



## Report to:

Northwards Housing Board  
12<sup>th</sup> September 2006

## Item No:

# 9b

<b>Title:</b>	Internal Audit Strategic and Annual Plan		
<b>Date:</b>	4 <sup>th</sup> September 2006		
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<b>Confidential:</b>	No		
<b>For:</b> (Please tick action required)	<b>NOTING</b>	<b>DISCUSSION</b>	<b>APPROVAL</b> 3

### PURPOSE OF REPORT

To bring the Internal Auditor's Strategic and Annual Plan to the Board for consideration and approval.

Further to consideration of this item at Resource & Governance Sub-Committee, a high level review of Health & Safety has been included in the risk management review and follow up of the Inspection findings has been added.

### RECOMMENDATION

That Board approve the Internal Audit Strategic and Annual Plan.

### IMPLICATIONS

<b>Equality &amp; Diversity:</b>	None directly
<b>Financial:</b>	None directly
<b>Staffing:</b>	None directly
<b>Decency Target:</b>	None directly
<b>Governance:</b>	The operation of the Internal Audit is a key part of overall Governance arrangements.
<b>Risk Assessment:</b>	Not currently assessed as a primary risk area.

### Equality & Diversity Implications (Please tick where relevant):

BME	<input type="checkbox"/>	Lesbian/Gay/Bisexual/Transgender	<input type="checkbox"/>
Elderly	<input type="checkbox"/>	Single Parents	<input type="checkbox"/>
Young	<input type="checkbox"/>	Domestic Violence	<input type="checkbox"/>
Disability	<input type="checkbox"/>	Alcohol / Drug Mis-users	<input type="checkbox"/>

**Consultation/Consideration:**

	<b>Yes, No or N/A:</b>	<b>Name:</b>	<b>Date:</b>
<b>Sub-Committee:</b>	Yes	Resource & Governance	29 <sup>th</sup> August 2006
<b>Area Panel:</b>	No		
<b>Ward Councillors:</b>	N/A		



INFRASTRUCTURE & GOVERNMENT

## **Northwards Housing**

Internal Audit Report

Strategic plan and annual plan

2006-07 to 2008-09

September 2006

# Contents

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• Introduction	2
• Initial Approach	3
• Work programme for the period to March 2007	4
• Strategic and annual plans	5
• Reporting and other matters	7
• Key performance indicators	8

## Appendices

- Appendix 1 – 2006/07 annual plan
- Appendix 2 – 2006/07 - 2008/09 strategic plan
- Appendix 3 - Proposed visit dates

# Introduction

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## Context

Northwards Housing (“NH”) has a strategic role to play within the area of North Manchester, helping to shape the area’s social infrastructure and regeneration.

As Internal Auditors, we work alongside the management team, Board, and Resource and Governance Sub-Committee, helping them to respond to the challenges and emerging issues faced in the delivery of the business plan.

In order to provide a framework within which the internal audit work is carried out, we produce a three-year strategic plan covering the period 2006/07 to 2008/09 and an annual plan for 2006/07.

We aim to provide coverage of those risk areas considered critical in the early stages of delivering the business plan. These areas have been identified from discussions with management and our experience, and include:

- assisting in the establishment of effective systems including IT;
- reviewing the robustness of controls in place to minimise any potential risk;
- examining the response of the Company to cultural changes;
- evaluating the delivery of the improvement programme;
- helping to establish a proper governance structure;
- contributing to the effectiveness of the executive team and Board members by knowledge sharing.

## Approach

Our audit methodology and approach have been designed to comply with the standards of the Institute of Internal Auditors (IIA), the requirements of Government Internal Audit Standards (GIAS) and the Housing Corporation’s Circular R25-01, *“Internal Controls Assurance November 2001”*.

KPMG’s approach to planning and delivering the internal audit service facilitates the establishment of an effective risk management framework. A risk based approach is adopted in the delivery of our audit work.

