.8 The nature and extent of the replacement of a number of systems in recent years raises the internal control risk factor and therefore requires close attention from Internal Audit to mitigate the risk to the Authority. Provision has been made to review these developments in 2006/07.

3.3.9 The Plan for 2006/07 also makes provision for the follow up of a number of audits carried out in 2005/06, and some general themes arising from those audits, including regular reviews of compliance with Financial Regulations and Contract Standing Orders, following training given to 90 Service Managers and Spending Control Officers during the latter part of 2005/06.

3.3.10 Whilst the Plan fully allocates the days expected to be available in 2006/07, a number of "reserve" audits have been listed, in order to provide a degree of flexibility in managing the work, and to provide for any unforeseen circumstances which may require a planned audit to be deferred.

3.3.11 A full listing of Service areas is given at Appendix 4, so that the topics proposed for inclusion in the Plan can be placed in context.

3.3.12 Taking these issues into account, the Audit Plan for 2006/07 is set out on pages 17-19, and assigns a risk indicator to each audit based on the factors detailed in paragraph 3.3.1.

3.3.13 In order to provide a comparison with the planned audit days and audit work carried out in 2005/06, a status report on the audit plan for that year, based on the work carried out in the first nine months, is attached at Appendix 1. (This is an extract from the monitoring report submitted to the Finance and Performance Management Committee in January 2006).

SECTION FOUR - The work planned

4.1 Financial Resources.

The financial information in this report has been drawn from the Council's revised budget for 2005/06 and the original budget for 2006/07.

Description	Budget Allocation 2005/06	Budget Allocation 2006/07
	£	£
Employee Costs	185,740	217,270
Contract Staff/Consultants*	38,150	8,900
Training Costs	3,000	3,590
Travel & Subsistence	5,750	5,580
Computer Costs	20,390	24,020
Books & Publications	250	310
Telephones	2,000	2,270
Printing/Photocopying	400	420
Other Supplies & Services	2,580	2,550
Accommodation	14,170	15,360
Central Services	10,600	10,430
Approved Carry Forward	-	-
Less expenditure reductions* (Consultants)	-	(8,900)
TOTAL EXPENDITURE	283,030	281,800

4.2 Resource Allocation and Operational Plan for 2006/07

In previous years, Audit Plan calculations have been based on the assumption that there would be a full establishment of 6 fte internal audit staff for the complete year. This has not been borne out in practice and a degree of slippage has occurred due to the incidence of vacancies in the Unit and the extent of unplanned investigation work. The vacancy factor on the auditor staffing establishment in 2005/06 (4 fte) was 19%, the shortfall being partially offset by some consultancy support in the year.

For resource planning purposes an adjustment has been made in 2006/07 to reflect a reduction of half of the vacant audit assistant post following a review of Central Services arising from changes in the methods of Service delivery for parts of Leisure Services and Highways. This sum can be met from the existing vacancy, although the audit coverage will be affected at the margin, as the salary saving had originally been earmarked for inclusion in the Audit Consultancy budget to enable specialist skills to be brought in for specific projects.

If the remaining half of the Audit Assistant post remains vacant throughout the year, some budget flexibility will still exist to provide for specialist work to be performed by external consultants in 2006/07 should the need arise.

It is assumed for resource allocation purposes that the Chief Internal Auditor will focus on management and supervision, quality control, audit planning and liaison with the Audit Commission. He will also take the lead on all investigations requiring an Audit input.

The Plan will be carried out through quarterly work plans, with detailed assignment briefs being agreed with the relevant Service for each audit, specifying the scope of the audit. Draft reports will be circulated for comments, with the aim of issuing the final report in a timely

manner. Recommendations will be ranked in order of importance from an audit perspective and presented to Service management in an Action Plan format.

