

EAST AYRSHIRE COUNCIL

GOVERNANCE & SCRUTINY COMMITTEE 1 APRIL 2011

AUDIT PLAN 2011/2012

Report by the Chief Auditor

1. PURPOSE OF REPORT

- 1.1 This report advises Governance and Scrutiny Committee of the Audit Plan for 2011/12.

2. GOVERNANCE

- 2.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- 2.2 In 2007 the Council set up a Governance and Scrutiny Committee which is designed to comply with best practice in relation to audit committee principles. This Committee provides a mechanism for the scrutiny of internal control and risk issues.
- 2.3 Internal Audit is an assurance function that provides an independent and objective opinion to the Council on the control environment, by evaluating its effectiveness. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resource.
- 2.4 The Council's response to Internal Audit activity should lead to the strengthening of the control environment and therefore, contribute to the achievement of Council objectives.
- 2.5 Internal Audit will prepare an annual programme of work, the audit plan, and this forms one element of the Council's review of the effectiveness of the system of internal financial control.
- 2.6 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom sets out organisational and operational standards for internal audit services.
- 2.7 The Code states that the status of Internal Audit should enable it to function effectively. In East Ayrshire Council, the Internal Audit service independently reports to the Chief Executive and to the Governance and Scrutiny Committee.

3. AUDIT STRATEGY

- 3.1 Major finance systems will receive significant year on year audit coverage. Assignments will be prioritised using a risk assessment methodology. A programme of major finance assignments will be agreed with the Executive Director of Finance and Corporate Support & Head of Finance.
- 3.2 There will be departmental systems coverage. Audit areas such as information and communications technology, procurement, contracts, external funding, performance indicators and efficiency drive will be covered annually. Contingencies will be made for investigations and advisory services.
- 3.3 Major audit work will be routinely followed-up to assess implementation of agreed action plans, through self assessment and substantive testing. Revised implementation dates will be agreed with the Executive Directors for any outstanding action points.
- 3.4 Internal Audit will prepare annual audit plans. These plans will be prepared following consultation with the Chief Executive, and Executive Directors. Internal Audit will draw on the Council's corporate and departmental risk management processes to inform the annual audit planning process.
- 3.5 It is the responsibility of the Chief Auditor to provide an annual opinion on the adequacy and effectiveness of the Council's control environment, disclose any qualifications to the opinion, and present a summary of the audit work from which the opinion is derived. Annual and mid year reports on progress will be presented to the Governance and Scrutiny Committee.
- 3.6 It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system.
- 3.7 Internal Audit will develop self-evaluation toolkits, to support management in promoting compliance with internal controls.
- 3.8 The evaluation of the control environment will be informed by:
 - the audit work undertaken by Internal Audit during the audit year;
 - the audit work undertaken by Internal Audit in previous audit years;
 - follow-up work to assess progress on implementation of agreed actions;
 - assessment of the governance and risk management framework.
- 3.9 Internal Audit will discharge its responsibilities in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. All audit staff will be independent of the activities being audited, and free from any non-audit and operational duties. The Code states that Internal Audit should be appropriately staffed in terms of numbers, grades, qualifications and experience. Internal Audit staffing will be continuously reviewed to ensure that resources are sufficient to meet current and future demands.
- 3.10 The audit section will work closely with the Council's External Auditors to ensure complementary areas of activity, and with the other Ayrshire council audit sections and the wider internal audit community.

4. AUDIT PLAN 2011/12

4.1 AUDIT RESOURCES

4.1.1 The section has a skill mix capable of providing the full range of audit services, including specialist computer audit skills. The current establishment includes 4 CCAB (Consultative Committee of Accountancy Bodies) qualified staff.

4.1.2 A re-design of the Internal Audit service is in progress, and the review will consider future resource needs. The 2011/12 work programme is based on current available resources.

4.2 ALLOCATION OF AUDIT TIME

4.2.1 The projected outturn for 2010/11 is 1,040 audit days. The plan for 2011/12 is calculated at 900 audit days, based on one less member of staff.

4.2.2 The 2011/12 Audit Plan activity analysis is detailed below. The table also shows the projected outturn for 2011/12:

Activity analysis	2011/12 Plan	2010/11 Projected Outturn
SYSTEMS AUDIT: Assessment of effectiveness of the systems of internal control in key financial and departmental systems, and follow-up of agreed action plans.	175	200
SELF-EVALUATION & REGULARITY AUDIT: Location audits and further development of self-evaluation controls assurance toolkits.	90	135
COMPUTER AUDIT: Compliance with best practice in information and communications technology.	80	105
PROCUREMENT AND CONTRACT AUDIT: Compliance with best practice in procurement, and compliance with the Council's Contract Standing Orders.	155	155
EXTERNAL FUNDING AUDIT: Compliance with Following the Public Pound Guidance.	40	40
EFFICIENCY & PERFORMANCE AUDIT: Audit support for efficient government, cost reduction, best value and improved outcomes, and review of performance management and performance indicators.	150	135
STORES AND INVENTORY AUDIT: Year end stock checks and inventories.	10	35
INVESTIGATIONS CONTINGENCY: Contingency to cover possible defalcations and financial irregularities.	160	185
ADVISORY CONTINGENCY: Contingency to deal with client requests for internal controls advice.	40	50
TOTAL AVAILABLE DAYS	900	1,040

4.2.3 The plan takes account of emerging demands and current priorities and has been prepared following consultation with the Chief Executive and Executive Directors. Risk registers and budget consultation feedback have also been used to inform the audit plan.