Both the strategic plan and annual plan have been prepared taking into consideration:

- the views of the Director of Business Services, other executives and Board members;
- the Company’s existing risk maps;
- our knowledge and experience of working with ALMOs, LSVTs and other RSLs.

The key stages in our approach are as follows:

- Familiarisation and risk assessment
- Strategic plan
- 2006-07 plan
- Assignment plans
- Fieldwork
- Visit reports
- Annual report
- Debriefing and continuous improvement

We outline these stages in more detail in the remainder of this document.

# Approach to the period from transfer to 31 March 2007

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## Initial steps

A key element of our early work with Northwards Housing involves familiarisation with the organisation and establishing appropriate relationships with management, staff and Board members. This initial phase also informs our detailed planning and sets the basis for our future work with NH.

Specifically we perform the following:

- Introductory meetings with key personnel, including Director of Business Services, Chief Executive, Resource and Governance Sub-Committee Chair and Chair of the Board to establish relationships and gain an overview of key priorities, risks and requirements from internal audit.
- Presentations to and discussions with Resource and Governance Sub-Committee and Executive team and other staff as appropriate covering:
  - Role and responsibilities of internal audit
  - Internal audit plan and strategy

We may also have a role to play with committee training which could include:

- Role and responsibilities of the Resource and Governance Sub-Committee
- Role of internal audit
- Presentation of internal audit plan
- Effectiveness of the Resource and Governance Sub-Committee

## Work programme for the period to March 2007

Our initial audit approach to the early stages of our work is designed to address the key priorities and risks facing NH during the early stages of its development. The key areas will be established based on NH's risk assessment, discussions with NH executives and Board members, together with our own experience of working with other ALMOs. The plan set out below is summarised in Appendix 1. We propose the following:-

Key priority/risk	Number of days	Summary Approach
Establishing an appropriate and effective governance framework	8	<ul style="list-style-type: none"> <li>● Review of committee structures, terms of references and membership.</li> <li>● Discussion and review of reporting processes, including transparency of decision making, delegations and information flow.</li> <li>● Follow up of Audit Commission inspection findings.</li> </ul>
Establishing effective financial and operational procedures and controls	19	<ul style="list-style-type: none"> <li>● Controls review in key areas, including: <ul style="list-style-type: none"> <li>– general ledger</li> <li>– payroll/rent/procurement</li> <li>– budgetary control</li> <li>– performance monitoring</li> </ul> </li> </ul>
Establishing robust IT systems and environment	4	<ul style="list-style-type: none"> <li>● Review of general IT controls including: <ul style="list-style-type: none"> <li>– IT strategy</li> <li>– Access to systems</li> <li>– Systems support</li> <li>– Back up procedures and disaster recovery</li> </ul> </li> </ul>
Appropriate service level agreements set up to support relevant activity	4	<ul style="list-style-type: none"> <li>● Review of SLAs and related arrangements</li> </ul>
Embedding robust risk management framework	5	<ul style="list-style-type: none"> <li>● Review of NH's risk assessment process and documentation, including consideration of health and safety risks.</li> <li>● [risk management workshop]</li> </ul>
Housing management	6	<ul style="list-style-type: none"> <li>● Review of lettings, void and arrears management</li> </ul>
Asset management	4	<ul style="list-style-type: none"> <li>● Review of delivery of improvement programme</li> </ul>
Planning/management/reporting	10	<ul style="list-style-type: none"> <li>● Annual/strategic plan, annual report, management</li> </ul>
<b>Total days</b>	<b>60</b>	

# Strategic and annual plans

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## Strategic plan

The strategic plan sets out the key risk areas, linked to the Company's strategic aims and objectives, which Internal Audit will cover over a three-year period. Given the complexity of NH's activities and systems, not all key systems and risks can be covered in each year; the strategic plan therefore provides the context within which those key areas will be covered over a three-year period. The strategic plan is flexible and subject to a review process each year, in consultation with management, which considers the changing risk profile of the Company and the competing risk priorities.

