

**REPORT TO: AUDIT AND PERFORMANCE REVIEW COMMITTEE ON 23  
APRIL 2008**

**SUBJECT: INTERNAL AUDIT PLAN FOR YEAR ENDED 31 MARCH 2009**

**BY: CHIEF FINANCIAL OFFICER**

**1. REASON FOR REPORT**

- 1.1 This report provides Committee with details of the planned internal audit coverage for the year ended 31 March 2009.
- 1.2 This report is submitted to Committee in terms of Section G5 of the Council's Administrative Scheme relating to reporting on Internal Audit Plans.

**2. RECOMMENDATIONS**

- 2.1 The Committee is asked to:
- consider the proposed internal audit coverage for 2008/09 financial year,
  - seek clarification on any matters arising from the report or from the attached appendices, and
  - note that a further report on staffing levels within internal audit will be provided in six months' time.

**3. BACKGROUND**

- 3.1 The Code of Practice for Internal Audit in Local Government recommends that Internal Audit submits a plan of audit coverage to the Committee on an annual basis.
- 3.2 Until relatively recently audit coverage was planned on a cyclical basis over a five year period, but latest guidance advocates a move towards an annual plan based around risks facing the Council. This change, to an approach known as 'risk based internal auditing' (RBIA), is possible in organisations which have well developed risk management arrangements.
- 3.3 Committee will be aware that the Council has adopted formal risk management processes and that Internal Audit has been instrumental in promoting risk management practice across all Council services. While a considerable amount of work has been completed, supporting risk management will continue during 2008/09, in recognition that more still needs to be done to fully embed risk management practices within the Council.
- 3.4 Given that the organisation is still working towards full implementation of risk management practice, the audit plan is partially based on an assessment of the Council's current risk registers, as well as on Internal Audit's knowledge of the control environment and the planned work of other agencies.

- 3.5 There is also a need to commit staff resources to completion of a range of audits of what are termed 'core financial systems'. These are included in the plan primarily because of their materiality in financial terms. Their completion allows the Team Leader (Audit) to provide reasonable assurance to Committee and the Chief Financial Officer on the adequacy of the controls within these systems on an annual basis, and supports the work of the External Auditor.
- 3.6 Details of the available audit days are provided in **Appendix 1**. Five staff are employed in the team and allowing for overheads for holidays, training, administration and the like, some 1000 working days remain. The commitment to risk management is essential and strengthening risk management processes is seen as a key means of further enhancing the Council's control environment. Supporting this process across the organisation in all services and with various levels of management has been a full-time activity for one member of staff and is likely to remain so during 2008/09. The available days for one member of the team have been allocated in full to this activity.
- 3.7 The remaining four staff include the Team Leader (Audit) who has a range of responsibilities including the management of the team, planning work, development of the service, servicing Committee and representing the team on working groups etc. An allocation of time has been made available within the plan to cover this element of work.
- 3.8 Whilst much of the audit activity is planned in advance, there is also a reactive element to the work. Such circumstances occur when an irregularity is suspected or where management seeks the assistance of Internal Audit to review emerging control weaknesses. The Chair of the Committee has also indicated that it would be prudent for a small allocation of days to be held in reserve for any audit issues that may emerge as a result of the work of the Committee and these days are included under this heading.
- 3.9 The remaining days have been allocated to specific audit projects and details of projects proposed are given in **Appendix 2**. A brief description of the work to be undertaken against each heading is provided in **APPENDIX 3**.
- 3.10 A key feature of audit planning is to consider whether or not the staffing resources are in balance with the audit needs of the Council. At this juncture the service is emerging from a period of upheaval in staffing terms following absences on sick leave, maternity leave and a subsequent vacancy which took some time to fill. Such difficulties have a more marked effect in a smaller team. The position is now more stable, but resources remain tight and it is by no means certain that a staff complement of five will be sufficient going forward given the range of responsibilities on the team.

- 3.11 Certainly in terms of the plan as outlined, a level of coverage is afforded across all services and on main financial systems and, of course, the responsibility for developing and maintaining a sound control environment rests with management and not with Internal Audit. It is also worth noting that Internal Audit is not the only scrutiny activity within the Council and services are increasingly exposed to challenge through other mechanisms be they external inspection, performance reporting or, for example, the provision of data for projects such as the currently ongoing designing better services projects. The view could be taken that services have more than enough inspection and that any more would inhibit their ability to deliver services.
- 3.12 All of this should not detract from the fact that Internal Audit has an important role to play in providing independent assurance to this Committee and the Chief Financial Officer that controls are sound, and to do this there must be an adequate level of audit coverage. The Internal Audit team needs sufficient resources to achieve this and five staff with a broad portfolio is not a significant resource. It is also worth noting that additional responsibilities are likely to arise as a result of increased requirements for internal scrutiny following on from the recently published 'Crerar Report' on the inspection regime within the public sector in Scotland.
- 3.13 Committee will also be aware from other reports submitted to the Council that the concept of workforce planning is increasingly important and given the dearth of qualified and or experienced audit staff it is considered prudent to give early consideration to potential future staffing needs. It is also appropriate to make Committee aware of any such needs at an early stage to ensure that budgetary considerations can be made at the appropriate time.
- 3.14 Given that the team has only recently returned to previous staffing levels and is no longer carrying any vacancies it is intended to closely monitor workloads during the first half year. During that time the Team Leader will closely monitor progress against the plan and any impediments to achieving the plan with a view to providing a further report on staffing implications to this Committee in six months' time. It is also noteworthy that Audit Scotland have recently provided a note of their requirements of the Internal Audit Section to be able to reduce their own input into the audit of core financial systems. The Chief Financial Officer and Head of Internal Audit will need to give due consideration to the note received from Audit Scotland.

#### **4. SUMMARY OF IMPLICATIONS**

- (a) **Corporate Development Plan/Community Plan/Service Improvement Plan**  
No direct implications.

**(b) Policy and Legal**

The activities of Internal Audit assist the organisation to demonstrate the control environment and risk management arrangements are consistent with good governance practice.

**(c) Resources (Financial, Risks, Staffing and Property)**

The audit team is operating with minimal staffing resources and this creates a risk that it may not be feasible to complete its plan of work. In such circumstances staffing may need to be reviewed with consequential financial implications.

**(d) Consultations**

The External Auditor has been consulted and the Council's corporate and departmental risk registers have been reviewed in the preparation of this Report.

**5. CONCLUSION**

**5.1 Committee is asked to note the proposed audit plan for the 2008/09 year and the comments of the Team leader (Audit) in relation to his staffing resources. The difficulties the team faced recently with staff absence have been overcome but there remains a concern that even when fully staffed the team may not be able to meet its full range of responsibilities. A further report on staffing implications for the team will be submitted to Committee in six months' time, by which time the capacity of the team to deliver on the current audit requirements should be clearer.**

Author of Report: Atholl Scott

Background Papers: Internal Audit files

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