



INTERNAL AUDIT
UPDATED ANNUAL AUDIT PLAN
2013 - 2014
13 December 2013

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1. BACKGROUND

In September 2013, our progress report to the Audit Committee outlined a delay in the completion of the audit plan as a result of the PSIAS self-assessment, vacancies and other factors which have reduced available audit resources.

This report therefore sets out proposed amendments to the audit plan for the remainder of the 2013-14 year. The revised plan is based on the current plan as far as possible, amended to focus on the risks and objectives associated with each review. Our objective is to optimise the effectiveness of Internal Audit for remainder of 2013-14 and the assurance provided by the programme of work.

2. DIRECT AUDIT DAYS 2013 - 2014

AUDIT PLAN ANALYSIS AND PROCESS

The current database used to develop the Annual Audit Plan identifies and ranks issues using 4 broad headings:

- Materiality – is an assessment of financial data;
- Risk – covers operational and strategic risk registers, the risk associated with a particular activity or reputational risk exposure;
- Control Effectiveness – is an assessment of External and Internal Audit report agreed recommendations, corporate governance and other external and internal inspection reports which reflect current control levels over inherent risk; and
- Performance Management – is an assessment of corporate and service plans plus improvement plans.

The output from the database was provided to Heads of Service for their review and discussion. The draft plan was then prepared and discussed with the Executive Director and Heads of Service at Departmental Management Team meetings. The Annual Plan was approved by the Audit Committee in February 2013 and included 38 audits, accounting for 695 direct audit days.

UPDATE AGAINST THE PLAN

Table 2.1 sets out the progress against the audit plan to date, together with the outcomes of completed audits. A total of 255 direct audit days relating to the 2013-14 audit plan have been delivered to 8 November 2013.

Table 2.2 outlines proposals to deliver the remainder of the 2013-14 audit plan.

Table 2.1: Progress against the 2013-14 Annual Audit Plan

	Recommendations			Estimated Audit Days 2013-14	Actual Audit Days 2013-14	Comments
	H	M	L			
FINANCIAL CONTROL AUDITS						
Stock and Work in Progress	-	-	3	15	12	Complete
Cash & Income Banking	1	1	-	20	18	Complete
Council Tax	1	-	2	15	15	Complete
Non Domestic Rates	-	-	-	15	9	Complete
Debtor Accounts	1	3	3	15	6	Complete
Government & European Grants	-	-	-	20	20	Complete
Car Allowances & Subsistence				15	13	In progress
BUSINESS SYSTEMS AUDITS						
IT Strategy				20	1	In progress
Data Protection				20	10	In progress
Fleet Management				15	4	Table 2.2
Pyramid performance management				20	2	In progress
Care First				20	1	In progress
Leisure Management System				20	2	In progress
CORPORATE & DEPARTMENT AUDITS						
School meals				10	23	Draft report
Corporate Governance Statement	-	-	-	15	9	Complete
Corporate - SPIs				20	22	Report issued
Print & Design				20	12	In progress
Corporate - PSIF				20	10	In progress
Health & Safety (Leisure)				15	1	In progress
Allocating ASN Assistants				10	10	In progress
Special investigations contingency				100	53	
Other Areas						
Inverclyde Charity & Trust Accounts	-	-	-	0	7	Complete
Follow-up External & Internal Audit Management Letter Points				80	30	In progress
NFI				40	18	In progress
TOTAL TO DATE	3	4	8	460	255	205

PLANS FOR THE REMAINDER OF 2013-14

Table 2.2 provides proposals to deliver the remainder of the 2013-14 annual audit plan. The original plan is attached at Appendix A, for comparison.

Table 2.2 – Proposals to deliver outstanding 2013-14 audits

	Original Estimated Audit Days	Revised Estimated Audit Days	Comments
FINANCIAL CONTROL AUDITS			
Procurement and Tendering Procedures	40	25	Refer to 3.1
Budgetary Preparation and Control	20	15	Refer to 3.2
Treasury Management	20	15	Refer to 3.3
Capital Contracts, Operating Leases and Capital Accounting	50	30	Refer to 3.4
Resource Link/Payroll	20	20	Refer to 3.5
Universal Credit	15	5	Refer to 3.6
Creditor Payments	15	15	Refer to 3.7
General ledger operations	15	0	Deferred to 2014 -15 (a)
Section Total	195	125	-
BUSINESS SYSTEMS AUDITS			
Fleet Management and Roads Costing	35	25	Refer to 3.8
Uniform System	20	15	Refer to 3.9
Customer Service Centre	15	15	Refer to 3.10
Section Total	70	55	-
CORPORATE & DEPARTMENT AUDITS			
Corporate: Best Value Follow Up	10	10	Refer to 3.11
Outwith Authority Placements	25	15	Refer to 3.12
Section 75 Planning Obligations	15	15	Refer to 3.13
Marine Services	15	10	Refer to 3.14
Parking	10	0	Deferred to 2014 -15
Business Continuity	15	15	Refer to 3.15
Community Engagement	10	10	Deferred to 2014 -15 (b)
Section Total	100	75	-
Risk Management	0	10	Refer to 3.16
Actual Direct Audit Time	365	265	100

