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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b>	<b>27 April 2010</b>
<b>Report By:</b>	<b>Corporate Director Regeneration and Environment</b>	<b>Report No:</b>	<b>AC/08/10/AF/APr</b>
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<b>Subject:</b>	<b>INTERNAL AUDIT - ANNUAL PLAN 2010-11</b>		

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## **1.0 PURPOSE**

- 1.1 The purpose of this report is to seek approval from Committee for the Internal Audit Annual Plan for 2010-11.

## **2.0 SUMMARY**

- 2.1 Since April 2008, Internal Audit follows a risk assessment approach and operates to an Annual Audit Plan only, with rotational coverage of the top 20-25% 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 to maximise audit coverage and reduce duplication.
- 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.

### **3.0 RECOMMENDATIONS**

3.1 It is recommended that Members approve the Internal Audit Annual Plan for 2010-11.

**Aubrey Fawcett  
Corporate Director  
Regeneration and Environment**

## 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:

<b>Risk</b>	<b>Description</b>
• 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 Outlined below are the current risk factors influencing our proposed audit coverage for 2010-11:

- CHCP – In November 2009, the Council announced its intention to form a Community Health and Care Partnership with Greater Glasgow and Clyde NHS. The Partnership will manage a wide range of local services delivered in health centres, clinics, schools and homes with the overall aim of improving services. Internal Audit will provide support and input to the project and review the adequacy and effectiveness of the project management arrangements to ensure successful delivery of the planned outcomes.
- The Council's Financial Strategy 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. In addition, the Council is moving to a new financial management model to ensure consistency in budget management and monitoring procedures. Internal Audit will review the adequacy and effectiveness of the budgetary control processes to ensure that members and officers are provided with relevant, reliable and timely management information in relation to the budget process.
- The Operating Model has implemented the first phase of modernising a number of service processes throughout the Council and identifying any deficiencies or duplication in the control environment. We will provide audit input to Phase 2 of this project in 2010/11.
- The Council has recently introduced a single system for HR and Payroll processes. Internal Audit will undertake a limited scope review to ensure the adequacy and effectiveness of control procedures in place to ensure only valid and accurate payments are made in a timely manner.
- Building Standards enforce the regulations that prescribe minimum standards which can reasonably be expected to be achieved in buildings and building operations. These consider the need for securing the health, safety, welfare and convenience of the people who will use the buildings and for the safety of the public generally, for improving the conservation of fuel and power and for achieving visit-ability to dwellings and providing access to all in other buildings. It is also responsible for taking enforcement action regarding dangerous buildings, and is involved in the inspection of licensed premises and events. Internal Audit will review the risk management, governance and control procedures that are in place to ensure these are adequate and effective.
- The Education Psychological Service is a statutory service provided by Inverclyde Council for the benefit of children and young people aged 0-24 years who have additional support needs. The Service aims to provide a high quality service to promote the best interests of children and young people and offers a variety of interventions and work in partnership with children and young people, parents, educational establishments and partner agencies. Internal Audit will review the adequacy and effectiveness of these arrangements.
- The booking and management of a number of council managed facilities transferred to Inverclyde Leisure Trust on 1 April 2010. Internal Audit will review the adequacy and effectiveness of the arrangements that are in place to manage this transition.
- Community Learning and Development in Inverclyde aims to help individuals and groups in their communities to achieve their life goals and tackle real everyday issues in their lives through through community based learning and community action. Internal Audit will review the adequacy and effectiveness of risk management, governance arrangements and control procedures in place to ensure the ongoing development and delivery of a wide range of programmes and activities which support the national priorities for Community Learning and Development.
- The Freedom of Information (Scotland) Act 2002 has far reaching consequences for all Council services in relation to the provision of information to the public as well as the way in which records are stored. Members of the public are now able to see and question how Councils and other public sector organisations function and how decisions are made. Any individual or organisation can ask for information no matter how old it is, or why it was created. Internal Audit will review the adequacy and effectiveness of the Council's arrangements in relation to FOI requests.

- As part of the Workforce Development Strategy for the Council, Competency based performance appraisal will be rolled out across the Council from the 1st of April 2010 Internal Audit will review the adequacy and effectiveness of the arrangements in place to cascade this process through the Council.
- 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.
- The Clyde Valley Review identified waste management as an area for further development of shared and joint working. The Council has prioritised this as an area for development and work is underway to review how the service could be improved through shared or joint working arrangements. Internal Audit will review the adequacy and effectiveness of this process to ensure the Council will be in a position to meet the Scottish Government targets for waste management.

## **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 2010-11 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 8 April 2010 and recommend it to the Committee for approval.

## **7.0 LIST OF BACKGROUND PAPERS**

- 7.1 Internal Audit Annual Plan 2010-11. By Andi Priestman, Chief Internal Auditor

## INTERNAL AUDIT ANNUAL PLAN 2010-11

Audit Area	Service	Risk Score	Staff Days
<b>Risk-Based Reviews</b>			
Building Standards	Regeneration and Planning	5130	25
Budgetary Control	Finance	4350	30
Community Learning and Development	Safer and Inclusive Communities	4480	25
Waste Management	Environmental Services	4104	25
Freedom of Information Arrangements	Legal and Democratic Services	3900	30
Workforce Development – Appraisal Process	Organisational Development, Human Resources and Performance	3720	25
Education Psychological Service	Schools	3159	25
		<b>Total</b>	<b>185</b>
<b>Limited Scope Financial System Reviews</b>			
Housing Benefit	Finance	-	20
Non-Domestic Rates	Finance	-	20
Payroll	Finance	-	20
		<b>Total</b>	<b>60</b>
<b>Business Assurance Reviews</b>			
Corporate Procurement – Strategic Procurement Framework		-	25
		<b>Total</b>	<b>25</b>
<b>Arms Length Organisation Reviews</b>			
Riverside Inverclyde – Corporate Governance Arrangements		4836	25
Inverclyde Leisure Trust – Transfer of Community Facilities		4350	25
		<b>Total</b>	<b>50</b>
<b>Corporate Governance Reviews</b>			
SSIFC (09/10)	Corporate	-	20
		<b>Total</b>	<b>20</b>
<b>Projects/Key Change Initiatives</b>			
CHCP	Social Work	6708	80
Operating Model	Corporate	5440	20
PMS – Inverclyde Performs	Corporate	4880	20
Elections Process	Legal and Democratic Services	3393	20
		<b>Total</b>	<b>140</b>
<b>Regularity Audits</b>			
Control Self Assessment – Education	Schools	-	30
Control Self Assessment – Social Work	Social Work	-	30
		<b>Total</b>	<b>60</b>
<b>Performance Audits</b>			
Statutory Performance Indicators	Corporate	-	30
Mailroom Services, including Postages	Legal and Democratic Services	-	25
VFM – Use of Council Vehicles	Corporate	-	25
		<b>Total</b>	<b>80</b>

## INTERNAL AUDIT ANNUAL PLAN 2010-11

Audit Area	Service	Risk Score	Staff Days
<b>Other Work</b>			
Contingency for unplanned work eg special investigations, ad hoc advice	Corporate	-	60
Information Governance and Management	Corporate	-	20
Civil Contingencies/Business Continuity – co-ordination role	Corporate	-	20
Audit follow up	Corporate	-	40
<b>Total</b>			<b>140</b>
<b>Total Staff Days</b>			<b>760</b>