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## **JOINT NATURE CONSERVATION COMMITTEE.**

### **ANNUAL REPORT FROM THE AUDIT AND RISK MANAGEMENT COMMITTEE**

#### **Paper by Tracey Quince**

#### **1. Introduction**

1.1 In March 2005, the Joint Committee formally delegated to the Board of JNCC Support Co. responsibility for setting up an Audit and Risk Management Committee. The scope of the Audit and Risk Management Committee extends to all of JNCC's business, whether delegated to the company or reserved by the Joint Committee, in accordance with the Articles of Association. Accordingly, the Audit and Risk Management Committee reports annually to the Joint Committee as well as to:

- i. *Natural England's Audit Committee.* This Committee, which considered the Annual Assurance Report on 18 June, seeks assurance on JNCC matters because of the role of the Chief Executive of Natural England as lead Accounting Officer for JNCC; and
- ii. *The Board of JNCC Support Co.* The Board, which will meet after the Joint Committee on 20 June, will be invited to consider the Annual Assurance Report, a full report on internal audit, risk management and the Audit and Risk Management Committee's work during 2006/07, and the forward look for 2007/08.

1.2 The Chair of the Audit and Risk Management Committee has direct access to the Joint Committee for any concerns regarding the company.

#### **2. Annual Assurance Report**

2.1 As defined in the Government Internal Audit Standards, the role of internal audit is to provide an independent and objective opinion to the JNCC's Managing Director, who has duties analogous to those of an Accounting Officer on risk management, control and governance. The opinion given by internal audit is a key element of the framework of assurance which the Managing Director needs to inform the completion of the annual Statement of Internal Control.

2.2 The internal audit programme, as approved by the JNCC's Audit and Risk Management Committee in March 2006, has been completed in full. The annual report from the Audit and Risk Management Committee is attached at Annex A.

- 2.3 Based on the results of the audit work carried out for the year ending 31 March 2007, Deloitte has concluded that **the JNCC has an adequate and effective system of internal controls which provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives.** This assessment should be seen as a good achievement for the JNCC Support Co. in its second year of operation.

**Joint Nature Conservation Committee  
INTERNAL AUDIT ANNUAL ASSURANCE  
REPORT 2006/07  
April 2007**

**Deloitte & Touche Public Sector Internal Audit Limited  
London**

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## **Executive Summary**

### **Introduction**

We have now completed our Internal Audit Programme as approved by the Audit and Risk Management Committee in April 2006, covering the financial period, 1 April 2006 – 31 March 2007.

As defined in the Government Internal Audit Standards (GIAS), the role of internal audit is to provide an independent and objective opinion to the Accounting Officer on risk management, control and governance. The opinion given by internal audit is a key element of the framework of assurance which the Accounting Officer needs to inform the completion of the annual Statement of Internal Control (SIC). The opinion can, however, only be reasonable in the sense that no opinion or assurance can ever be absolute and is by definition an extrapolation of the evidence available. The Internal Audit opinion does not supersede the Accounting Officer's personal responsibility for risk, control and governance.

### **The Statement of Assurance**

We are required to give an opinion on risk management, control and governance. In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken between 1 April 2006 and 31 March 2007;
- The action taken in response to our audit recommendations;
- Whether fundamental or significant recommendations have been accepted by management, and the consequent risks;
- The effects of any material changes in the Joint Nature Conservation Committee's (JNCC) objectives or systems; and
- Whether or not any limitations have been placed on the scope of internal audit.

**Based on the work completed between 1 April 2006 and 31 March 2007, carried out in accordance with the scopes agreed by the Audit and Risk Management Committee, taking into account the proposed action by management to rectify the control weaknesses identified in our detailed reports, in our opinion the JNCC has an adequate and effective system of internal controls which provides reasonable assurance regarding the effective and efficient achievement of the JNCC's objectives.**

### **Sources of Assurance**

To provide the required assurance we undertook an agreed programme of work with the following objectives:

- To appraise the soundness, adequacy and application of the whole internal control system;

- To ascertain the extent to which the system of internal control ensures compliance with established policies and procedures;
- To ascertain the extent to which the assets and interests entrusted to or funded by the JNCC are properly controlled and safeguarded from losses arising from fraud, irregularity or corruption;
- To ascertain that accounting and other information is reliable as a basis for producing accounts, and financial, statistical and other returns;
- To ascertain the integrity and reliability of financial and other information provided to management, including that used in decision making; and
- To ascertain that systems of control are laid down and operate to promote the most economic, efficient and effective use of resources.

