

# **AUDIT COMMITTEE**

**19<sup>th</sup> January 2011**

## **Internal Audit Monitoring**

### **Report of Internal Audit Manager**

#### **PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2010/11 Internal Audit Plan, seek approval for a variation to the 2010/11 annual plan and endorsement for future year resourcing proposals.

**This report is public**

#### **RECOMMENDATIONS**

- (1) That the current monitoring position is noted.**
- (2) That the proposed changes to the 2010/11 internal audit plan (set out in paragraphs 2.1 to 2.4), resulting in a reduction of 155 audit days are approved.**
- (3) That members consider and comment on the revised audit needs assessment set out in paragraphs 2.5 to 2.12 and endorse the proposed internal audit resource and staffing changes.**

#### **1.0 Introduction**

- 1.1 The 2010/11 Internal Audit Plan was approved by the Audit Committee at its meeting on 30<sup>th</sup> June 2010. This report is based on the monitoring position up to 14<sup>th</sup> December 2010.

#### **2.0 Report**

##### **Monitoring Position as at 14<sup>th</sup> December 2010**

- 2.1 A detailed monitoring report as at 14<sup>th</sup> December 2010 is attached as Appendix A. In summary, the position as that date was as shown in the following table.

Area of work	Resources (audit days)				
	Actuals to 14/12/10	Remaining	Committed	Original Plan	Variance
<b>Assurance Work</b>					
Core Financial Systems	16	0	16	90	74
Core Management Arrangements	78	7	85	150	65
Risk Based Assurance Audits	165	37	202	135	(67)
Follow-Up Reviews	51	19	70	70	0
<b>Sub-Total, Assurance Work</b>	<b>310</b>	<b>63</b>	<b>373</b>	<b>445</b>	<b>72</b>
<b>Consultancy Work</b>					
Support Work	48	8	56	100	44
Efficiency & VfM	1	11	12	50	38
Ad-Hoc Advice	47	18	65	65	0
<b>Sub-Total, Consultancy Work</b>	<b>96</b>	<b>37</b>	<b>133</b>	<b>215</b>	<b>82</b>
Other Duties (Non-Audit)	10	5	15	15	0
Audit Management	41	24	65	70	5
Investigations	19	0	19	60	41
General Contingency	0	40	40	40	0
<b>Total</b>	<b>476</b>	<b>169</b>	<b>645</b>	<b>845</b>	<b>200</b>

- 2.2 The monitoring position takes account of ongoing and known work commitments. The summary shows that overall, known and anticipated commitments total 645 days compared with the original plan of 845 days. Taking account of staffing changes during the year, it is now estimated that 690 days can be delivered (i.e. 45 days remain uncommitted). Taken together with the (as yet unused) general contingency of 40 days, there are therefore 85 audit days available to allocate to new activity.
- 2.3 The bulk of this time will be allocated to financial systems work during the final quarter of the year. A major review of the approach to financial systems work has recently been completed, which will enable future audits to be more efficient and thorough.
- 2.4 The Committee is asked to approve the above changes to the 2010/11 audit plan.
- Review of Audit Needs Assessment (Assurance Work)**
- 2.5 A revised audit needs assessment has been undertaken by seeking to identify all potentially auditable activities and systems and giving them a priority rating based on an assessment of risk and sensitivity. The needs assessment identifies 127 auditable activities as set out in Appendix B.
- 2.6 In developing the shared services arrangements for revenues services with Preston City Council, it is proposed that Lancaster will provide internal audit services for both councils' operations. The details of this are still to be agreed and finalised but internal audit services provided to Preston revenues services have initially been estimated at an average of 40 audit days per annum.

- 2.7 To gauge the level of internal audit resources required to meet the council's needs, it has been estimated that in any one year an average of a half of the high priority areas will be covered along with a quarter of the medium priority areas and a lower proportion (around one eighth) of the low priority areas. This approach ensures that audit work is focused on high-risk, high priority issues and recognises that in some areas, assurance may be obtained from other sources. The results and estimated resources required are summarised in the following table.

