

## **EAST AYRSHIRE COUNCIL**

### **POLICY AND RESOURCES COMMITTEE 14 JUNE 2001**

### **INTERNAL AUDIT STRATEGIC PLAN 2001/02 TO 2003/04**

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

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

- 1.1 To submit to members details of the three year Strategic Audit Plan.

#### **2. BACKGROUND**

- 2.1 This document sets out the Internal Audit strategic plan for the three financial years 2001/02 to 2003/04. The plan takes account of changed circumstances since the previous strategic plan, including Council restructuring, new services and reordered priorities.
- 2.2 The strategic audit plan is derived from a comprehensive audit needs assessment and risk analysis. It presents a broad outline of the work to be undertaken to meet internal audit objectives.
- 2.3 The audit needs assessment identifies the level of internal audit resources required to meet the strategic audit plan demands.
- 2.4 An annual audit plan will be drawn from the strategic audit plan each year following discussion with the Chief Executive, Director of Finance and all service directors.
- 2.5 Internal Audit reporting procedures require audit plans to be presented to the Policy and Resources Committee. Member involvement in audit issues is an integral part of sound corporate governance and consistent with the adoption of audit committee principles.

#### **3. STRATEGIC AUDIT PLAN**

##### **3.1 THE AUDIT PLANNING PROCESS**

- 3.1.1 A vital element in the effective management of Internal Audit is planning audit work to ensure that objectives are met, priorities are established, resources are targeted and used effectively, and best value is achieved. This involves strategic and annual audit planning.

- 3.1.2 A systems-based approach will be applied. In view of the size of the authority and the complexity of systems and processes, it is not possible to test all transactions. It is now commonly accepted that the best practice is to adopt a systems-based approach. This approach focuses on internal controls governing key systems since if these are sound then transactions are likely to have been processed satisfactorily.
- 3.1.3 The audit plan must give due recognition to core financial systems and allocate appropriate resources to help secure these key systems.
- 3.1.4 It is important to achieve a balanced audit plan thereby ensuring an appropriate allocation of audit resources across the range of audit activities and a fair allocation across all council services.
- 3.1.5 The plan must also make due allowance for new developments and reordered priorities or revised risk assessment. There must therefore be a degree of flexibility in the planning process.
- 3.1.6 The External Auditor to the Council will seek to place reliance on Internal Audit, wherever possible, for assurances that internal controls are working satisfactorily. The External Auditor will also carry out systems audits to complement the work carried out by Internal Audit. It is therefore important that Internal and External Audit liaise in order to maximise the use of audit resources.
- 3.1.7 Copies of the strategic audit plan, annual audit plans, annual audit reports and all individual audit assignment reports are passed to the Council's External Auditor.

## **3.2 AUDIT NEEDS ASSESSMENT**

- 3.2.1 The first stage in the planning process was to define the "audit universe", that is the number of areas for audit attention. This exercise was carried out in consultation with service directors.
- 3.2.2 The exercise has concluded that the East Ayrshire Council audit universe includes 103 systems audits, 38 audit probes, 31 location audits, and 65 statutory performance indicators.
- 3.2.3 Risk analysis is used to arrive at the extent, frequency and depth of the particular audit review. Risk analysis was carried out using the tests of materiality, inherent risk and any lessons from previous audit assignments.
- 3.2.4 The following audit cycle has been adopted in arriving at the audit needs assessment for system reviews:

- core systems to be reviewed not less than biennial
- medium risk systems to be reviewed within a five year cycle
- lower risk systems to be reviewed within a ten year cycle

3.2.5 Audit probes and location audits will be covered in a ten year cycle for all systems.

3.2.6 Specialist computer audit skills will be employed annually to review controls around computer systems, and contract audit work will be undertaken to examine revenue and capital contracts.

3.2.7 Commitments have been made to support value for money studies, audit of statutory performance indicators, and reviews of stock and inventories. Contingencies have been made for reactive work in special investigations and advisory services.

3.2.8 The assessment of audit need has identified that a notional 4,000 audit days are required over the course of the three year strategic audit plan in order to meet the audit coverage strategy outlined above.

### **3.3 AUDIT RESOURCES**

3.3.1 The effectiveness of the internal audit service depends substantially upon the quality, training, experience and professionalism of the audit staff .

3.3.2 The audit establishment consists of 8.6 full-time equivalent posts. This includes four qualified staff; the chief auditor, two senior auditors and a computer auditor. There are 3.6 audit staff graded at administrative level and a clerical assistant post.