We have provided in Section 1 a statement of the level of assurance achieved for each system audited. Full assurance was achieved for one of the systems audited, with substantial assurance given to the other seven systems audited.

### **Organisational structure and Governance**

The JNCC established a company limited by guarantee (JNCC Support Co.) in April 2005 and delegated many responsibilities to the company including the delivery of the corporate plan and management of its resources. JNCC Support Co. can only operate within the powers of the JNCC. Day to day practice is therefore to refer to 'JNCC' regardless of whether the function in question is conducted by the Joint Committee itself or undertaken by the company. This convention is followed in this report.

Internal audit is provided by the company and reports to the Audit and Risk Management Committee (ARMC) which is established as a sub-Committee of the Company Board. The ARMC reports to the Company Board and the Joint Committee.

### **Acknowledgement**

We would like to take this opportunity of thanking the JNCC management and their staff for the co-operation we have received.

**Section 1 – Assurance Statement**

The Internal Audit operational plan for 2006/07 covered nine audits as agreed by the Audit and Risk Management Committee. A statement of the level of assurance achieved for each area of audit is shown below together with the prior year assurances. Appendix 1 provides definitions for each of the assurance levels.

<b>Audit Area</b>	<b>Assurance Level 2006/07</b>	<b>Assurance Level 2005/06</b>
1.Core Financial Controls	<b>Substantial</b>	<b>Substantial</b>
2.Business Continuity Planning	<b>Substantial</b>	-
3.Declaration of Interests	<b>Full</b>	<b>Substantial</b>
4.Health and Safety	<b>Substantial</b>	N/A
5.Performance Management	<b>Substantial</b>	<b>Substantial</b>
6.Risk Management	<b>Substantial</b>	<b>Substantial</b>
7.Recorder VFM	_*	_*
8.Income (Non GIA)	<b>Substantial</b>	-
9.Finance System Post Implementation	<b>Substantial</b>	-

\*As a result of the recorder vfm audit a number of suggested improvements were made. This was not a systems audit and therefore no assurance opinion was given on this work.

The levels of assurance achieved are given in the following table:

<b>Assurance Level</b>	<b>Full</b>	<b>Substantial</b>	<b>Limited</b>	<b>Nil</b>
Overall	1	7	-	-

The table demonstrates that full assurance was achieved for 1 of the systems audited with the remaining 8 of systems being given substantial assurance during 2006/07 (100% substantial during 2005/06).

## Section 2 – Overview of Audit Work

The budgeted and actual days delivered to date are shown in the table below:

<b>Audit Area</b>	<b>Budgeted Days</b>	<b>Actual Days</b>
1. Core Financial Controls	8	8
2. Business Continuity Planning	5	5
3. Declaration of Interests	2	2
4. Health and Safety	3	3
5. Performance Management	3	3
6. Risk Management	3	3
7. Recorder VFM*	4	12
8. Income (Non GIA)	5	5
9. Finance System Post Implementation	6	6
Follow-up	3	3
<b>Total</b>	<b>42</b>	<b>50</b>

\* Internal Audit undertook eight additional days work as agreed by the Managing Director. The major recommendations arising from our audits are discussed below. Full details of our findings and recommendations are available in our individual reports. The assurance definitions can be found in Appendix 1.

## 2.1 Core Financial Controls (December 2006) Assurance: Substantial

### *Budgetary Control*

JNCC has annual expenditure of approximately £7.2m of which approximately £6.6m is funded by DEFRA via Grant In Aid (GIA).

The objectives of the JNCC are outlined in its Corporate Plan 2005-2008, as amended by the Business Plan for 2006/07. Annual budgets are prepared by the Executive Management Board in consultation with the designated Budget Leaders, in order to support corporate plan objectives, and based upon GIA income. During the financial year, expenditure against budgets is monitored through quarterly reports. Summary information on expenditure against budget is presented to the Executive Management Board on a quarterly basis.

At the 31st October 2006, expenditure was approximately £3.5m compared to planned expenditure of £4.2m; however this is based upon an even profile of expenditure in each period of the financial year, and it is normal to expect to see greater expenditure towards the end of the financial year as contracts end and invoices are raised.

### *Grant In Aid Income*

GIA is notified annually to the JNCC by DEFRA. GIA income is allocated to JNCC programmes within the approved corporate plan. On a monthly basis there is a procedure to drawdown GIA, which is performed by the Finance section.