- 4.2.4 The priorities for 2011/12 include coverage of core systems, procurement and contracts, external funding, efficiency drive and further development of self-evaluation toolkits.
- 4.2.5 The programme of core systems assignments is attached at Appendix One. 2011/12 is year five of a seven year programme of end to end core systems audits. Since the programme started audits of council tax, non domestic rates, debtors, creditors, four weekly payroll, general ledger, income control and PECOS have all been completed. Previously, we anticipated the 2011/12 core systems work would be in payroll and benefits. However, the payroll system is to be replaced this year. Therefore, the payroll assignment is held back until 2012/13, and the treasury management assignment is brought forward at the request of the Executive Director of Finance and Corporate Support.
- 4.2.6 The major financial systems assignments will include computer audit work around application controls and computer audit assisted techniques, and there will be computer audit policy support in Corporate ICT, building on work during 2010/11 on data security controls.
- 4.2.7 The themes in departmental assignments are: debt recovery, expenditure and contract controls, including examination of transport-related expenditure.
- 4.2.8 The Professor Lorne Crerar review of systems of regulation, audit and inspection in Scotland has delivered shared risk assessments, lighter touch external regulation and more reliance on self-evaluation. Internal Audit has been developing self-evaluation controls toolkits across services, to support management in promoting compliance with internal controls. The toolkit is now established in over 150 locations and work will continue until toolkits are rolled out across all locations and these should serve to further strengthen self-evaluation arrangements and systems of internal control. Compliance testing will be conducted into the use of these toolkits.
- 4.2.9 The audit plan links with the Council's budget management in a number of ways: encouraging compliance with Financial Regulations and Accounting Policy Bulletins; measuring compliance with expenditure controls; efficiency and fraud prevention measures; and contract administration and procurement controls.
- 4.2.10 A full listing of audit assignments is available at Appendix Two.

4.3 SERVICE ANALYSIS

4.3.1 The 2011/12 Audit Plan service analysis is detailed below:

Service analysis	Days
FINANCE	215
CORPORATE SUPPORT	115
EDUCATIONAL & SOCIAL SERVICES	305
NEIGHBOURHOOD SERVICES	265
TOTAL AVAILABLE DAYS	900

5 POLICY/LEGAL/FINANCIAL/RISK IMPLICATIONS

5.1 None from this report.

6 RECOMMENDATIONS

6.1 Governance & Scrutiny is asked to approve the Audit Plan 2011/12.

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PLANREPORTCMT2

LIST OF BACKGROUND PAPERS

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom

INTERNAL AUDIT PLAN 2011/12 – PROGRAMME OF CORE FINANCIAL SYSTEM AUDITS

APPENDIX ONE

Section	System	2011/12 Year 1	2012/13 Year 2	2013/14 Year 3
1 Revenue & Benefits	Benefits	Benefits		
2 Exchequer	Treasury Management	Treasury Management		
3 Corporate Accounting	Rent Accounting		Rents	
4 Exchequer	Payroll		Teachers Payroll	Weekly Payroll
				Members Payroll

INTERNAL AUDIT PLAN 2011/12 – LIST OF ASSIGNMENTS

APPENDIX TWO

Assignment	Description	Primary driver
Finance Service		
Revenues	System review of Housing Benefits	Core System Coverage
Exchequer	System review of Treasury Management	Core System Coverage
Revenues	Support for Council's response to the National Fraud Initiative	Efficient government
Payroll	Support for project to implement new Payroll system	Core System Coverage
Performance Indicators	Validation of sample of Performance Indicators	Public Performance reporting
Corporate Support		
ICT	Review of controls in ICT systems and environment	Controls assurance
Legal & Exchequer	Performance review on Debt Recovery	Efficient government
Educational & Social Services		
Schools	Review of contract administration controls in Education	Efficient government
Social Work	System review of arrangements for through care	Client request
Social Work	Contractor payment controls relating to the adult care contract	Client request
Onsite Services	Review of contract administration controls in ASN transport	Efficient government
Community Education	Review of charges	Efficient government
E&SS	Self evaluation control toolkits	Crerar - Self Evaluation
Neighbourhood Services		
Roads & Transportation	Contract audit on vehicle fuel	Efficient government
Roads & Transportation	Contract audit on vehicle hire	Efficient government
Leisure	Audit of assets and collections in museums	Asset management
Housing	Former Tenant's Arrears	Efficient government
Planning & Economic Development	Review of commercial funding	External funding
Roads & Housing	Attendance at stock counts	Annual audit
Neighbourhood Services	Self evaluation control toolkits	Crerar - Self Evaluation