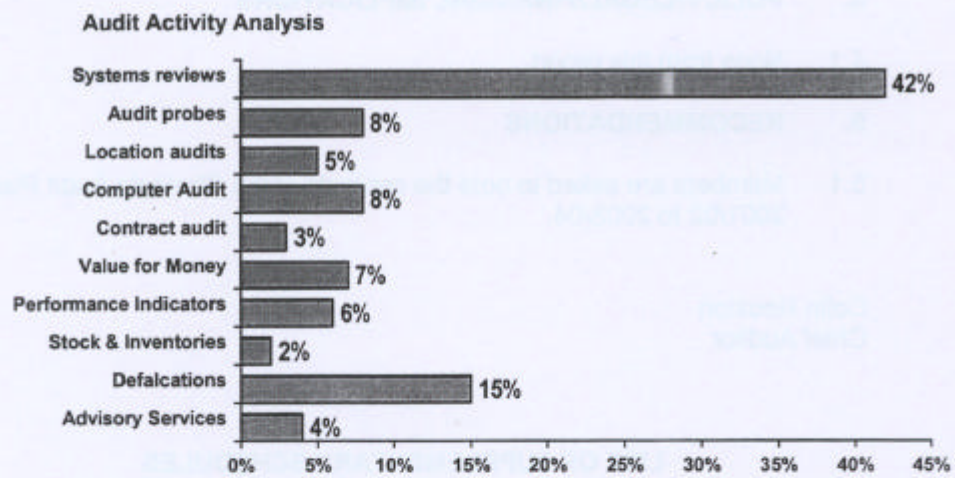
3.3.3 At full establishment (8.6 fie) there are 1260 audit days available for annual audit coverage. Over the term of a three-year strategic audit plan 3, 780 audit days are available.

3.3.4 A comparison of resources available to resource needs, based on the audit coverage strategy detailed above, shows that the needs assessment exceeds the available resources by around 200 audit days over the term of the strategic audit plan. This does not represent a significant resourcing issue and can be met by careful management of resources and dovetailing of audit work with external audit and the Council's Contracting & Technical Services contract audit section.

3.3.5 The strategic audit plan has been constructed on the basis of the audit needs assessment.

### 3.4 ACTIVITY ANALYSIS

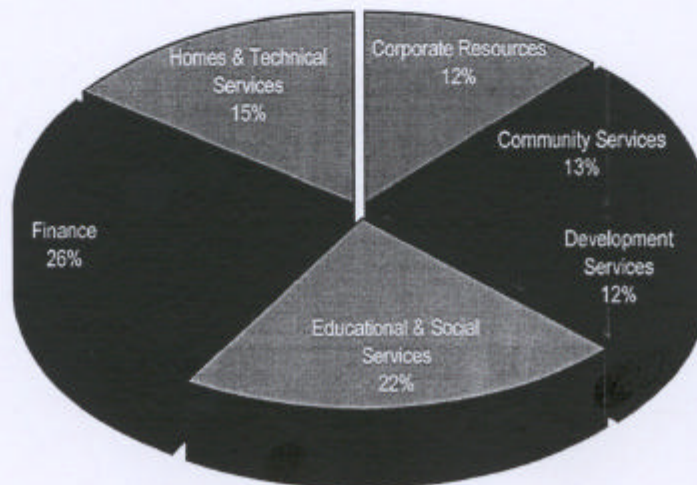
3.4.1 The Strategic Audit Plan activity analysis is detailed below:



### 3.5 SERVICE ANALYSIS

3.5.1 The Strategic Audit Plan service analysis is detailed below:

#### Audit Client Analysis



3.5.2 A service level agreement will be established with each audit client on an annual basis, setting out details of service provision and standards.

#### **4. POLICY/LEGAL/FINANCIAL IMPLICATIONS.**

4.1 None from this report

#### **5. RECOMMENDATIONS**

5.1 Members are asked to note the contents of the Strategic Audit Plan 2001/02 to 2003/04.

Colin Houston  
Chief Auditor

#### **LIST OF SUPPLEMENTARY SCHEDULES**

- ◆ Appendix one - Assessment of audit need
- ◆ Appendix two - Analysis of scope of audit
- ◆ Appendix three - Systems by department
- ◆ Appendix four - Three year VFM programme
- ◆ Appendix five - Audit coverage of core systems

**AGENDA**