NH has designed an organisational structure to ensure the delivery of its objectives, together with the capacity to develop the business and organisational strategy for the future. The Directorate Teams are grouped around the following themes:

- Neighbourhood services – focusing on day-to-day service delivery for tenants;
- Property services – focusing on property improvements and regeneration; and
- Business Services – providing internal support for the organisation, including personnel, finance, business development, legal and IT.

The Company's risk map has been prepared with consideration of the risks within each of the following areas:

- Finance risks
- Service risks
- Reputational risks
- Organisational risks

We have prepared our Audit Strategy with these themes in mind to ensure that our work is focused upon the risks facing the Company in the achievement of its objectives.

An illustrative three year strategic plan for 2006/07 to 2008/09 is included at Appendix 2 of this report.

## Annual plan

The internal audit plan for the period to 31 March 2007 is set out in the preceding section of this report. For subsequent years, the annual plan is derived from the strategic plan and sets out the risks and related processes to be audited in the year.

The plan will be structured to ensure that our reviews provide a service to the Resource and Governance Sub-Committee and the Company's management by:

- identifying and assessing the systems of internal control;
- assessing compliance with established and expected standards of controls, procedures and legal requirements; and
- making recommendations designed to improve internal control. This approach allows us to examine all the key controls and also to identify value for money issues/opportunities within our systems work.

## Planning objectives

Both the strategic and annual plans should be seen as flexible management tools which meet the following objectives. To provide:

- a clear view of the workload of the internal audit team;
- a base for assessing the adequacy and future deployment of audit resources;
- a yardstick against which progress and performance can be measured; and
- authority to act once approved by senior management and the Resource and Governance Sub-Committee.

## Strategic and annual plans *(continued)*

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### **Scoping of work**

In advance of each visit, in conjunction with management, we will prepare a scoping document which identifies the process level objectives and risks that should be considered as part of our work on each area. We will issue the scoping documents to management prior to our visit and request feedback from management before our work commences.

### **Audit follow up**

For internal audit to be as effective as possible its recommendations need to be implemented. In order to provide assurance that this is happening, a provision of time is included within the plan to enable internal audit to monitor pro-actively the progress made towards implementing agreed audit recommendations.

A number of days have been allocated in each year of the strategic plan to follow-up work.

# Reporting and other matters

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## Reporting

Our reporting will comprise the following:

- Produce a draft report for each piece of work undertaken;
- Issue draft reports to the relevant members of the management team in the first instance;
- Issue final reports, including management responses, to the Chief Executive and to the Resource and Governance Sub-Committee;
- Submit an annual report on internal audit coverage to the executive team and Resource and Governance Sub-Committee.

We will also report informally to management and the Resource and Governance Sub-Committee on the status of our work throughout the year.

## External audit

In due course we will liaise as required with the Company's external auditors to minimise the duplication of effort.

## Timing of visits

Our proposal is to carry out the audit work in three visits, each lasting approximately two weeks.

The proposed dates of the visits and order of the system reviews is set out at Appendix 3.

A core team of two to three auditors will carry out each visit, with the work being supervised by Stephen Gammon on site and managed by Helen Knowles.

## Fees

Our daily fee rate for 2006/07 is as set out in our proposal document. This is subject to any changes in the scope or nature of work and staff mix.

