



INTERNAL AUDIT
DRAFT
ANNUAL AUDIT PLAN
2012 - 2013
27 February 2012

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1. Annual Audit Plan 2012 – 13

The Annual Audit Plan covering the financial years 2012 – 13 has been compiled using a wider base of primary data than previous plans. The current environment in which the Council operates provides a wide range of challenges and opportunities. It is therefore important that the annual audit plan takes cognisance of this environment.

A comprehensive database has been compiled to ensure that audits and resources are effectively planned and controlled. Issues from the database have been individually discussed with Heads of Service resulting in minimal adjustment. The database is a management tool, which meets the following objectives:

- It provides a clear view of the broad issues faced by council;
- It provides a base from which to assess the level of risk facing the Council and the deployment of internal audit resources;
- The authority to act once the audit plan is approved by the Audit Committee; and
- A permanent record of all factors considered.

2. Internal Audit Responsibilities

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

Section 95 Officer/Head of Strategic Finance

Internal Audit has a responsibility to the Section 95 Officer, reporting on the effectiveness of the system of internal control operated within the Council.

Chief Executive

Internal Audit has a dotted line responsibility to the Chief Executive, and holds regular monthly meetings to discuss the progress of the annual audit plan, reports issued and any areas of concern.

Audit Chairman

Internal Audit has a dotted line responsibility to the Audit Chairman, and discusses on a regular basis the progress of the annual audit plan and report issues.

Audit Committee

Internal Audit has a responsibility to report on the progress of the audit programme in terms of planned time against actual time, provide extract summary audit reports plus action plans from finalised audits. Another key task is to keep the Audit Committee aware of progress regarding implementation by management of agreed recommendations. This is done through maintaining the internal audit database and evidence gathering. Regular monthly reporting is undertaken by internal audit to Departmental Management Teams (DMTs) and the Strategic Management Team (SMT) with a quarterly progress reporting 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 external audit. Grant Thornton is no longer the Council's external auditor with that duty being transferred to Audit Scotland. The relationship operated by Internal Audit with the Council's external auditor, is one of joint working. Regular consultations are held on an informal basis to co-ordinate work and where appropriate develop audit programmes and methodology.

3 Gaining Assurance

The annual 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 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.

The annual 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.

Audit Plan Analysis

The database used for the Annual Audit Plan 2012 – 2013 identifies and ranks audits using 4 broad headings:

- 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.

In addition any changes that have taken place over 2011 – 2012 both internally and externally have been reflected in the database and thereby the annual audit plan. The data collected in the database uses a methodology. Using a methodology provides equity for the collected data with a weighting added to all 4 headings, Materiality has been 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 has a maximum weighted total of 30 and a cumulative total of 120 which when divided by 1.2 provide a final percentage figure out of 100. All scores from this exercise are set out using the following audit groupings:

- Financial and Control audits;
- Business systems;
- Corporate Performance; and
- Corporate/Service plans.

The scores and audit day allocation are provided from page 8 to 14. An example of how the new comprehensive audit planning approach works is shown in respect of Budget Preparation and Control, which received the following scores from the database process. Materiality score of 30, based on the financial value of budgets. A Risk ranking of 15, based on the review of both the Operational and Strategic Registers. A Control Effectiveness ranking score of 2 based on both external and internal audit assessment requirements. A Performance Management score of 9, reflecting its importance both externally and internally to the achievement of performance. These 4 scores total to 56 out of 120 with a total percentage score of 47.

Within the 4 groupings, audit topic final scores are ranked highest to lowest and allocated a 'total risk ranking' score. The scores are then further ranked from 1 to 4, the highest risk scores are ranked 1 reducing to 4. Where an audit has a ranking of 1 a total of 20 direct audit days are assigned to that audit. A risk ranking of 2 receives 15 days, a ranking of 3 gets 10 audit days with a ranking of 4 receiving 5 audit days.