Available Human Resource days 2006/07	Total
Available days (52 weeks x 5 days x 5.5 fte's)	1430
<u>Less</u>	
Annual Leave	125
Public/Special Holidays	41
Sickness provision	32
Training	<u>35</u>
Total	233
	1197
<u>Less Non-Chargeable time</u>	
Supervision/management/planning (note 1)	100
Corporate Activities (meetings)	10
Essex Audit Group & other external meetings	3
Audit Commission requirements	2
General Administration and team meetings(note2)	32
Audit Assistant (part time) non-chargeable time	<u>30</u>
Total	177
Available Days	1020
Less 3% vacancy factor	(30)
Bought in days	-
Estimated Available Days	990
Allocated to Contingency/Spot Checks/Investigations	50
Allocated to Service/Corporate advice	50
Days allocated to plan 2006/07	890

Notes

- 1 The supervision/management and planning allowance includes direct staff management. Any management work carried out as part of an Audit is coded directly to that project and included in the direct allocated days in the plan. The preparation of the Audit Plan, and assistance with the Statement on Internal Control, is treated as 'chargeable' corporate advice.
- 2 General administration for the Unit includes team meetings and support to the Unit's time recording system and other minor administration. Administration and support relating to a specific audit is included in the planned days for the audit.
- 3 There is no specific provision within the plan for specialist contract audit systems work. The time bought in is managed within the overall resources available and can be allocated from the vacancy provision or contingency as appropriate.

In order to maintain the momentum to achieve the target completion of the Plan in 2006/07, the following options will be explored in the event of further staffing shortfalls:

- Employment of agency or contractor staff on temporary or short term contracts using existing salary savings.
- Reviewing the scope of some audits in order to reduce the time allocated.

4.3 AUDIT PLAN 2006/07

Audit area	Audit type	Days allocated	Reserve list	Risk (impact) Indicator l/m/h
FINANCE				
Bank Reconciliation	system/follow up	20		h
Sundry Debtors inc IT	system/follow up	30		h
Creditors IT	IT/follow up	10		h
Creditors	system/follow up	30		h
Treasury Management	verification/follow up	20		h
Payroll	system/follow up	30		h
Budgetary Control (capital and revenue)	follow up	10		h
Risk Management and Insurance	system/follow up	15		h
Main Accounting and Financial Ledger	system	25		h
Asset Register and Inventory control	follow up	10		h
Housing Benefits inc IT	system/follow up	35		h
Benefit Fraud Investigation	system	15		h
Council Tax inc IT	system/follow up	30		h
National Non Domestic Rates	system/follow up	25		h
Cash Offices	verification	5		h
Cash receipting system and Income control	system/follow up	20		h
TOTAL FINANCE		330		
PLANNING SERVICES				
Enforcement	system	25		h
Section 106 Agreements	follow up	10		h
Building Control	follow up	10		h
Cash receipting	system	10		h
TOTAL PLANNING		55		
ENVIRONMENTAL SERVICES				
Car Parking	system/follow up	25		h
Licensing	follow up	10		h
Rechargeable Works	follow up	5		h
Waste Management	follow up	10		h
TOTAL ENVIRONMENTAL		50		
WORKS/DSO				
Fleet Operations	system	15		h
Depot	system/follow up	22		h
Stores (stocktake)	stocktake	3		h
TOTAL DSO		40		
HOUSING				
Housing Rent Collection	system/follow up	25		h
Norway House (inc rent administration)	establishment	20		h
OHMS IT system	IT/follow up	15		h
Housing Repairs	follow up	5		h
Partnering Arrangements	reserve	-	25	m
TOTAL HOUSING		65		

