



INTERNAL AUDIT  
STRATEGIC AUDIT PLAN  
2011 - 2014  
&  
ANNUAL PLAN  
2011 - 2012  
24 February 2011

**Draft for Audit Committee Approval**

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## **1. Strategic Audit Plan 2011 – 2014**

The Strategic Audit Plan covering financial years 2011 – 2014 has been compiled using a wider base of primary data than previous plans which were predominately finance and risk register based, with management input. The current environment in which the Council operates provides a wide range of challenges and opportunities. It is therefore important that the new strategic audit plan takes cognisance of this environment, in order to develop the next 3 years audit plan. To achieve this objective, 4 primary headings were devised Materiality, Risk, Control Effectiveness and Performance Management. The 4 areas were informed through reference to external and internal audit reports, operational and strategic risk registers, internal performance plans, financial data, corporate and service plans, etc. The data extracted from these reference areas was mapped to Council activity areas such as Financial Control, Business Systems operated by the Council, Corporate Performance activities, Corporate and Service Plan objectives. This provided a comprehensive database of performance, risk and scrutiny information from which to compile the Strategic Audit Plan for 2011 – 2014.

This strategic audit plan provides a framework within which Internal Audit work will be carried out over the next 3 years and ensures that resources are effectively planned and controlled. It should be seen as a flexible management tool, which meets the following objectives:

- A clear view of the workload of the internal audit section;
- A base for assessment of the adequacy and future deployment of internal audit resources;
- A yardstick against which progress and performance can be measured;
- The authority to act once it is approved by the Audit Committee; and
- A permanent record of the factors considered and judgements made.

## **2. Internal Audit Responsibilities**

In preparing this strategic audit plan Internal Audit has taken consideration of the following:

### **Section 95 Officer**

Internal Audit has a responsibility to inform the Section 95 Officer, the Head of Strategic Finance, of the effectiveness of the system of internal control operated within the Council. A Statement of Governance and Control was prepared for inclusion in the Council's Annual Accounts of 2009 – 2010. The new statement replaced the Internal Control Statement of previous years. The Statement of Governance and Control comments on both financial and the wider controls operated within the Council.

## **Audit Committee**

Internal Audit has a responsibility to the Audit Committee to report on the progress of the audit programme in terms of planned time against actual time, and provide extract summary reports plus action plans from audits. Action plan recommendations made by external and internal audit are followed up using the internal audit database. Progress regarding implementation by local management of agreed recommendations is followed up and reported on a monthly basis to Departmental Management Teams (DMTs) and the Strategic Management Team (SMT) with a quarterly progress report provided to the Audit Committee. At the culmination of each year's audit work an annual report is prepared by Internal Audit and presented to the Audit Committee along with the Statement of Governance and Control.

## **External Audit**

Internal Audit has a responsibility to co-ordinate its activities with Grant Thornton UK LLP. The relationship operated by Internal Audit with the Council's external auditor, is one of joint working. We try to avoid areas of duplication and in other instances work jointly on large system control issues. Consultations are held on a regular and informal basis to co-ordinate work and where appropriate develop audit programmes and methodology to assist in the carrying out of our systems audit work.

## **3. Gaining Assurance**

The 3 year strategic audit plan has been compiled in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code'). This requires the Internal Audit section to provide an objective assessment of the adequacy, reliability and effectiveness of the Council's internal control system. The strategic audit plan takes account of the Internal Audit Mission Statement and Terms of Reference both of which have previously been approved by the Audit Committee.

The Code requires that Internal Audit not only audit financial systems controls but also other systems of management control used to ensure the Council's corporate objectives and core values are being addressed. Internal audit has adopted the CIPFA systems based audit (SBA) control matrices which incorporate governance and risk as well as financial control checks, which enhances internal audit's scrutiny role and adherence to the CIPFA Code. Adopting the SBA control matrices has enabled external audit to place greater reliance on the work of internal audit and engage departments and services in the audit process.

In addition to compliance with the Code, it was important that the next 3 year strategic audit plan reflected the new environment in which the Council operates which is challenging for both members and services.

### **Audit Plan Analysis**

The analysis undertaken for the Strategic Audit Plan 2011 – 2014 to identify and rank the main financial systems covered 4 broad headings. These are set out below:

- Materiality – an assessment of financial data;
- Risk - operational and strategic risk registers, the risk associated with a particular activity due to its very nature, and the level of sensitivity attached to a possible breakdown in the effective operation of that system;
- Control Effectiveness - an assessment based on external and internal audit report agreed recommendations, corporate governance and other external and internal inspection reports regarding the degree of control management currently has over the inherent risks; and
- Performance Management – an assessment based on corporate and service plans and improvement plans.