The audit analysis scores for the Financial Control Audits for 2012 – 2013, are provided on page 8. On page 9 the assigned risk ranking is provided and direct audit days assigned relational to the risk ranking obtained for each financial control system. This approach is used for both Business Systems and Corporate Performance.

This follows a detailed data analysis and discussion of audit topics with Heads of Service prior to an audit commencing. A summary of the allocation of days for the Financial Control, Business Systems and Corporate Performance is provided from pages 8 to 13. An allocation of 180 direct audit days has been provided within the plan for Corporate/Service Plans. The allocation of audit days and methodology used is set out on page 14. Adding the allocated audit days totals together for the 4 areas; Financial Control Audits, Business Systems, Corporate Performance and Corporate/Service Plans provide a total of 740 direct audits days. A further 169 days are set aside within the plan for Contingency Days. The details for which are set on page 15.

APPENDIX 1

FINANCIAL CONTROL AUDITS	Materiality factors	Risk	Control rating	Performance Management	Total audit risk score	Database Final risk score	Ranking
(Weightings applied)	(x6)	(x3)	(x2)	(x1)	(Total Risk Total 120)	(120/1.2 =100)	-
Budgetary Preparation and Control	30	15	2	9	56	47	1
Government & European Grants	30	9	10	3	52	44	1
Council Tax	30	9	2	7	48	40	1
Procurement	30	0	10	0	40	33	2
Cash & Income Banking	30	0	10	0	40	33	2
Non Domestic Rates	30	9	0	0	39	33	2
Capital Contracts	30	0	8	0	38	32	2
Capital Accounting	30	0	8	0	38	32	2
Payroll	30	0	6	2	38	31	2
Debtor Accounts	30	0	6	2	38	31	2
Tendering Procedures	30	0	6	0	36	30	2
Unified Benefit System	30	0	4	2	36	30	2
Creditor Payments	30	0	4	1	35	29	3
Car Allowances & Subsistence	24	0	10	0	34	28	3
Stock and Work in Progress	24	0	10	0	34	28	3
Treasury Management	24	0	8	2	34	28	3
Contract Operating Leases	24	0	10	0	34	28	3
General ledger operations	24	0	10	0	34	28	3

Weightings Applied:

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

Table 3.2 – Internal Audit Plan Financial & Control Audits 2012 – 13

FINANCIAL CONTROL AUDITS	Risk ranking	Last audited	2012-13
Budgetary Preparation and Control	1	2011	20
Government & European Grants	1	2010	20
Council Tax	1	2010	20
Procurement	2	2010	15
Cash & Income Banking	2	2010	15
Non Domestic Rates	2	2010	15
Capital Contracts	2	2011	15
Capital Accounting	2	2010	15
Payroll	2	2011	15
Debtor Accounts	2	2010	15
Tendering Procedures	2	2011	15
Unified Benefit System	2	2010	15
Creditor Payments	3	2010	10
Car Allowances & Subsistence	3	2011	10
Stock and Work in Progress	3	2010	10
Treasury Management	3	2012	10
Contract Operating Leases	3	2012	10
General ledger operations	3	2012	10
			255

Table 3.3 – Calculation of Audit Risk Business Systems Audits 2012 – 13

BUSINESS SYSTEMS	Materiality factors	Risk	Control rating	Performance Management	Total audit risk score	Database Final risk score	Ranking
(Weightings applied)	(x6)	(x3)	(x2)	(x1)	(Total Risk Total 120)	(120/1.2 =100)	-
Resource Link	30	9	0	3	42	35	2
Planning/Building Standards	24	9	0	3	36	30	2
Care First	24	9	0	3	36	30	2
Roads Costing System	24	9	0	0	33	28	3
eProcurement	24	9	0	0	33	28	3
Environmental Health	24	9	0	0	33	28	3
Fleet Management	18	9	0	3	30	25	3
Customer Service Centre	18	9	2	1	30	25	3
Comino	18	9	0	3	30	25	3
Leisure Management System	12	9	6	3	30	25	3
Pyramid Performance Management	6	9	6	1	22	18	4
Electronic Timesheets	6	9	0	0	15	13	4
IKEN Case Management	6	9	0	0	15	13	4
Library Management System	6	9	0	0	15	13	4
Licensing	6	9	0	0	15	13	4