### *Purchasing*

Purchasing procedures have been adopted from Natural England, and are currently in the process of being rewritten for JNCC purposes. Purchasing is managed via the use of procurement cards, or by raising orders through the Finance section. Procurement cards can be used by authorised officers up to the value of £750.

At the time of audit, current expenditure on procurement cards totalled £140k. For orders in excess of £750, official orders are required to be raised. In accordance with the revised financial procedures, orders above £2,000 require three written quotes, and orders above £10,000 require a full tender.

### *Pensions*

As at November 2006, the JNCC had 123 current employees, with an average net monthly payroll cost of approximately £200k.

The JNCC has external providers for both its payroll and pension services. The payroll is administered by the Department for Environment, Food and Rural Affairs (DEFRA), utilising DEFRA's long-term agreement with Logica CMG. DEFRA manage the payroll database on behalf of the JNCC.

Pension contributions are transferred by DEFRA to the Cabinet Office to the civil service pension fund. The value of payments being made to the Cabinet Office by DEFRA is included on the monthly payment release forms, which are authorised by the JNCC.

The audit was carried out to evaluate and test controls over the following areas:

### *Budgetary Control*

- Budget compilation;
- Budget approval and notification;
- Delegated responsibility; and

- Budget monitoring.

*Purchasing*

- Strategy;
- Tendering process (including appointment of suppliers, selection and rotation of supplier and tender records);
- Letting of contracts and contract documentation; and
- Performance monitoring of contractors.

*GIA Income*

- Funding strategy;
- Drawdown procedures; and
- Monitoring.

*Pensions*

- Deductions from pay; and
- Payment of ASLCS.

We did not make any priority 1 recommendations as a result of our work. However, we did make seven priority 2 recommendations, where we considered that changes could be made in order to achieve greater control. Management have proposed appropriate action for each recommendation to strengthen the current controls within a reasonable time period.

## 2.2 Business Continuity Planning (Fieldwork July 2006) Assurance: Substantial

In May 2004 consultants Newell and Budge were commissioned by the JNCC to develop a framework for a Business Continuity Plan based upon a business and information technology processes assessment and the risks faced by the JNCC at the time.

Maintenance of the Business Continuity Plan is the responsibility of the Business Manager and is delivered through the Business Continuity Management Group (BCMG). While there has been a proactive approach to initiating and implementing a Business Continuity Plan and assigning individuals to incident management and incident response teams, it is recognised by management that work is required to develop the current processes and embed the Business Continuity Plan across the JNCC. An action plan has been developed to address the weaknesses identified.

The audit was carried out to evaluate and test controls over the following areas:

- Project initiation and management;
- Business impact analysis;
- Risk identification and evaluation;
- Development of a Business Continuity Plan; and
- Embedding of the Business Continuity Plan.

We did not make any priority 1 recommendations as a result of our work. However, we did make four priority 2 recommendations, where we considered that changes could be made in order to achieve greater control. Management have proposed appropriate action for each recommendation to strengthen the current controls within a reasonable time period.

### 2.3 Declaration of Interests (Fieldwork: January 2007) Assurance: Full

The Board consists of 16 directors, 13 of whom are members of the Committee, plus three additional directors employed by the Company. The Board meets four times a year, Board meetings following on immediately after the quarterly Audit Committee meetings in March, June, September and December.

Declarations of Interest are required to be held for all Board members; these Declarations are updated on an annual basis or as and when changes are notified by members.

The audit was carried out to evaluate and test controls over the following areas:

- Declaration of interests; and
- We also undertook follow-up of recommendations in 2005/06 report.

We did not make any priority 1 recommendations as a result of our work. However, we did make one priority 3 recommendation, where we considered that changes could be made in order to achieve greater control. Management have proposed appropriate action for the recommendation to strengthen the current controls within a reasonable time period.

### 2.4 Health and Safety (Fieldwork July 2006) Assurance: Substantial

The Managing Director is responsible for Health and Safety for the JNCC. Management of Health and Safety is delegated to the Whitley Health and Safety sub-committee, chaired by the Head of Planning and Resources. Working Groups have been created to oversee the various elements of Health and Safety under the titles of Health and Safety Forum, Fire Marshall Forum and First Aid Forum.

Promotion of best practice and compliance with regulations and legislation is the principal responsibility of the Office Service Manager and Health and Safety Advisor, who plays a key role in each of the working groups and assist in reporting to the Health and Safety sub-committee.

The audit was carried out to evaluate and test controls over the following areas:

- Incident reporting;
- Implementation of recommendations from Health and Safety Executive reports; and
- Implementation of internal Health and Safety reports.

