
Report To:	Audit Committee	Date:	25.08.09
Report By:	Corporate Director Improvement and Performance	Report No:	AC/21/09/PW/APr
Contact Officer:	Andi Priestman	Contact No:	01475 712251
Subject:	INTERNAL AUDIT - ANNUAL PLAN 2009-10		

1.0 PURPOSE

- 1.1 The purpose of this report is to seek approval from Committee for the Internal Audit Annual Plan for 2009-10.

2.0 SUMMARY

- 2.1 The Audit Committee agreed on 18 March 2008 that Internal Audit move to a risk assessment approach and operate to an Annual Audit Plan only, with rotational coverage of the top 25-30% of the Audit Universe.
- 2.2 The Audit Universe contains all areas that have been identified for review and an assessment has been undertaken of the risk relating to each area based on a number of criteria. Account has been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers. However, the Risk Registers are not sufficiently mature and robust to place full reliance on in preparing the Annual Audit Plan. It is hoped that as the Council's risk management process matures, closer links will be developed between the Annual Audit Plan and the Corporate, Directorate and Service Risk Registers.
- 2.3 It has therefore been necessary for Internal Audit to undertake its own risk assessment of potential areas for audit review. It is intended that audit work will be focused on areas of greater risk taking into account management's own view of risk. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since the last audit.
- 2.4 In addition, the risk assessment has also taken account of where Internal Audit activity can be proactive ie seeking to identify and reduce risks before they cause significant damage, for example significant corporate initiatives.
- 2.5 Furthermore, to meet the requirements of External Audit, the Annual Plan will include limited scope reviews of financial systems that are not subject to a full scope review or will not be covered in the External Audit Annual Audit Plan.
- 2.6 The proposed Annual Audit Plan is attached at Appendix 1. The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations, ad hoc advice.
- 2.7 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

2.8 The Annual Audit Plan has been constructed to allow for a reduction in productivity over the first half of the financial year as the Internal Audit Team transitions to the new structure approved by Members on 26 May 2009.

3.0 RECOMMENDATIONS

3.1 It is recommended that Members approve the Internal Audit Annual Plan for 2009-10.

Paul Wallace
Corporate Director
Improvement and Performance

4.0 BACKGROUND

- 4.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising governance, risk management and control by evaluating its effectiveness in achieving the organisation's objectives. 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 resources.
- 4.2 The requirement for an Internal Audit function derives from local government legislation, including Section 95 of the Local Government (Scotland) Act 1973, which requires authorities to make arrangements for the proper administration of their financial affairs. Proper administration includes Internal Audit.
- 4.3 Internal Audit operates to an Annual Audit Plan. The Audit Universe is risk assessed each year to determine the Annual Audit Plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk.
- 4.4 Each area within the Audit Universe is assessed for impact against a number of broad risk categories as follows:

Risk	Description
• Strategy	Risks associated with the setting and achievement of strategic objectives.
• Economy	Risks associated with the economy in which Inverclyde Council operates.
• Reputation	Risks associated with threats to Inverclyde Council's name and standing in the sector.
• Customer	Risks associated with customer relationships.
• Legal/Regulatory	Risks associated with the requirement to comply with a wide range of statute.
• Financial	Risks associated with financial loss or inefficiency.
• Technology	Risks associated with application systems, their integrity, security and development.
• Management Info	Risks associated with the provision of information for decision-making purposes.
• Human Resources	Risks associated with people, eg recruitment, succession, development, motivation and morale etc.
• Operations	Risks associated with the business operating process.
• Catastrophic loss	Risks associated with disaster scenarios which would threaten the continuing operation of Inverclyde Council.
• Security	Risks associated with security over customer and Inverclyde Council's assets.
• Stakeholder	Risks associated with management of stakeholder expectations (eg Government or local communities)

- 4.5 The Financial Strategy has now been reviewed post the 2009/11 budget, and also reflects estimated impacts of the current economic situation following the pre-budget announcement in November 2008 and the budget announcements on 22 April 2009. This document gives a stark indication of the anticipated budget reductions required in 2011/12 and 2012/13 whilst there is a continued need for the Council to meet increases in expenditure arising from inflation and service delivery pressures.