## Key performance indicators

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In addition to our quality procedures set out in our proposal document we will agree performance indicators with the Resource and Governance Sub-Committee to assess our performance. These performance measures will be reported on in our annual report at the end of the year and will include:

1. Was the cost of the service within contract?
2. Was the service undertaken within the planned number of days?
3. Were individual assignments undertaken within the planned number of days?
4. Did KPMG provide an Annual Audit Plan in time for agreement by Resource and Governance Sub-Committee?
5. For each assignment did KPMG agree with management the scope and timing of each assignment, the system objectives and the control objectives?
6. Did KPMG perform the agreed post audit review from previous internal audit reports?
7. Did KPMG complete every assignment in the annual internal audit plan?
8. Did KPMG issue draft and final reports to the agreed timescales?
9. Did KPMG provide internal audit reports that provided:
  - a clear opinion on the adequacy of internal control in each area audited?
  - an action plan of prioritised recommendations with a management response, person responsible and date of completion.
10. Is there evidence of a co-ordination of work between the internal audit service and the external auditors?
11. Was there adequate attendance by KPMG at Resource and Governance Sub-Committee meeting?
12. On the basis of the above review, was the overall service by KPMG satisfactory?

## Appendix 1

### 2006/07 annual plan

	Days (including review and reporting)
Corporate governance	5
Risk management (including health and safety)	5
Performance monitoring	3
IT	4
Budgetary control and cash flow	3
Payroll/rent/procurement	9
General ledger controls	4
Arrears and lettings/voids management	6
Service level agreements	4
Delivery of improvement programme	4
Follow up of Audit Commission inspection findings	3
<b>Sub-total</b>	<b>50</b>
Annual plan and annual report	2
Management time	3
Preparation/review of strategic plan	3
Attendance at Resource and Governance Sub-Committee and Executive Team meetings	2
<b>Total days</b>	<b>60</b>

## Appendix 2

**2006/07 – 2008/09 illustrative strategic plan**

	Year 1 2006/07	Year 2 2007/08	Year 3 2008/09
Corporate governance	5	4	4
Risk management	5	3	3
Strategic/business planning	-	4	-
Performance monitoring	3	-	3
Service level agreements	4	-	-
Follow up of Audit Commission inspection findings	3	-	-
<b>Business Development</b>			
Human Resources	-	4	-
Health and safety	-	-	3
IT	4	4	4
<b>Key financial controls</b>			
Budgetary control and cash flow	3	3	3
Payroll	3	-	3
General ledger controls (including key control account reconciliations, sales/purchase ledger, journals, ordering, payments)	4	3	3
Rent accounting and collection	3	-	3
<b>Property Services</b>			
Asset management and stock condition	-	4	-
Delivery of improvement programme	4	-	4
Partnering and sub-contractors	-	4	2
Reactive and planned maintenance	-	4	4
Procurement	3	-	3
<b>Neighbourhood Services</b>			
Arrears management	3	-	3
Lettings and voids management	3	2	-
Tenancy and estate management	-	3	-
Tenant consultation	-	3	-
<b>Planning/Control/Reporting</b>			
Follow up	-	3	3
Annual plan and annual report	2	2	2
Preparation/review of strategic plan	3	1	1
Management time	3	4	4
Attendance at Resource and Governance Sub-Committee	2	2	2
<b>Total</b>	<b>60</b>	<b>57</b>	<b>57</b>

## Appendix 3

### Proposed visit dates

Date of visit	Draft reports to be issued by	Final report to be issued by	Resource and Governance Committee date
<p>Two weeks commencing 4 September 2006:</p> <ul style="list-style-type: none"> <li>• Arrears management</li> <li>• Lettings and voids management</li> <li>• Service level agreements</li> <li>• Budgetary control and cash flow</li> <li>• General ledger controls</li> </ul>	2 October 2006	16 October 2006	24 October 2006
<p>Two weeks commencing 4 December 2006:</p> <ul style="list-style-type: none"> <li>• Delivery of improvement programme</li> <li>• IT</li> <li>• Governance</li> </ul>	2 January 2007	15 January 2007	23 January 2007
<p>Two weeks commencing 5 February 2007:</p> <ul style="list-style-type: none"> <li>• Payroll</li> <li>• Rent accounting and collection</li> <li>• Performance monitoring</li> <li>• Risk management</li> <li>• Procurement</li> <li>• Follow up of Audit Commission inspection findings</li> </ul>	5 March 2007	19 March 2007	27 March 2007