The data from the 4 headings was collated using a spreadsheet and in order to compile the Strategic Audit Plan for 2011 – 2014 a methodology was prepared that would enable equal weighting to the data located within the 4 headings. In order to provide equity for the collected data under the 4 headings a weighting was added to all headings, Materiality was given a weighting of 6, Risk a weighting of 3, Control Effectiveness a weighting of 2 and Performance Management a weighting of one. Each of the 4 headings had a maximum weighted total of 30 and a cumulative total of 120 which when divided by 1.2 provided a final percentage figure. The scores achieved from this exercise were then sorted under the following audit headings:

- Core financial and control audits;
- Business systems;
- Corporate performance;
- Corporate plan; and
- Service plans.

The scores are provided on pages 4 to 6. As an example of the new comprehensive audit planning approach is Budget Preparation and Control. The Materiality score is 30 based on the financial value of budgets. The Risk ranking is 0 based on the review of both the operational and strategic registers. The Control Effectiveness ranking score is 18 based on internal and external audit report recommendations, corporate governance and Best Value 2 requirements. A Performance Management score of 11 reflects the importance that Audit Scotland and the Scottish Government are placing on budgetary control for councils as national funding is constricted.

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The obtained scores were then ranked highest to lowest and allocated a 'total risk ranking' score based on an objective evaluation for each audit area with the highest risk scores ranked one reducing to 4. The audit analysis scores for the Core Financial Control Audits for 2011 – 2014 are provided on page 7. On page 8 the assigned risk ranking is provided and direct audit days assigned relational to the risk ranking obtained for each financial control system. In addition, a summary of the allocation of days is provided by audit heading totalling 890 direct audits days per year 2011 to 2014. The detail analysis for the audit headings other than the Financial Control Audits will be presented to the Audit Committee once discussions over audit topics have been concluded.

The Financial Control Audits are routinely undertaken each year and provide a level of assurance for external audit, the section 95 officer and senior management that finances are appropriately controlled. They will be commenced with the new financial year as will the audit of the councils Statutory Performance Indicators (SPIs), which provides assurance to external audit that the figures achieved are accurate.

**Table 3.1 – Calculation of Audit Risk Financial & Control Audits 2011 – 14**

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<b>CORE FINANCIAL &amp; CONTROL AUDITS</b>	<b>Materiality factors</b>	<b>Risk</b>	<b>Control rating</b>	<b>Performance Management</b>	<b>Total audit risk score</b>	<b>Spreadsheet Final risk score</b>	<b>Ranking</b>
<b>(Weightings applied)</b>	<b>(x6)</b>	<b>(x3)</b>	<b>(x2)</b>	<b>(x1)</b>	<b>(Total Risk Total 120)</b>	<b>(120/1.2 =100)</b>	<b>-</b>
Budgetary Preparation and Control	30	27	18	11	86	72	1
Government & European Grants	30	12	10	6	58	48	1
Council Tax and Non-Domestic Rates	30	9	4	8	51	43	1
Capital Contracts	30	9	4	8	57	48	1
Payroll	30	9	12	2	53	44	1
Capital Accounting	30	9	14	0	53	44	1
Debtor Accounts	30	9	10	2	51	43	1
Treasury Management	30	9	10	2	51	43	1
Creditor Payments and Purchasing	30	9	10	1	50	42	1
Cash Income and Banking	30	9	10	0	49	41	1
General ledger operations	30	9	10	0	49	41	1
Tendering Procedures	24	9	10	0	49	41	1
Contract Operating Leases	24	9	4	0	37	31	2
Car Allowances and Subsistence	24	9	2	0	43	36	2
Stock Taking / Work in Progress	12	9	10	0	31	26	2

1. Materiality ranking = 6
2. Risk ranking = 3
3. Control effectiveness ranking = 2
4. Performance Management = 1

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**Table 3.2 – Internal Audit Plan Financial & Control Audits 2011 – 14**

<b>FINANCIAL &amp; CONTROL AUDITS</b>	<b>Risk ranking</b>	<b>Last audited</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Budgetary Preparation and Control	1	2011	25	20	25
Government & European Grants	1	2010	25	20	25
Council Tax and Non-Domestic Rates	1	2010	25	20	25
Capital Contracts	1	2010	25	20	25
Payroll	1	2010	25	20	25
Capital Accounting	1	2010	25	20	25
Debtor Accounts	1	2011	20	25	20
Treasury Management	1	2010	20	25	20
Creditor Payments and Purchasing	1	2011	20	25	20
Cash Income and Banking	1	2010	20	25	20
General ledger operations	1	2011	20	25	20
Tendering Procedures	1	2010	20	25	20
Car Allowances and Subsistence	2	2010	15	15	20
Contract Operating Leases	2	2011	15	15	20
Stock Taking / Work in Progress	2	2010	15	15	20
			<b>330</b>	<b>315</b>	<b>330</b>

<b>DIRECT AUDIT DAY ALLOCATION</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
<b>FINANCIAL &amp; CONTROL AUDITS</b>	<b>330</b>	<b>315</b>	<b>330</b>
BUSINESS SYSTEMS	135	150	135
CORPORATE PERFORMANCE	225	225	225
CORPORATE PLAN	100	100	100
SERVICE PLANS	100	100	100
<b>TOTAL</b>	<b>890</b>	<b>890</b>	<b>890</b>



#### 4. Contingency Days 2011 – 2014

Audit days have been included within the strategic audit plan for contingency.