4.6 Outlined below are the current risk factors influencing our proposed audit coverage for 2009-10:

- Inverclyde Council's procurement budget for 2009/10 has been set at £90M. It is the Council's responsibility to use this money in the best way possible to meet its objectives and comply with public procurement law. Internal Audit will review the adequacy and effectiveness of control procedures surrounding Corporate Procurement.
- The School Estate Management Plan has been produced in accordance with the requirements of the Scottish Government. Its objective is to rationalise the provision of primary and secondary schools in line with current rolls and future roll projections. Internal Audit will review the adequacy and effectiveness of the project management arrangements to ensure successful delivery of the plan outcomes.
- Management have initiated a project to modernise a number of service processes throughout the Council and identify any deficiencies or duplication in the control environment. We will provide audit input to this project in 2009/10.
- The Council is introducing a single system for HR and Payroll processes which will require decommissioning of existing systems. Internal Audit will review controls in place to ensure all records are migrated accurately, sufficient archive information is retained for regulatory and tax purposes, and any licensing and maintenance costs are recovered.
- The Corporate Policy team has responsibility for developing and implementing the Community Planning Framework within Inverclyde, which includes supporting the emerging Single Outcome Agreement. Internal Audit will review the Inverclyde Alliance governance and programme management arrangements that are in place to ensure effective delivery of agreed outcomes.
- The planning system in Scotland is undergoing the most significant modernisation in over 60 years. The Planning etc (Scotland) Act 2006 is a landmark piece of legislation. The changes introduced by the Act are substantial and far-reaching and work has already begun to implement the provisions of the Planning Act. Internal Audit will review plans and processes in place in relation to E-Planning to ensure readiness to achieve full compliance in accordance with the implementation timetable.
- Following the collapse of the Icelandic Banks and the continuing "credit crunch" Local Authority treasury management has come under the spotlight. As custodians of large sums of public money, local authorities must exercise due diligence in current practices and decision-making. It is important that treasury management policies adequately reflect risk and in particular security, liquidity and yield risk. Internal Audit will review the governance, risk management and control procedures in place to support this decision making with improved information and regular review by councillors in both executive and scrutiny functions.
- There are a number of project management processes that authorities need to have in place if they are to publish timely and accurate IFRS-compliant accounts for 2010/11. For Fixed Asset Accounting, IFRS Fixed Assets introduces different requirements for the basis of asset valuations, which may have implications for the asset register arrangements authorities currently have in place. Internal Audit will review the project management arrangements in place to meet the new requirements.
- Fairer Scotland Fund - The Scottish Government has allocated funds to Inverclyde for 2008 – 2010, via the Inverclyde Alliance as lead body, to assist with achieving key national objectives to tackle poverty and address inequalities within those areas of Inverclyde identified as being within the 15% most deprived throughout Scotland. Internal Audit will review the operational governance arrangements that have been established for the Fairer Scotland Fund and their subsequent implementation.
- Flexi Scheme – The Council has recently reviewed and updated the Flexi Scheme for employees. The scheme is in place to provide a more flexible system for attendance and allow eligible employees the flexibility to vary the times at which they start and stop work in order to suit their personal circumstances. Internal Audit will review the operational impact of the scheme to ensure that flexibility in attendance is achieved without any adverse effect on the efficient running of services.

- In 2009, the Council procured a performance management system - Inverclyde Performs. The system will help the Council and its community planning partners to monitor progress in taking forward key corporate plans and strategies such as Inverclyde's Single Outcome Agreement, the Community Plan, Corporate Plan and Directorate Plans. Internal Audit will review the risk management, governance and control processes during the system implementation phase.
- As part of the Corporate Plan for 2007-2011, the Council has implemented a corporate process to ensure all comments and complaints are dealt with timeously, in a fair, confidential, consistent and effective manner. Governance arrangements and policies are now in place and Internal Audit will review the implementation of these during 2009/10.

5.0 IMPLICATIONS

5.1 Legal: None
Finance: None
Personnel: None
Equalities: None

6.0 CONSULTATIONS

- 6.1 Audit Scotland has been consulted on the 2009-10 Annual Audit Plan. There will be regular ongoing discussion to ensure respective audit plans are reviewed to minimise duplication of effort and maximise audit coverage for the Council.
- 6.2 The CMT considered the plan on 6 August 2009 and recommend it to the Committee for approval.

7.0 LIST OF BACKGROUND PAPERS

- 7.1 Internal Audit Annual Plan 2009-10. By Andi Priestman, Chief Internal Auditor

INTERNAL AUDIT ANNUAL PLAN 2009-10

Audit Area	Service	Risk Score	Staff Days
Risk Based Reviews			
Corporate Procurement	Performance Management and Procurement	4278	30
Economic Development – Fairer Scotland Fund	Economic and Social Regeneration	4216	25
Building Standards - E-Planning	Planning and Transportation	4104	25
Homelessness	Social Work	3876	25
Complaints	Corporate Communications and Public Affairs	3875	25
Strategic Partnerships	Performance Management and Procurement	3720	30
Treasury Management	Finance	3432	25
Fixed Asset Accounting	Finance	3224	25
Flexi Scheme	Corporate	2976	30
		Total	240
Limited Scope Financial System Reviews			
Creditors	Finance	-	15
Payroll	Finance	-	20
Cash and Banking	Finance	-	15
		Total	50
Business Assurance Reviews			
Members Expenses	Legal and Administration	-	20
Schools Estate Strategy	Education	-	20
		Total	40
Corporate Governance Reviews			
SSIFC	Corporate	-	20
		Total	20
Projects/Key Change Initiatives			
Future Operating Model	Corporate	4216	20
HR/Payroll Integration Project	Corporate	3596	20
PMS – Inverclyde Performs	Corporate	3472	20
Transfer of Community Facilities	Regeneration and Resources	3348	20
		Total	80
Regularity Audits			
Control Self Assessment – Education	Schools	-	30
Control Self Assessment – Social Work	Social Work	-	30
		Total	60
Performance Audits			
Statutory Performance Indicators	Corporate	-	40
Travel and Subsistence	Corporate	-	20
		Total	60

INTERNAL AUDIT ANNUAL PLAN 2009-10

Audit Area	Service	Risk Score	Staff Days
Other Work			
Contingency for unplanned work eg special investigations, ad hoc advice	Corporate	-	40
Audit follow up	Corporate	-	35
Total			75
Total Man Days			625