Notes

- (a) The Council's Strategic Finance service is currently updating the Oracle general ledger. We have therefore agreed that the audit will be carried out in 2014-15, once the upgrade and associated policies and procedures are in place.
- (b) The Community Planning Partnership's Improvement Plan identifies community engagement as an area for development. The Partnership is developing its own plan to ensure that views are incorporated into the planning and delivery of services. We have therefore agreed to defer this review until 2014-15.

Section 3 outlines the background and risks associated with each review, to provide clarity on the audit focus for each engagement.

RESOURCE IMPLICATIONS

Staff in the Internal Audit team have continued to work on delivery of the audit plan at the same time as taking forward the improvement actions identified in our September 2013 progress report. The Head of Strategic Finance has therefore agreed to make additional funding available from elsewhere in his budget to secure additional resources to offset this reduction in audit resource.

We estimate that there are around 300 audit days available in the period to end March 2013. Our revised plan estimates that 335 days will be delivered during that period (incorporating 265 days within Table 2.2, and a further 70 days to complete engagements currently in progress). We therefore propose that additional resource is procured from Grant Thornton UK LLP to undertake the following engagements:

Engagement	Estimated days
Support for management of audit team	10
Resource Link/Payroll	20
Corporate: Best Value Follow Up	10
Risk Management	10
Total	50

CONTINGENCY DAYS IN 2013 - 2014

Audit days have been included within the annual audit plan for contingency, as set out in Table 2.1 above. There is therefore a risk that additional investigations may have a further impact on the plan. Any changes will be communicated to the Audit Committee.

We will, however, seek to ensure that the remainder of the plan is delivered based on risk priority.

3. BACKGROUND TO REVIEWS PROPOSED IN THE REMAINING 2013-14 ANNUAL INTERNAL AUDIT PLAN

Based on our review of the original annual audit plan, and our assessment of risk, we have proposed the following reviews for the remainder of 2013-14.

3.1 Procurement and Tendering Procedures

The Council's Corporate Procurement Procedures are reviewed annually by Scotland Excel as part of the Procurement Capability Assessment (PCA). In 2011-12, the Council achieved a score of 53%, against a national midpoint of 48% for the 30 Councils who agreed to publish their scores.

One area was highlighted as an area for improvement, relating to the key purchasing processes and systems.

The Council's Procurement Team recently delivered training for all finance staff on procurement procedures, which identified further areas for improvement. Our review will therefore focus on how corporate procurement and tendering procedures are implemented at service level.

It is proposed that this review will replace separate reviews on Procurement and Tendering Procedures within the original annual plan. The allocated days have therefore reduced from 40 days to 25 days.

3.2 Budget Preparation and Control

Internal audit reviewed the Council's Budget Preparation and Control in the audit year 2011-12. The objectives of the review were to assess whether budget holders have access to information required to monitor and control income and expenditure and whether risk based reporting requirements are relevant and meet the needs of services. The report was issued in March 2012 and identified three low risk recommendations.

Our review in 2013-14 will be a systems based audit on the Council's key accounting system and budgetary control arrangements to ensure that appropriate controls are in place and operating satisfactorily. Audit testing will review the following areas:

- Budget setting, to ensure that the budget covers all areas of income and expenditure;
- Budgets are based on realistic assumptions;
- Virements between budgets;

- Monitoring of income and expenditure at budget level; and
- Monitoring of overall income and expenditure position.

The audit is planned to require 15 days.

3.3 Treasury Management

In January 2013, the 2012-13 report on the Treasury Management Function was issued. We found that the Council complied with the CIPFA Code of Practice on Treasury Management, and that adequate internal controls are in place and operating effectively. Three medium rated recommendations were made relating to updating policies and procedures.

Our review in 2013-14 will therefore focus on the Council's key financial performance indicators, including compliance with the Prudential Code. We will compare the Council's performance to other local authorities across Scotland.

The audit is planned to require 15 days.

3.4 Capital contracts, operating leases and capital accounting

The Council is scheduled to spend £43 million on capital projects during 2013-14. Internal audit reviewed capital contracts as part of the 2012-13 annual plan. Our testing confirmed that a sample of contracts arising from 2012/13 capital projects had been correctly initiated, approved and accepted in accordance with the Council's regulations and Procurement Manual. We made one medium rated recommendation that the published Scheme of Authorised Purchasers required to be updated.