Weightings Applied:

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

Table 3.4 – Internal Audit Plan Business Systems Audits 2012 – 13

BUSINESS SYSTEMS	Risk ranking	Last audited	2012-13
Resource Link	2	2011	15
Planning/Building Standards	2	2010	15
Care First	2	2010	15
Roads Costing System	3	2010	10
eProcurement	3	2010	10
Environmental Health	3	2011	10
Fleet Management	3	2010	10
Customer Service Centre	3	2010	10
Comino	3	2011	10
Leisure Management System	3	2010	10
Pyramid Performance Management	4	2011	5
Electronic Timesheets	4	2010	5
IKEN Case Management	4	2010	5
Library Management System	4	2011	5
Licensing	4	-	5
Sub total			140

APPENDIX 1

Table 3.5 – Calculation of Audit Risk Corporate Performance 2012 – 2013

CORPORATE PERFORMANCE	Materiality factors	Risk	Control rating	Performance Management	Total audit risk score	Database Final risk score	Risk Ranking
(Weightings applied)	(x6)	(x3)	(x2)	(x1)	(Total Risk Total 120)	(120/1.2 =100)	-
Asset Management Partnerships	30	9	18	8	65	54	1
Financial Management	30	0	10	9	49	41	1
Procurement	30	0	10	9	49	40	1
People Management	30	9	6	2	47	39	2
Governance and Accountability	0	15	20	3	38	32	2
Risk Management	0	9	20	3	32	27	3
Sustainability	0	0	24	8	32	26	3
Equality	0	0	18	7	25	21	4
Performance Management	6	0	6	12	24	20	4
Efficiency	0	0	16	7	23	19	4
Public Performance Reporting	0	0	10	12	22	18	4
Partnerships	0	0	10	9	19	16	4
Information Management	6	0	10	3	19	16	4
Community & Customer Engagement	0	0	6	11	17	14	4
Customer Focus	0	0	12	5	17	14	4
Statutory Performance Indicators	0	0	10	0	10	8	4

Weightings Applied:

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

Table 3.6 – Internal Audit Plan Corporate Performance 2012 – 2013

CORPORATE PERFORMANCE	Risk ranking	Last audited	2012-13
Asset Management Partnerships	1	2011	20
Procurement	1	2010	20
Information Management	2	2011	15
Governance and Accountability	2	2010	15
Statutory Performance Indicators	2	2011	15
Financial Management	2	2010	15
People Management	3	2010	10
Risk Management	3	2010	10
Sustainability	3	2010	10
Equality	4	2010	5
Performance Management	4	2010-	5
Efficiency	4	2010	5
Public Performance Reporting	4	2011	5
Partnerships	4	2012	5
Community & Customer Engagement	4	2011	5
Customer Focus	4	2011	5
Sub total	-	-	165

Weightings Applied:

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

APPENDIX 1

Table 3.7 – Calculation of Audit Risk Corporate/Service Plans Audits 2012 – 13

CORPORATE PLAN - ANALYSIS	Materiality factors	Risk	Control rating	Performance Management	Total audit risk score	Database Final risk score	Ranking
(Weightings applied)	(x6)	(x3)	(x2)	(x1)	(Total Risk Total 120)	(120/1.2 =100)	-
Corporate Plan – 4 main themes	0	51	110	72	233	194	1
SERVICE PLAN - ANALYSIS	Materiality factors	Risk	Control rating	Performance Management	Total audit risk score	Database Final risk score	Ranking
Community Services – 11 High level risk scores	294	156	22	119	591	493	1
Development & Infrastructure – 10 High level risk scores	204	153	20	176	553	461	1
Customer Services – 4 High level risk scores	90	72	24	38	224	186	1
Chief Executives Unit – 2 High level risk scores	48	24	16	14	102	85	1