We did not make any priority 1 recommendations as a result of our work. However, we did make three priority 2 and two priority 3 recommendations, where we considered that changes could be made in order to achieve greater control. Management have proposed appropriate action for each recommendation to strengthen the current controls within a reasonable time period.

### 2.5 Performance Management (Fieldwork: November 2006) Assurance: Substantial

The focus of this Internal Audit was upon performance management in relation to the corporate objectives. The JNCC has a Corporate Plan which covers the period from 2005 to 2008. Within the Corporate Plan objectives are set by project programmes, together with key performance indicators for monitoring those objectives. The performance indicators include milestones which have been agreed by the Executive Management Board, and are approved by the JNCC Support Co. Board of Directors. The JNCC has

established 13 programmes in order to meet its strategic objectives. Each programme has 1-4 programme targets. There are 30 programme targets in total, with approximately 70 project targets to help monitor the achievement of programme targets.

Each programme within the JNCC Corporate Plan has a number of projects. To help ensure that the projects fulfil the objectives of the programmes, separate targets are assigned at a project level, and are assigned to programme and project leaders.

On a quarterly basis, updates on the performance indicators (showing performance against targets) are requested by the Business Unit from the responsible programme and target leaders. The Business Unit is responsible for compilation of the reports to the EMB and Company Board on performance information. The reports include a commentary on the progress being made and any corrective action required.

The audit was carried out to evaluate and test controls over the following areas:

- Objective and goal setting;
- Analysis of actual to forecasts;
- Reporting and feedback; and
- Corrective action.

The following priority 1 recommendation was raised:

- It is recommended that a formal review be undertaken of the critical staff posts of the JNCC. Once key positions have been identified, alternative officers should be identified to undergo training in order to step into the role where necessary. Officers should be cross-trained in business critical functions. This can also be used as an exercise to complete a Succession Planning Framework for the organisation.

In addition we made two priority 2 recommendations, where we considered that changes could be made in order to achieve greater control.

Management have proposed appropriate action for both priority 1 and priority 2 recommendations to strengthen the current controls and ensure recommendations are implemented to timescales.

## 2.6 Risk Management (Fieldwork: October/November 2006) Assurance: Substantial

The JNCC Risk Management Strategy adopts the principles issued by the Treasury in their guidance, 'Management of Risk – A Strategic Overview'. The strategy was approved in June 2003 by the Joint Committee and a revised version was approved in March 2006 by the Audit Committee.

At the time of the audit fieldwork the JNCC had two Risk Registers, a Corporate Risk Register and a register detailing Medium and Low risks. On each register, inherent risks are assessed for impact and likelihood, and current controls to mitigate those risks are identified. Risk owners are assigned to each risk and where appropriate, future actions to manage the risk are identified.

The Executive Management Board meets on a monthly basis, with new risks a standing agenda item. The Executive Management Board then updates the Corporate Risk Register on a quarterly basis.

The audit was carried out to evaluate and test controls over the following areas:

- Policy and procedures;
- Identification of risk;

- Quantification of risk;
- Review and update of the risk map;
- Embedding risk management; and
- Monitoring and reporting.

The following priority 1 recommendation was made:

- The inclusion of risks onto the either the Corporate or Medium and Low risk registers should be determined according to their inherent risk rating.

In addition we made three priority 2 recommendations where we considered that changes can be made in order to achieve greater control.

Management have proposed appropriate action for both priority 1 and priority 2 recommendations to strengthen the current controls and ensure recommendations are implemented to timescales.

## 2.7 Recorder Value for Money (Fieldwork: October/November 2006)

As part of the planned internal audit work for 2006/2007, we undertook a value for money (VFM) audit of the Recorder Project.

The purpose of the VFM audit was to assist the JNCC in their review of the Recorder Project, to ascertain whether the current provision of the Recorder database provides value to the data users within the Country Agencies, compared to the cost of provision by the JNCC.

The objectives of this VFM audit were primarily to:

- Assess the current financial value of the Recorder Project to the JNCC;
- Assess the value provided by the Recorder project to the data users within the Country Agencies and the National Biodiversity Network (NBN) through completion of questionnaires and follow up meetings; and
- Establish the estimated potential income of the Recorder project to the JNCC.

As a result of the audit we identified a number of suggested improvements which we have highlighted throughout the report. This was not a systems audit and therefore no assurance opinion was given on this work.