Priority Level	No of activities	% Covered Per Annum	Average Days Per Audit	Total Days
High	28	50%	12	170
Medium	44	25%	8	85
Low	55	12%	5	35
<b>Total</b>				<b>290</b>

- 2.8 Whilst the needs assessment list includes the council's core financial systems, which have a variety of priority ratings, it is proposed at this stage to retain a ring-fenced allocation of resources (reduced from 90 to 60 days).
- 2.9 The list of activities and their relative priorities will clearly change over time to reflect council objectives and priorities and other factors. There is no current indication, however, that the total number of activities is likely to change significantly and it is felt that proportions within each priority level should remain relatively consistent over time; audit resource needs should therefore be quite stable.
- 2.10 Areas of work other than the main assurance programme have also been reviewed, with proposals set out in the following table.

Area of work	Resources (audit days)		
	2010/11 Original Plan	2010/11 Revised Plan	2011/12 Onwards
<b>Assurance Work</b>			
Core Financial Systems	90	90	60
Core Management Arrangements	150	85	290
Risk Based Assurance Audits	135	210	
Follow-Up Reviews	70	70	50
Preston CC Shared Services (Revenues)	-	-	40
<b>Sub-Total, Assurance Work</b>	<b>445</b>	<b>455</b>	<b>440</b>
<b>Consultancy Work</b>			
Support Work	100	55	40
Efficiency & VfM	50	15	30
Ad-Hoc Advice	65	65	40
<b>Sub-Total, Consultancy Work</b>	<b>215</b>	<b>135</b>	<b>110</b>
Other Duties (Non-Audit)	15	15	15
Audit Management	70	65	55
Investigations	60	20	40
General Contingency	40	0	30
<b>Total</b>	<b>845</b>	<b>690</b>	<b>690</b>

- 2.11 These proposals seek to maintain as far as possible the level of assurance work provided to the council and will present a challenge to increase efficiency in audit work and manage the level of resources devoted to support, management and investigations.
- 2.12 The Audit Committee is asked to consider and comment upon the needs assessment and proposals relating to internal audit resources.

### **Staffing Considerations**

- 2.13 It was reported to the September meeting of the Committee that the vacant Principal Auditor post had been filled by internal promotion. The Committee endorsed a strategy involving the resulting vacancy, at Senior Auditor level, being held open pending a reassessment of internal audit needs.
- 2.14 The internal audit needs assessment and work programme set out above aligns with the 690 days that an establishment of 3.8 FTE audit staff would be expected to provide. This staffing resource can be achieved with the currently vacant Senior Auditor post being deleted from the establishment. Draft proposals for Financial Services' future staffing, including this change, are due to be considered by Personnel Committee on 1<sup>st</sup> February 2011.

### **3.0 Details of Consultation**

- 3.1 No specific consultation has been undertaken. Management Team has considered and approved the proposals relating to internal audit staffing.

### **4.0 Options and Options Analysis (including risk assessment)**

- 4.1 The options available to the Committee are either to endorse the needs assessment, outline future work programme, and proposals being taken forward in relation to internal audit staffing, or to propose an alternative course of action.
- 4.2 If approved, the staffing proposals will result in internal audit resources for 2011/12 onwards being 155 days fewer than included in the 2010/11 annual plan. Whilst resources will continue to be directed to areas of greatest risk, there is a possibility that, given the scope and extent of organisational change occurring in the council, reducing internal audit coverage could lead to significant issues being missed. On the other hand it must also be acknowledged that future changes in the council could lead to a lower requirement for internal audit resources.

### **5.0 Conclusion**

- 5.1 In common with other services, the need for internal audit activity has been reviewed in the light of organisational change and financial constraints. It is felt that the needs assessments, outline programmes and associated resource levels proposed in this report will continue to enable the delivery of an efficient and effective internal audit.

**CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Not applicable

**FINANCIAL IMPLICATIONS**

Recruiting internally to the Principal Auditor post and not filling the vacant Senior Auditor post will result in savings of £30K for the current year.

The proposed staffing structure would generate savings of £34K in 2011/12 and £31K per annum thereafter at the top of the grade.

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments

**LEGAL IMPLICATIONS**

None directly arising from this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments

**BACKGROUND PAPERS**

Internal Audit Plan 2010/11

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