Table 3.8 – Internal Audit Plan Corporate & Service Plan Audits 2012 – 13

CORPORATE PLAN	Risk ranking	Last Audited	2012-13
Corporate Plan	1	2011	80
CORPORATE & SERVICE PLANS	Risk ranking	Last Audited	2012-13
Community Services	1	2011	40
Development & Infrastructure	1	2011	35
Customer Services	1	2011	15
Chief Executives Unit	1	2010	10
Sub total			100

SUMMARY of DIRECT AUDIT DAY ALLOCATION	2012-13
FINANCIAL & CONTROL AUDITS	255
BUSINESS SYSTEMS	140
CORPORATE PERFORMANCE	165
CORPORATE PLAN	80
SERVICE PLANS	100
TOTAL	740

4. Contingency Days 2012 – 2013

Audit days have been included within the annual 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 audit day requirement for Special Investigations will arise depends on the soundness of the Council's systems of control and the incidence of fraud or irregularity. In 2011 – 2012 out of the 100 direct audit days allocated none were expended. I have therefore reduced direct audit allocation to 50. This also compliments the CIPFA Benchmarking average set by comparable authorities of 48 days.

Internal Audit reports on a monthly basis to both the Departmental Management Teams (DMTs) and Strategic Management Team (SMT) and on a quarterly basis to the Audit Committee, detailing management progress in implementing agreed audit report recommendations in 2012 – 2013 more days than in 2011 – 2012 have been allocated to this task in recognition of the amount of data management work required to maintain the Internal Audit Database and other statistics. The National Fraud Initiative (NFI) is now a statutory requirement and an annual exercise. Good progress has been made in 2011 – 2012 in order to maintain this progress additional days have been provided for this task. In 2011 – 2012 direct audit days were allocated for Strategic Audit Planning, in 2012 – 2013 these days are included under Internal Audit Management.

Table 4 – Assessment of Audit Days: 2012 - 2013

Contingency days	2012-13
Special investigations contingency	50
Follow-up external & internal audit management letter points	80
National Fraud Initiative (NFI) Exercise	39
Sub Total	169

If the level of direct audit day input alters in any of the areas detailed above throughout 2012 – 2013 an adjustment will be made and the Audit Committee informed.

5. Internal Audit Resource 2012 – 2013

Tables 5.1 and 5.2 in Appendix 1 set out the resources and number of days available for 2012 - 2013. There are 3 elements to the tables:

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

In arriving at the number of working days available for 2012 - 2013 deductions for annual leave and a potential sickness provision a total of 1,083 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 and 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 2012 – 2013 is estimated to be 174 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 2012 - 2013 is 909 and represents 84% of total working days available.

Table 5.1 – Internal Audit Resources 2012 - 2013

		Chief Internal Auditor	Accountant	Accountant	Senior Audit Assistant	Trainee Accountant	Total
Number of Days in full year		261	261	261	261	261	1,305
Less:	Public Holidays	10	10	10	10	10	50
	Annual Leave	31	31	31	31	23	147
	Sickness Provision	5	5	5	5	5	25
Working Days Available		215	215	215	215	223	1,083
Non-Direct Audit Work							
	IA Management	60	-	-	-	-	60
	Planning and Reporting	20	-	-	-	-	20
	Training, Development &	10	6	6	6	30	58
	Audit Internal Meetings	12	6	6	6	6	36
Total for Non-Direct Audit Support Work		104	12	12	12	36	174
Time Available for Direct Audit Work		113	203	203	203	187	909

Table 5.2 – Internal Audit Resource Days 2012 - 2013

DIRECT AUDIT DAYS	2012 - 2013
Direct Audit Work	-
Core Financial Audits	255
Business Systems	140
Corporate Performance	165
Corporate Plan	80
Service Plans	100
Sub Total	740
Contingency	-
Special Investigations	50
Follow Up Reviews	80
NFI Exercise	39
Sub Total	169
Total Direct Audit Days	909