Special Investigations - This is audit time for unforeseen events which, by their nature, cannot be planned for, e.g.:

- Notification of frauds, significant weaknesses or loss;
- Consideration of controls for new or amended systems; and
- Reviews of significant breakdown of internal control that cannot be accommodated within planned audits.

Clearly, the extent to which any contingency requirement will arise depends on the soundness of the Council's systems of control and the incidence of fraud or irregularity. Internal Audit reports on a monthly basis to both the Strategic and Departmental Management Teams and the Audit Committee on a quarterly basis, detailing management progress in implementing agreed audit report recommendations and a number of days have been allocated within the plan for this task. Strategic/Annual Audit Plans - Time has been allocated for audit planning within the allocation for Contingency days.

**Table 4 – Assessment of Audit Days: 2011 - 2014**

<b>Contingency days</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Special investigations contingency	100	100	100
Follow-up external & internal audit management letter points	52	52	52
National Fraud Initiative (NFI) Exercise	25	25	25
Strategic plan, annual plans	18	18	18
<b>Sub Total</b>	<b>195</b>	<b>195</b>	<b>195</b>

If the level of direct audit day input alters in any of the areas detailed above throughout 2011 – 2014 an adjustment will be made and the Audit Committee informed.

#### 5. Internal Audit Resource 2011 – 2014

Tables 5.1 and 5.2, in Appendix 2 sets out the resources and number of days available for 2011 - 2014. There are 3 elements to the tables:

- Total working days available;
- Non-direct audit days; and
- Direct audit days.

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In arriving at the number of working days available for 2011 - 2014 deductions for annual leave and a potential sickness provision a total of 1,308 working days are available for direct and non-direct audit work.

The non-direct audit day allocation covers tasks such as management; provision of advice and information, continuing professional development (CPD). Cognisance has also been taken of the fact that one member of staff will be involved in professional training. As a result the total day's allocated to non-direct audit for 2011 – 2014 and the following year is estimated to be 223 as set out in Table 5.1.

Table 5.2 provides the direct audit days for audits. The audit days assigned to the audit areas includes time for Planning, Fieldwork, Report Writing and Management Review. In addition, a number of days have been included for special investigations; follow up reporting of recommendation implementation progress, the national fraud initiative annual exercise and audit planning see Section 5 above. The total number of days allocated to direct audits for 2011 - 2014 is 1,085 and represents 83% of total working days available.

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**Table 5.1 – Internal Audit Resources 2011 - 2014**

		Chief Internal Auditor	Audit Manager	Accountant	Trainee Accountant	Senior Audit Assistant	Contract Auditors	Total
<b>Number of Days in full year</b>		261	261	261	261	261	220	<b>1, 525</b>
Less:	Public Holidays	8	8	8	8	8		40
	Annual Leave	32	32	32	24	32		152
	Sickness Provision	5	5	5	5	5		25
<b>Working Days Available</b>		216	216	216	224	216	220	<b>1,308</b>
<b>Non-Direct Audit Work</b>								
	IA Management	30	10	-	-	-	-	40
	Planning and Reporting	25	10	-	-	-	-	35
	Training, Development &	10	10	10	34	20	-	84
	Audit Internal Meetings	8	8	6	6	6	-	34
	Advisory	20	10	-	-	-	-	30
<b>Total for Non-Direct Audit Support Work</b>		93	48	16	40	26	-	<b>223</b>
<b>Time Available for Direct Audit Work</b>		123	168	200	184	190	220	<b>1,085</b>

**Table 5.2 – Internal Audit Resource Days 2011 - 2014**

<b>DIRECT AUDIT DAYS</b>	<b>2011 - 2012</b>	<b>2012 - 2013</b>	<b>2013 - 2014</b>
<b>Direct Audit Work</b>			
Core Financial Audits	<b>315</b>	285	315
Business Systems	<b>150</b>	180	150
Corporate Performance	<b>225</b>	225	225
Corporate Plan	<b>100</b>	100	100
Service Plans	<b>100</b>	100	100
Sub Total	890	890	890
<b>Contingency</b>			
Special Investigations	<b>100</b>	100	100
Follow Up Reviews	<b>52</b>	52	52
NFI Exercise	<b>25</b>	25	25
Risk Analysis	<b>18</b>	18	18
Sub Total	<b>195</b>	<b>195</b>	<b>195</b>
Total Direct Audit Days	1,085	1,085	1,085