

EAST AYRSHIRE COUNCIL
CORPORATE GOVERNANCE COMMITTEE 31 MARCH 2004
INTERNAL AUDIT PLAN 2004/2005

Report by the Chief Auditor

1. PURPOSE OF REPORT

- 1.1 To advise members of the 2004/2005 audit strategy and annual audit plan.

2. BACKGROUND

- 2.1 The audit plan is an annual document which informs members and management of internal audit responsibilities, and how these will be discharged.
- 2.2 The audit plan covers the full range of audit activities and council services, and was prepared following full consultation with service directors.
- 2.3 An annual report, providing details of the audit work carried out in financial year 2003/2004, and including an opinion on the adequacy and effectiveness of the systems of internal control, will be submitted to the June meeting of the Corporate Governance Committee.
- 2.4 The Code of Practice for Internal Auditors in Local Government in the United Kingdom was updated by CIPFA in October 2003 in an attempt to modernise the Code and reflect the significant change in the nature, scope and practice of internal audit over recent years.
- 2.5 The revised code sets standards for internal audit services, and included in this is guidance on developing audit plans and audit strategies.
- 2.6 The Code requires the head of audit to present an audit strategy to members, setting out in a high-level statement how audit services will be delivered and developed, including resources and skill requirements.

3. AUDIT STRATEGY

- 3.1 In the early years of the council, three-year strategic audit plans were developed to guide the annual planning process. The last of these three-year plans covered up to the 2003/2004 audit year.

- 3.2 From 2004/05 onward, the three-year plan is being replaced with a rolling strategy, which will involve many of the same elements as the three-year plan, but with enhanced flexibility to account for changes in the audit environment, including changing priorities and emerging risks.
- 3.3 The plan will include an element of contingency to accommodate assignments which could not have been reasonably foreseen. Material changes to the audit plan will be brought to members' attention.
- 3.4 At the heart of the audit strategy will be a rolling maintenance of the universe of auditable control systems, and a rigorous risk assessment strategy for prioritising assignments within the audit universe.
- 3.5 The risk assessment model will use traditional auditing factors such as materiality, inherent risk and experience, and other influences such as corporate and environmental factors including client perceptions, systems developments and regulatory changes.
- 3.6 Audit will draw on the council's corporate and departmental risk management processes to inform the audit planning process.

4. AUDIT NEEDS ASSESSMENT AND RESOURCES

- 4.1 The risk assessment model has been applied to the systems in the audit universe and the auditable systems have been split into one of four classifications; core, high, medium and low risk.
- 4.2 Annual audit coverage will include a mix of all four risk classifications, and the audit approach will involve visiting core systems annually, high risk systems every three years, and medium and low risk systems sampled over a three year period.
- 4.3 Computer audit work will be covered annually, as will contract audit, performance indicators, value for money and stores. Contingencies will be made for reactive work in special investigations and audit advisory services.
- 4.4 The audit establishment has 6.6 full-time equivalent audit staff, including 5 CCAB (Consultative Committee of Accountancy Bodies) qualified. The section is currently at full strength, with a skill mix capable of providing the full range of audit services, including specialist computer audit work.
- 4.5 A comparison of resources available to resource needs shows that there are sufficient audit resources to deliver audit coverage in line with the strategy set out above.

5. AUDIT PLAN 2004/2005

5.1 ALLOCATION OF AUDIT TIME

- 5.1.1 There are 1100 audit days available to allocate across the range of audit activities and council services in 2004/05 audit year. Specific audit assignments have been identified for audit attention following consultation with service directors.
- 5.1.2 Every effort has been made to ensure that the plan contains realistic targets, and that planned activities will be completed within the audit year.
- 5.1.3 Internal Audit will undertake systematic follow-up of all major audit assignments to check progress on implementation of agreed action plans, and provision has been made in the plan for this work.
- 5.1.4 Audit will assist the Council discharge its corporate governance requirements, and this will include an annual assurance statement on the adequacy and effectiveness of the Council's systems of internal control.
- 5.1.5 A copy of the 2004/2005 Audit Plan will be given to the Council's External Auditors, with whom there will be consultation to ensure complementary areas of activity.

