

## **EAST AYRSHIRE COUNCIL**

**GOVERNANCE AND SCRUTINY COMMITTEE 19 MARCH 2010**

### **AUDIT PLAN 2010/2011**

#### **Report by the Chief Auditor**

#### **1. PURPOSE OF REPORT**

- 1.1 This report advises Governance and Scrutiny Committee of the Audit Plan for 2010/11.

#### **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 Head of Finance and Asset Management.
- 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 test implementation of agreed action plans. 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, the Executive Head of Finance and Asset Management, 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 Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system.
- 3.6 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.
- 3.7 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 test progress on implementation of agreed actions;
  - assessment of the governance and risk management framework.
- 3.8 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/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.
- 3.9 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 2010/11

### 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 audit establishment includes 5 CCAB (Consultative Committee of Accountancy Bodies) qualified staff.

4.1.2 A Best Value Review of the Internal Audit service is in progress, and the review will consider future resource needs. The 2010/11 work programme is based on current available resources.

### 4.2 ALLOCATION OF AUDIT TIME

4.2.1 The 2010/11 Audit Plan activity analysis is detailed below:

ACTIVITY ANALYSIS	DAYS
<b>SYSTEMS AUDIT:</b> Assessment of the effectiveness of the systems of internal control, and follow-up of agreed action plans.	160
<b>REGULARITY AUDIT:</b> Location audits and self-assessment.	140
<b>COMPUTER AUDIT:</b> Assessment of compliance with best practice in information and communications technology.	80
<b>PROCUREMENT AND CONTRACT AUDIT:</b> Assessment of compliance with best practice in procurement, and compliance with the Council's Contract Standing Orders.	130
<b>EXTERNAL FUNDING AUDIT:</b> Assessment of compliance with Following the Public Pound Guidance.	40
<b>EFFICIENCY AUDIT:</b> Audit support for efficient government, cost reduction, best value and improved outcomes, and review of performance management and performance indicators.	170
<b>STORES AND INVENTORY AUDIT:</b> Year end stockchecks and inventory certificates.	30
<b>INVESTIGATIONS CONTINGENCY:</b> Contingency to cover possible defalcations and irregularities.	160
<b>ADVISORY CONTINGENCY:</b> Contingency to deal with client requests for internal controls advice.	40
<b>TOTAL AVAILABLE DAYS</b>	<b>950</b>

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

4.2.3 The priorities for 2010/11 include coverage of core systems, procurement and contracts, external funding, efficiency drive and further development of self-assessment toolkits.

- 4.2.4 The programme of core systems assignments is attached at Appendix One. The 2010/11 major systems audits are in PECOS (electronic purchasing) and income control. 2010/11 is year four 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 and the general ledger have all been completed.
- 4.2.5 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.
- 4.2.6 The main departmental emphasis includes property maintenance in Finance, procurement in Corporate Support, care home, property and external funding assignments in Educational & Social Services, and plant hire and contractor payments in Neighbourhood Services. Regularity audit assignments will be linked to further development of self-assessment assurance toolkits.
- 4.2.7 The audit plan links with the Executive Head of Finance budget priorities in a number of areas: property (maintenance and security costs), procurement (PECOS and contract coverage) and efficiency drive (plant hire, contractor payments and care home expenditure).
- 4.2.8 A full listing of audit assignments is available at Appendix Two.

### **4.3 SERVICE ANALYSIS**

- 4.3.1 The 2010/11 Audit Plan service analysis is detailed below:

<b>SERVICE ANALYSIS</b>	<b>DAYS</b>
FINANCE	<b>250</b>
CORPORATE SUPPORT	<b>160</b>
EDUCATIONAL & SOCIAL SERVICES	<b>320</b>
NEIGHBOURHOOD SERVICES	<b>220</b>
<b>TOTAL AVAILABLE DAYS</b>	<b>950</b>

### **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 2010/11.

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Chief Auditor  
PLANREPORTG&SV1

#### **LIST OF BACKGROUND PAPERS**

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

**INTERNAL AUDIT PLAN 2010/11 – PROGRAMME OF CORE FINANCIAL SYSTEM AUDITS**

**APPENDIX ONE**

<b>Section</b>	<b>System</b>	<b>2010/11 Year 1</b>	<b>2011/12 Year 2</b>	<b>2012/13 Year 3</b>	<b>2013/14 Year 4</b>
1 Exchequer	Payroll		Weekly Payroll	Teachers Payroll	
2 Exchequer	Income control	Income control			
3 Exchequer	Purchasing	Purchasing			
4 Revenue & Benefits	Benefits		Benefits Part 1		Benefits Part 2
5 Corporate Accounting	Rent Accounting			Rents	
6 Exchequer	Treasury Management				Treasury Management

**INTERNAL AUDIT PLAN 2010/11 – LIST OF ASSIGNMENTS**

**APPENDIX TWO**

<b>Service</b>	<b>Assignment</b>	<b>Primary Driver</b>
<b>Finance</b>		
Exchequer	Systems review of income control	Core system coverage
ICT Controls	ICT review of application controls and computer audit assisted techniques	Core system coverage
National fraud initiative	Support for Council's response to the national fraud initiative	Efficient Government
Performance Indicators	Validation of sample of Performance Indicators	Public Performance Reporting
Asset Management	Property maintenance	Best Value
<b>Corporate Support</b>		
PECOS	Systems review of electronic purchasing	Core systems coverage
Procurement	Contract coverage of major expenditure areas	Efficient Government
Policy support ICT	Review of corporate ICT policies and strategies	Client
<b>Educational &amp; Social Services</b>		
Community Support	External Funding compliance	Following Public Pound
Schools	Public Private Procurement charges	Client
Asset Management	Property security costs	Best Value
Social Work	Care home payments	Risk Register (sustainability)
Education	Location audits	Controls Assurance
Social Work	Location audits	Controls Assurance
Educational and Social Services	Further development of self-assessment toolkits	Controls Assurance
<b>Neighbourhood Services</b>		
Roads	Plant hire costs	Budget Consultation
Roads	Contractor payment controls	Best Value
Neighbourhood Services	Location audits	Controls Assurance
Neighbourhood Services	Further development of self-assessment toolkits	Controls Assurance
Roads	Consumable stores	Year end stock counts
Housing	Consumable stores	Year end stock counts