Audit area	Audit type	Days allocated	Reserve list	Risk Indicator l/m/h
POLICY				
Grants to Voluntary Organisations	follow up	10		h
Committee & Member Services Civic Support	system/follow up	15		m
External Funding	system	30		h
TOTAL POLICY		55		
LEISURE SERVICES				
Contract Monitoring	system	20		h
Grounds Maintenance	system	20		m
North Weald Airfield	follow up	5		h
District Museum	establishment	-	reserve	m
TOTAL LEISURE		45		
HUMAN RESOURCES				
Establishment list	system	15		h
Training	system	10		m
Recruitment and selection processes	follow up	5		h
TOTAL HUMAN RESOURCES		30		
LEGAL, ADMINISTRATION AND ESTATES				
Estates Management	system/follow up	25		h
Repairs and Maintenance (non HRA)	system	-	reserve	m
Local land charges	system/ IT	20		h
Office Services contracts	follow up	5		h
TOTAL LEGAL AND ADMINISTRATION		50		
MISCELLANEOUS				
CPA and BEST VALUE				
Best Value / Local Performance Indicators	system/follow up	35		h
Review of Service business/ best value plans	follow up	10		h
CONTRACTS				
Contract/systems Audits (see attached plan)	system	15		h
CORPORATE				
Corporate Procurement	system	25		h
Review of financial regulations and internal controls	management review	5		h
Use of consultants	follow up	5		h
Freedom of Information	follow up	5		h
FRAUD AND CORRUPTION				
National Fraud Initiative (NFI)	biennial review	35		h
COMPUTER SERVICES				
I.T.				
Network Security	follow up	15		h
E-mail and Internet usage	IT Security/follow up	15		h
IT Procurement	follow up	5		h
TOTAL DAYS ALLOCATED		890		
Contingency/Spot checks		50		h
Corporate/Service Advice		50		h
TOTAL		990		

Contract Audit Plan 2006/07

Type	Details	Planned Days	Last Audit
Systems (Horizontal Audits)	Project Appraisal		03/04
	Design Process		03/04
	Approved List of Contractors (constructionline)	2	99/00
	Selection of contractors		03/04
	Consultants (selection and performance)		03/04
	Register of contracts and purchases		03/04
	Invitations to tender	2	99/00
	Receipt, custody and opening of tenders	2	99/00
	Evaluation and acceptance of tenders		02/03
	Conditions of contract	2	99/00
	Insurance	2	99/00
	Bonding requirements		99/00
	Liquidated damages (calculation and application)		99/00
	Monitoring and reporting of expenditure		02/03
	On site controls		01/02
	Contract Price Adjustment		03/04
	Variation orders		02/03
	Contractual claims		01/02
	Contractors' final accounts		02/03
	Post contract reporting		03/04
Post completion assessment		01/02	
Contracts (Vertical Audits)			
	Follow ups from previous audits and sample checks on individual contracts and partnering arrangements	5	
Total included in Plan		15	

N.B Additional contract auditing will be undertaken on specific areas of the Audit Plan. Other contract audit will be undertaken on capital schemes and will be charged to those schemes, eg Town Centre Enhancements.

Audit Plan 2005/06
Status Report at 31 December 2005

Audit area	Audit type	Days allocated	Days spent 1 April-31 Dec.	Status at 31 Dec 2005	Risk (impact) Indicator I/m/h
FINANCE					
Bank Reconciliation	system/follow up	20	10	completed	h
Sundry Debtors inc IT	system/follow up	30	22	part complete	h
Creditors IT	IT/follow up	10	3	completed	h
Creditors	system/follow up	30	30	completed	h
Treasury Management	verification/follow up	20	13	completed	h
Payroll	system/follow up	30	31	completed	h
Budgetary Control	follow up	10	8	completed	h
Risk Management and Insurance	system/follow up	20	-	Qtr 4	h
Main Accounting and Financial Ledger	system	30	20	completed	h
Asset Register and Inventory control	follow up	10	9	completed	h
Housing Benefits inc IT	system/follow up	35	19	completed	h
Council Tax inc IT	system/follow up	30	7	in progress	h
National Non Domestic Rates	system/follow up	15	10	in progress	h
Cash Offices	verification	5	8	completed	h
Cash receipting system and Income control	system/follow up	10	22	completed	h
Capital Expenditure and Monitoring	system	25	21	draft report	h
TOTAL FINANCE		330	233		
PLANNING SERVICES					
Section 106 Agreements (see Appendix 2)	follow up	5	1	-	h
Building Control	system	20	27	completed	h
Planning Fees budget investigation	investigation	17*	17	completed	h
TOTAL PLANNING		42	45		
ENVIRONMENTAL SERVICES					
Licensing	investigation	20	26	completed	h
Rechargeable Works	follow up	5	-	Qtr 4	h
Waste Management Contract	follow up	5	1	Qtr 4	h
Trade Refuse	system	15	26	completed	h
TOTAL ENVIRONMENTAL		45	53		
WORKS/DSO					
Fleet Operations (Client)	system	10	-	Defer	h
Depot - Works Unit	system/follow up	20	21	draft report	h
Stores (stock take)	stocktake	2	3	completed	h
Attendance investigation	investigation	-	31	completed	h
TOTAL DSO		32	55		
HOUSING					
Housing Repairs	system	30	-	Qtr 4	h
Housing Rent Collection	system	30	33	completed	h
Partnering Arrangements	system	reserve	-	-	h
Rents-Supporting People	follow up	5	-	Qtr 4	h
Bed and Breakfast (inc. debt recovery)	follow up	2	-	Qtr 4	m
TOTAL HOUSING		67	33		

