

EAST AYRSHIRE COUNCIL

GOVERNANCE & SCRUTINY COMMITTEE – 3 APRIL 2009

AUDIT PLAN 2009/2010

Report by the Chief Auditor

1. PURPOSE OF REPORT

- 1.1 This report advises Governance & Scrutiny Committee of the Internal Audit Plan for 2009/10.

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 revised 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 Finance systems will receive significant year on year audit coverage. Assignments will be prioritised using a risk assessment methodology. A rolling three year program of Finance assignments will be agreed with the Executive Head of Finance and Asset Management.
- 3.2 There will be annual departmental systems coverage. Specialist audit areas such as ICT audit and contract audit 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.
- 3.9 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 on the section.
- 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 2009/10

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. The section is carrying a part-time vacancy at assistant auditor level.
- 4.1.2 A Best Value Review of the Internal Audit service is in progress, and the review will consider future resource needs. The review will report in 2009.
- 4.1.3 The 2009/10 work programme is based on current available resources.

4.2 ALLOCATION OF AUDIT TIME

- 4.2.1 The 2009/2010 Audit Plan activity analysis is detailed below:

| ACTIVITY ANALYSIS | PLAN DAYS |
|---|------------|
| SYSTEMS REVIEW: Review of the financial and managerial controls exercised within particular systems areas, including follow-up of agreed action plans. | 320 |
| REGULARITY AUDIT: Review of regularity and probity of elements of systems. | 120 |
| COMPUTER AUDIT: Review of existing and proposed computer facilities in order to ensure adequate controls exist with regard to procedures and security of systems. | 70 |
| CONTRACT AUDIT: Review of contract procedures, taking account of internal controls, and compliance with the Council's Standing Orders. | 100 |
| ADVISORY CONTINGENCY: Advice given to departments as a result of specific enquires. | 40 |
| STOCKCHECKS: Stores visits and year end stocktaking and inventory checks. | 30 |
| INVESTIGATIONS CONTINGENCY: Contingency to cover possible defalcations and irregularities. | 150 |
| PERFORMANCE AUDITS: Performance reviews and review of statutory and non statutory performance indicators. | 70 |
| TOTAL AVAILABLE DAYS | 900 |

- 4.2.2 The plan is risk-based. It 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.
- 4.2.3 The priorities for 2009/10 include significant core systems coverage, procurement and contracts, external funding, expenditure controls and further development of self-assessment toolkits.

- 4.2.4 A three year rolling programme of Finance assignments is attached at Appendix One. For 2009/10, I have made a revision to the programme in agreement with the Executive Head of Finance and Asset Management and the Council's External Auditor. The 2009/10 major financial systems audits are in payroll and the main accounting system.
- 4.2.5 The main departmental emphasis includes procurement and contract administration in Corporate Support, external funding and self-assessment in Educational & Social Services, and expenditure controls and self-assessment in Neighbourhood Services.
- 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.
- 4.2.7 Regularity audit assignments will be carried out in a number of areas and this will be linked to further development of self-assessment assurance toolkits.
- 4.2.8 A full listing of audit assignments is available at Appendix Two.

4.3 SERVICE ANALYSIS

- 4.3.1 The 2009/10 Audit Plan service analysis is detailed below:

| SERVICE ANALYSIS | DAYS |
|-------------------------------|-------------|
| FINANCE | 300 |
| CORPORATE SUPPORT | 170 |
| EDUCATIONAL & SOCIAL SERVICES | 260 |
| NEIGHBOURHOOD SERVICES | 170 |
| TOTAL AVAILABLE DAYS | 900 |

5 POLICY/LEGAL/FINANCIAL/RISK IMPLICATIONS

- 5.1 None from this report.

6 RECOMMENDATIONS

- 6.1 Governance & Scrutiny Committee is asked to approve the Audit Plan 2009/10.

Colin Houston
Chief Auditor

LIST OF BACKGROUND PAPERS

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom
PLANG&S0910Vfinal

INTERNAL AUDIT PLAN 2009/10 – CORE FINANCIAL SYSTEM – THREE-YEAR PLAN

APPENDIX ONE

| Section | System | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|------------------------|----------------|--------------------|----------------|----------------|------------------|
| 1 Exchequer | Creditors | Creditors | | | |
| 2 Revenue & Benefits | Sundry Debtors | Debtors Processing | | | |
| 3 Exchequer | Payroll | | APT&C Payroll | Manual Payroll | Teachers Payroll |
| 4 Corporate Accounting | Ledger | | General ledger | | |
| 5 Income control | Exchequer | | | Income control | |
| 6 Revenue & Benefits | Benefits | | | | Benefits |

INTERNAL AUDIT PLAN 2009/10 – LIST OF ASSIGNMENTS

APPENDIX TWO

| Assignment | Description | Primary Driver |
|--|--|----------------------------|
| Finance Service | | |
| Payroll | Systems review of APT&C Payroll processing | Core system coverage |
| Ledger | Systems review of General Ledger | Core system coverage |
| ICT Controls | ICT review of application controls | Core system coverage |
| National fraud initiative | Support for Council's response to the national fraud initiative | Efficient Government |
| Performance Indicators | Examination of process to collect Statutory Performance Indicators | Statutory requirement |
| Asset Management | Expenditure controls | Best Value |
| Corporate Support | | |
| National Procurement | Scottish Local Authorities collaborative study | Efficient Government |
| PECOS | Audit support for electronic purchasing | Efficient Government |
| Policy support ICT | Assist the review of corporate ICT policies | Client |
| Contract Administration | Contract administration testing | Efficient Government |
| Educational & Social Services | | |
| Community Support | External Funding compliance | Following Public Pound |
| Educational and Social Services | Further development of self-assessment toolkits | Delivering Good Governance |
| Education | Regularity audit work | Controls Assurance |
| Social Work | Regularity Audit work | Controls Assurance |
| Contract | Support for public private procurement process | Client |
| Neighbourhood Services | | |
| Supply chain | Expenditure controls | Best Value |
| Neighbourhood Services | Further development of self-assessment toolkits | Delivering Good Governance |
| Neighbourhood Services | Regularity audit work | Controls Assurance |
| Roads and Transport | Annual stockchecks | Annual audit |
| Building and Works | Annual stockchecks | Annual audit |