5.2 ACTIVITY ANALYSIS

- 5.2.1 In meeting its declared objectives Internal Audit provide a range of services to clients designed to add value to the areas examined. These include planned systems reviews, computer audits, contract audits, performance indicator work, and value for money studies.
- 5.2.2 Internal Audit work is both proactive and reactive, for example, contingencies have been built into the audit plan to carry out investigative work, and provide audit advice on request in relation to issues which might arise at short notice.
- 5.2.3 A systems-based approach is employed which is designed to raise awareness of control objectives and associated risk.
- 5.2.4 Internal Audit aim to provide an effective audit service, which will offer sound practical advice to clients in a positive and constructive manner. This will be done exercising due care and by applying professionally recognised auditing standards, and quality assurance processes.

5.2.5 The 2004/2005 Audit Plan activity analysis is detailed below:

ACTIVITY ANALYSIS	PLAN DAYS 2004/2005
Systems Review: Review of the financial and managerial controls exercised within particular systems areas, including follow-up of agreed action plans.	520
Computer Audit: Review of existing and proposed computer facilities in order to ensure adequate controls exist with regard to procedures and security of systems.	120
Contract Audit: Review of contract procedures, taking account of internal controls, and compliance with the Council's Standing Orders.	100
Audit Advisory Services: Advice given to departments as a result of specific enquires.	40
Stocks & Inventories: Stores visits and year end stocktaking and inventory checks.	30
Special Investigations Contingency: Contingency to cover possible defalcations and irregularities.	150
Performance Indicators: Review of statutory and non statutory performance indicators.	40
Value for Money: The study of particular areas of work with a view to reporting on the cost benefit of those areas.	100
Total Available Days	1100

5.2.6 The following are illustrations of the audit assignments planned for 2004/2005:

- | | |
|--------------------------|----------------------------|
| (a) FMS | (f) Staff security checks |
| (b) Payroll | (g) Self assessment |
| (c) Bank reconciliations | (h) Leisure income |
| (d) Benefits | (i) Grant claims |
| (e) Community care | (j) Industrial rent income |

5.2.7 Computer audit assignments in the plan include email monitoring arrangements, internet investigation procedures, logical access of the civica benefits system, and debt consolidation and data protection.

5.2.8 Contract audit work is planned in Education, Building and Works and Roads.

5.2.9 Two value for money studies are proposed for this audit year, and these will include a review of mobile phone usage, and a review of arrangements for the provision of water coolers services across the council.

5.3 SERVICE ANALYSIS

- 5.3.1 An annual service plan will be provided to each audit client, setting out details of service provision and standards.
- 5.3.2 The 2004/2005 Audit Plan service analysis is detailed below:

SERVICE ANALYSIS	DAYS
CORPORATE SUPPORT (INC FINANCE)	350
DEVELOPMENT & PROPERTY SERVICES	160
EDUCATIONAL & SOCIAL SERVICES	260
NEIGHBOURHOOD SERVICES	230
VALUE FOR MONEY STUDIES	100
TOTAL AVAILABLE DAYS	1100

6. LEGAL/POLICY IMPLICATIONS

- 6.1 The Council places a high degree of importance on the need to ensure that its arrangements for corporate governance are adequate and effective and are subject to ongoing review and improvement, and to this end the Council has adopted a Local Code of Corporate Governance modelled on the CIPFA/SOLACE framework for Corporate Governance in Local Government.
- 6.2 Internal Audit has an important role to play in helping the Council review its internal control requirements under corporate governance, and through the annual assurance programme of work identify opportunities to enhance the control environment.
- 6.3 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.

7. RECOMMENDATIONS

- 7.1 Members are asked to note the contents of the Annual Audit Plan 2004/2005.

Colin Houston
Chief Auditor

LIST OF BACKGROUND PAPERS

- 1 CIPFA Code of Practice for Internal Audit in Local Government
- 2 East Ayrshire Council Local Code of Corporate Governance