* includes time allocated from contingency

Audit area	Audit type	Days allocated	Days spent 1 April-31 Dec	Status at 31 Dec 2005	Risk (impact) Indicator l/m/h
RDS/POLICY					
Grants to Voluntary Organisations	follow up	6	9	completed	h
Committee & Member Services Civic Support	system/follow up	reserve	-	-	m
Electoral Services	system	20	25	completed	h
External Funding	system	30	-	Defer to 06/07	h
TOTAL POLICY		56	34		
LEISURE SERVICES					
Contract Monitoring (SLM)	system	20	-	Defer to 06/07	h
Grounds Maintenance	system	reserve	-	-	m
North Weald Airfield	follow up	6	-	Qtr 4	h
Leisure Centre Investigation	investigation	-	4	completed	h
TOTAL LEISURE		26	4		
HUMAN RESOURCES					
Managing Absence	system	20	-	Qtr 4	h
Establishment list	system	15	-	Qtr 4	h
Recruitment and selection processes	follow up	5	10	completed	h
Payroll/HR System	follow up	4	-	inc in payroll	h
TOTAL HUMAN RESOURCES		44	10		
LEGAL, ADMINISTRATION AND ESTATES					
Estates IT	follow up	4	-	Qtr 4	h
Estates Management	system/follow up	25	12	in progress	h
Repairs and Maintenance (non HRA)	system	reserve	-	-	m
Office Services contracts	follow up	6	5	completed	h
TOTAL LEGAL AND ADMINISTRATION		35	17		
MISCELLANEOUS					
CPA and BEST VALUE					
Local Performance Indicators	system/follow up	30	36	completed	h
Review of Service business/ best value plans	follow up	10	-	Qtr 4	h
CONTRACTS					
Contract/Systems Audits	system	20	3	Qtr 3/4	h
CORPORATE					
Review of financial regulations and internal controls	c/fwd	15	7	completed	h
Members Allowances	system	20	14	completed	m
Use of Consultants	system	30	7	in progress	h
Corporate Procurement	system	30	23	completed	h
Car Leasing	system	20	20	completed	h
Finance/Audit awareness Training	training	5	-	completed	h
Freedom of Information	system	15	11	completed	h
FRAUD AND CORRUPTION					
Fraud Hotline/Fraud Prevention Strategy	follow up	5	-	ongoing	h
National Fraud Initiative (NFI)	c/fwd	20	24	completed	h
COMPUTER SERVICES					
I.T.					
Applications Security (Housing and Finance)	IT	10*	7	completed	h
IT Procurement	system	20	-	Qtr 4	h
E-mail and Internet usage	investigation	20	9	part completed	h
TOTAL DAYS ALLOCATED		947	645		
Contingency/ spot checks/ minor investigations		18	12	ongoing	h
Corporate/Service Advice		50	41	ongoing	n/a
TOTAL		1015	698		

Internal Audit Unit Charter

1. Introduction

This Charter identifies the role, authority and responsibility of the Internal Audit Unit (IAU) which provides the Internal Audit services within Epping Forest District Council (EFDC). It also details the IAU's Mission, Service Aims and Objectives.

