

**REPORT TO: AUDIT AND PERFORMANCE REVIEW COMMITTEE ON 28
APRIL 2010**

SUBJECT: INTERNAL AUDIT PLAN FOR YEAR ENDING 31 MARCH 2011

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 ending 31 March 2011.
- 1.2 This report is submitted to Committee in terms of Section J6 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 2010/11 financial year,
 - seek clarification on any matters arising from the report or from the attached appendices.

3. BACKGROUND

- 3.1 The Code of Practice for Internal Audit in Local Government recommends that Internal Audit should submit a plan of audit coverage to the Committee on an annual basis.
- 3.2 The plan is based on an assessment of key risks identified from a number of sources. These include the Single Outcome Agreement, the Moray Performs programme, corporate and departmental risk registers, and budget documentation. It also takes account of Internal Audit's knowledge of the application of controls within services and the planned work of other agencies.
- 3.3 An annual requirement within the planned programme of work is to complete 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 an opinion on the effectiveness of internal financial controls in his annual report. It also supports joint working with the external auditors who, in developing their own plans, seek to place reliance on Internal Audit when conducting their work.

- 3.4 This approach optimises contact with staff being audited and so minimises the impact on service delivery and avoids duplication of effort. It also secures a reduction in the External Audit fee payable by the Council. Whilst this reduced fee is welcomed, the annual input into these core financial systems annually has to be accommodated alongside a separate requirement to undertake work on departmental systems.
- 3.5 Whilst materiality is of a lesser risk for the majority of departmental systems, there is a greater risk that controls may be less rigorous in these systems with fewer checks and balances in place. Experience has shown that dilution of audit coverage of departmental systems increases the risk that control weaknesses within these systems will go undetected, and this can damage the reputation of the organisation, lead to reduced efficiency and, exceptionally, result in financial loss.
- 3.6 Details of the available audit days are provided in **Appendix 1**. The staff complement of the team is four including 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. Allowing for overhead for holidays, training, administration and the like, some 800 working days are available to be allocated. This time is spread over a number of headings; principally audit projects but also work related to governance and risk management.
- 3.7 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. It is difficult to project with any accuracy how many 'contingency days' may be required. The figure of 120 (15% of the total) set for 2010/11 is very close to the actual number of days required in 2009/10.
- 3.8 The days not utilised for core systems, risk management and supporting other corporate initiatives are allocated to audit areas within specific services and departments. Priority areas have been determined by internal audit and are listed in **Appendices 2 and 3**. The specific programme of work in each area will be further developed in consultation with the Director or Head of Service concerned. For the 2010/11 year, it should be noted that excepting a review of procurement, Internal Audit's work plan excludes a review of the change management arrangements associated with the DBS programme; it having been agreed with the Chief Financial Officer that alternative monitoring arrangements are in place to ensure appropriate controls are introduced as elements of the programme are developed.

- 3.9 A key requirement of reporting on the audit plan is to consider whether or not the staffing resources are in balance with the audit needs of the Council. As noted above the team now comprises four staff, a reduction of 0.8 F.T.E. of a post following the retirement of a part time member of staff in May 2010. This employee supported the development of risk management across the Council and with statutory partners. This post has not been filled - the CMT have agreed that the responsibilities of risk management and business continuity should be taken forward together with the aim of reducing the total time taken by managers to consider these important issues.
- 3.10 The overall responsibility for embedding risk management and business continuity is shared between the Team Leader (Audit) and the Head of Direct Services. With the reduction in workload expected to arise from this new arrangement for risk management, the audit team should almost be able to provide the same level of service as in previous years. This level of service is considered by the Chief Financial Officer and the Team Leader (Audit) to be at the margin in terms of meeting the internal audit needs of the council. In considering the potential need for additional audit resources, due cognisance needs to be taken of the overall financial situation faced by the council and at this stage the committee is asked to note the current position, but not to seek an additional allocation of resources.
- 3.11 In considering the sufficiency of the audit coverage, it should be recognised that the responsibility for developing and maintaining a sound control environment rests with management and not with Internal Audit. It should also be noted that Internal Audit is not the only scrutiny activity within the Council. Services are increasingly exposed to challenge through other mechanisms including external inspection, performance management reporting, or the self assessment Public Service Improvement Framework model.
- 3.12 Internal Audit has itself recently undertaken a PSIF review and as part of its improvement plan is looking to streamline existing processes to improve the efficiency and effectiveness of the team. Greater use of technology to support audit testing programmes and more succinct audit reporting are examples of changed practice being considered to ensure audit coverage is maintained. As in prior years the Team Leader (Audit) will keep the committee informed at regular quarterly intervals of compliance with, and any deviations from, the agreed audit coverage.

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 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 deliver on all of its stated priorities. In such circumstances staffing may need to be reviewed with consequential financial implications, and there is a risk of censure if insufficient audit coverage is achieved.

(d) Consultations

Work on main financial systems to be undertaken in the 2010/11 year relative to the prior year has been agreed with the External Auditor and this has been incorporated into the Audit Plan.

5. CONCLUSION

- 5.1 The committee is invited to consider the internal audit plan for 2010/11 having regard to the extent of the audit coverage and the level of staff resources available to undertake this work.**

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Background Papers: Internal Audit files

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