The Internal Audit 2012-13 review of capital accounting was issued in February 2013. The report made three low rated recommendations relating to policies and procedures.

We will therefore ensure that these recommendations have been implemented to provide assurance that the Council's internal controls are effective. We will restrict the scope of our work to test a sample of contracts and leases to ensure that they were planned, authorised and accounted for correctly.

It is proposed that this review will replace separate reviews on Capital Contracts, Operating Leases and Capital Accounting. The allocated days have therefore reduced from 50 days to 30 days.

3.5 Resource Link/Payroll

The Council spends around £130 million on staff expenditure each year. The 2012-13 internal audit review of Resource Link/Payroll was limited in agreement with management following a severe weather event in the Kintyre Peninsula in March 2013 which resulted in server access issues. The review of key controls highlighted a concern regarding the timely recording of contractual and timecard information. This presents a risk that Real Time Information submitted to HMRC is inaccurate. At the

time of the review, the hierarchy structures within the system were under review to ensure that they reflect the changes within the Council Management Structure.

Our review in 2013-14 will therefore ensure that recommendations raised in 2012-13 have been implemented in full. We will also complete testing to ensure that key controls are in place and operating effectively, including reconciliation to the main financial system.

This review is planned to require 20 days.

3.6 Universal Credits

We will conduct a high level overview of the Council's state of readiness for the Welfare Reform changes. The Council transferred housing stock to the Argyll Community Housing Association in 2006, and have not, therefore experienced the increase in rent arrears associated with under-occupancy charges. Our review will, however, consider the Council's preparations to mitigate future impacts such as the benefits cap, ending of direct payments for claimants and the assumption that benefits will be claimed by online.

This high level review is planned to require 5 days.

3.7 Creditor Payments

Creditors have historically been reviewed by internal audit on an annual basis. The most recent report was issued in February 2013. This report identified that:

- The authorised signatories database is out of date
- Approved authorisation limits had been exceeded on a number of occasions
- There was a significant backlog of invoices waiting to be scanned. This may have an impact on the Council achieving its payment terms policy.

The 2013-14 audit will therefore focus on ensuring that these risks have been addressed.

This follow up review is planned to require 15 days.

3.8 Fleet Management and Roads Costing

This review will consider the management and security of fuel for council plant, vehicles and machinery. We will also review costing data for fuel and roads to ensure costs are accurate and are applied correctly.

This review combines two audits (35 days) originally planned within the Development and Infrastructure Service, and we therefore hope to complete this review within 25 days.

3.9 Uniform System

During 2012-13, Internal Audit conducted a high level review of the Uniform System. As part of the review, internal control questionnaires were circulated to service management. In 2013-14, we will therefore review the responses to identify areas of risk and focus audit testing.

This review is scheduled to take 15 days.

3.10 Customer Service Centre

This audit will review the customer experience when calling the one-stop customer service centre. We will consider the performance of the centre, including the level of follow-up queries, resource scheduling and the percentage of abandoned calls.

This audit is scheduled to take 15 days.

3.11 Corporate: Best Value Follow Up

During 2012-13, the Chief Internal Auditor completed a Best Value self-assessment, using Audit Scotland templates. Areas for improvement were incorporated within the Council's Improvement Action Plan. We will therefore conduct a follow up review to ensure that actions are progressing as planned.

We anticipate that this review will take 10 days.

3.12 Outwith Authority Placements

The Council has arrangements to place look after and accommodated children, and individuals with learning disabilities in establishments outwith the area. This audit will consider the systems and processes in place for issuing contracts, including emergency contracts, to ensure that procedures are adhered to and that the Council achieves best value.

We expect that this review will take 15 days.

3.13 Section 75 Planning Obligations

Scope and objectives to be confirmed.

3.14 Marine Services

The Council administers a range of pier and harbour facilities. This audit will review the arrangements in place to bill users, and record income from the piers and harbours.

We anticipate that this review will take 10 days.

3.15 Business Continuity

In September 2013, the Audit Committee received a report from Customer Services about the progress in implementing revised Business Continuity arrangements. This review will review ownership arrangements and ensure that the programme has been implemented as planned, including annual review of each of the Critical Action Reporting Plans (CARPs).

This review is expected to take 15 days.

3.16 Risk Management

Following the audit committee away day, it was agreed that internal audit should conduct an annual review of risk management arrangements to provide objective assurance to the committee on the effectiveness of risk management arrangements across the Council.

We will use this review to assess the risk maturity of the Council, the adequacy of the mechanisms for identifying, analysing and mitigating key business risks arising from both external and internal sources, and the extent to which we can adopt the management risk assessment for internal audit planning purposes.

This review is scheduled to take 10 days.