2. Objectives

To give assurance on the integrity of EFDC's activities and assist in promoting Best Value.
 To adopt a systematic approach to work by means of suitable planning and consultation.
 To work to professional standards and procedures.
 To monitor and measure audit performance in order to continually increase efficiency and effectiveness.
 To provide a learning environment in which staff are encouraged to continually develop.

3. Role

The IAU advises all levels of management, Management Board and the Finance and Performance Management Cabinet Committee, on the quality of the Authority's operations with particular emphasis on systems of control. It is a review activity, which does not relieve line management of its responsibility for effective control. The IAU functions by conducting independent appraisals leading to reports on its findings and recommendations addressed as appropriate, to:

- Service Management – Full Report
- Management Board – Management Summary
- Finance and Performance Management Cabinet Committee – Quarterly Report

Members and Management Board require Internal Auditors to function professionally, adhering to the code of ethics, standards and guidelines of their relevant institutes and the Auditing Practices Board (APB). In particular, the Unit is required to adhere to the APB's Auditing Guideline – 'Guidance for Internal Auditors' and CIPFA's 'Code of Practice for Internal Audit in Local Government in the United Kingdom'.

4. Authority

The IAU derives authority from the Management Board through Financial Regulations.

The key controls for Internal Audit are:

- a) That it is independent in its planning and operation
- b) The Chief Internal Auditor has direct access to the Head of Paid Service, all levels of management and directly to elected Members
- c) The internal auditors comply with the Auditing Practices Board's guideline *Guidance for Internal Auditors*, as interpreted by CIPFA's *Code of Practice for Internal Audit in Local Government in the United Kingdom*.

The Finance and Performance Management Cabinet Committee reviews the adequacy of the resources of the IAU and the scope and nature of its work to confirm independence, and receives and reviews quarterly monitoring reports on the Unit's activities. The Chief Auditor has open access to Management Board and the Cabinet.

The IAU does not perform service based line management tasks, as this would impair objectivity; neither has the IAU any direct responsibility for, nor authority over, the activities it reviews.

5. Responsibilities

It is the responsibility of the Management Board to ensure that internal auditors have the authority to:

- a) access the Authority's premises at reasonable times
- b) access all assets, records, documents, correspondence and control systems
- c) receive any information and explanation considered necessary concerning any matter under consideration
- d) require any employee of the authority to immediately account for cash, stores or any other authority asset under his or her control
- e) access records belonging to third parties, such as contractors, when required
- f) directly access the Head of Paid Service, the Cabinet and the Finance and Performance Management Cabinet Committee

It is the responsibility of the Chief Internal Auditor and his staff to:

- a) whenever appropriate, consult with the relevant Chief Officer or their representative on the timing and nature of audits to avoid unnecessary service disruption, and
- b) consult with the relevant Chief Officer or their representative on the findings and recommendations of an audit prior to publication

The Chief Internal Auditor will recommend the proposed list of topics for inclusion in the programme of internal audit work, for approval by the Finance and Performance Management Cabinet Committee, in consultation with the Overview and Scrutiny Committee. The scope of the work is unrestricted. It includes ascertaining, at all levels, that the assets of the authority are being safeguarded. Furthermore, that systems are operated effectively, efficiently and economically in accordance with both the Authority's policies and procedures, and also with laws and regulations, and that records and reports of the Authority are accurate and reliable.

The review of systems under development is also part of the IAU's responsibilities.

In addition the IAU may perform special reviews requested by the Joint Chief Executives, Cabinet or Scrutiny Committees and Panels.

The IAU is not relieved of responsibility in areas of the Authority's business, which are subject to review by others (e.g. Audit Commission, Benefit Fraud Inspectorate). The Chief Auditor should always assess the extent to which reliance can be placed upon the work of others and co-ordinate the internal audit planning with those other review agencies.

6. Internal Audit Service Aims

To provide a high quality internal audit and review service, which efficiently and effectively meets the needs of the client base within the Council.

To assist management in ensuring that financial control is properly maintained, and that the finances of the Council are properly administered.

To promote good management practice.

To assist management in developing and achieving their service objectives.

To provide a customer focussed approach.

To provide support and advice to all Services in jointly identifying system improvements.

To achieve the targets set in the Audit Plan and to seek continuous improvements in the audit service.

Internal Audit Unit Risk Analysis

Risk	Probability	Impact	Action/Comment
Staff turnover affecting the Team's ability to achieve its objectives as set out in the Audit Plan	H	H	It is proving difficult to attract experienced staff to apply for occasional vacancies within the Team, but we have been fortunate in recent years in retaining a core of experienced auditors.
Staff turnover affecting the Team's ability to respond to a request for intervention (damage to the Team's reputation and profile within the Authority)	L	H	The Audit Plan is flexible which allows priorities to be adjusted at short notice
Inability to respond to technical auditing challenges, particularly in the field of IT audit	H	H	External contract staff are brought in to fill skills gaps, but this approach is not sustainable for long term projects given the cost involved. Internal staff are now required to have a general understanding of IT audit disciplines.
Poor working relationships with Client Services, lack of co-operation	L	H	The Team works hard to develop good working relationships with Services. Time is allocated to allow consultation on draft reports with a view to producing reports that are jointly 'owned' by Services and assist them in achieving their objectives.
Budget (staffing) reductions following a review of support services	M	H	There is a core of audit work (mainly finance systems) that needs to be carried out regardless of the size of the Council. The Audit Plan currently covers the full range of Service and corporate areas, which would be jeopardised if there were budget cuts.

Organisation of the Council's Service Areas

The Council's 11 service areas are listed below, with examples of the work they are responsible for:

Corporate Management

The Management Board of the Council comprises the Joint Chief Executives, who are the most senior officers of the Council. The Board is responsible for the overall management of the Council.

Research and Democratic Services

Democratic and Member Services
Policy and Partnerships
Public Relations and Information (including website)

Environmental Services

Architectural Services
Building Services
Capital Project Management
Car Parking
Environmental Health
Flood Alleviation
Highways
Surveying
Waste Management

Financial Services

Accounting
Budget Strategy
Collection of Revenues
Corporate Financial Advice and Policy
Housing Benefits
Insurance

Housing Services

Homelessness
House Sales and Leasehold Services
Housing Improvement
Housing Management
Housing Strategy and Policy
Housing Waiting Lists
Rent Collections
Repairs and Maintenance
Sheltered Housing and the Careline Service for the Elderly

Works Unit

Fleet Maintenance
Housing General Maintenance and Repair
Vehicle MOTs

Leisure Services

Arts Development
Community Leisure
Grounds Maintenance and Arboriculture Services
Health Improvement Programmes
Holiday Play Schemes
Leisure Centres and Swimming Pools
Museum Service
North Weald Airfield
Roding Valley Nature Reserve
Sports Development
Youth Strategy

Legal, Administration and Estates

Civic Offices/Office Management
Estates Management
Legal Services
Local Land Charges
Reprographics and Administrative Services

Planning Services and Economic Development

Building Control
Development Control
Forward Planning
Planning Applications
Planning Policy
Transport

Human Resources and Performance Management

Best Value
Business Planning
Performance Indicators
Recruitment
Staff Benefits
Training and Development

Information and Communications Technology

ICT Help Desk
Application Support
Technical Support
Networking & Communications
Advice & Consultancy
All IT Procurement & Purchasing
IT Training
Telephones

Internal Audit

Audit Services
Consultancy and Advice
Investigations

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