## 2.8 Income (Non GIA) (Fieldwork: October 2006) Assurance: Substantial

The Finance Manager is responsible for income management, supported by a team of four Finance officers. Non GIA income at the JNCC includes income granted to individual projects by third parties. The largest non GIA income sources are European Commission funded MESH (Mapping European Seabed Habitats) project payments and payments from the Country Agencies and DEFRA which are contractually agreed to assist with specific project management. These payments are allocated to the individual projects upon receipt.

Between 1st April and 31st October 2006, the Non GIA income received totalled approximately £402,000 directly into JNCC bank accounts and £487,000 by cheque.

The audit was carried out to evaluate and test controls over the following areas:

- Receipt and recording of income;

- Security of cash held;
- Banking of income; and
- Reconciliation of cash receipts to income banked.

We did not make any priority 1 recommendations as a result of our work. However, we did make three priority 2 recommendations, where we considered that changes could be made in order to achieve greater control. Management have proposed appropriate action for each recommendation to strengthen the current controls within a reasonable time period.

## 2.9 Finance System Post Implementation (Fieldwork: January 2007) Assurance: Substantial

The audit covered procedures and controls in place over the implementation of the new Kypera finance system which went live in October 2006. This included looking at some system functionality and the compliance of the project with internal requirements.

The audit was carried out to evaluate and test controls over the following areas:

- Compliance with Organisational objectives;
- Compliance with Project Scope;
- Change Control;
- System Security;
- Maintenance Arrangements;
- System Security;
- Data Conversion; and
- Back-up and Recovery Arrangements.

We did not make any priority 1 recommendations as a result of our work. However, we did make seven priority 2 recommendations where we considered that changes could be made in order to achieve greater control.

Management have proposed appropriate action, for all but one recommendation, to strengthen the current controls within a reasonable time period. Management felt that the time had passed to implement one recommendation as follows:

- It is recommended that an evaluation of system performance should have been conducted against the system specification and that results of any evaluation retained and reported.

However, management have agreed that in future projects, an evaluation of performance against specification should be performed.

## Section 3 – 2007/08 Internal Audit Programme

Deloitte & Touche Public Sector Internal Audit Limited were appointed as the Internal Auditors to the Joint Nature Conservation Committee for three years commencing 1 April 2005. In accordance with the Government Internal Audit Standards (GIAS) work is to be conducted in accordance with an agreed Internal Audit Strategy.

The IAS covers the period 1 April 2007 to 31 March 2008. The purpose of the IAS is to define the approach and methodology to be followed which will enable us to:

- Provide the Accounting Officer with an opinion on the organisation's risk management, control and governance to support the preparation of the Statement of Internal Control.

- Audit the JNCC’s risk management, control and governance through annual audit plans, which give priority to the organisation’s objectives and risks.
- Identify improvements to JNCC’s risk management, control and governance by providing management with recommendations arising from the audit work.
- Identify the audit resources required to deliver an audit service which meets the GIAS.
- Provide effective co-operation with the National Audit Office.

**Statement of Responsibility**

We take responsibility for this report which is prepared on the basis of the limitations set out below.

Deloitte & Touche Public Sector Internal Audit Limited

April 2007

<b>Contact Persons:</b>		
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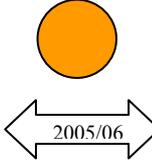
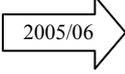
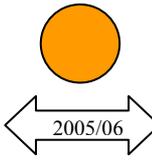
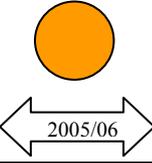
The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management’s responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

In this document references to Deloitte are references to Deloitte & Touche Public Sector Internal Audit Limited.

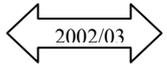
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**Appendix 1 – Assurance Statement Summary Report**

Audit Title	No	Limited	Substantial	Full
Core Financial Controls				
Business Continuity Planning				
Declaration of Interests				
Health and Safety				
Performance Management				
Risk Management				
Income (Non GIA)				
Finance System Post Implementation				

**Definition of Assurance Levels**

	Full	There is a sound system of control designed to achieve the system objectives.
	Substantial	While there is a basically sound system, there are weaknesses which put some of the system objectives at risk.
	Limited	Weaknesses in the system of controls are such as to put the system objectives at risk.
	No	Control is generally weak leaving the system open to significant error or abuse.
		No opinion given. Typically where we undertake the follow-up work, non-systems based work, or work of a limited scope.
		Improved since the last audit visit. Position of the arrow indicates previous status.
		Deteriorated since the last audit visit. Position of the arrow indicates previous status.
		Unchanged since the last audit report.
		Dates within the arrows indicate when the system was last audited.
No arrow		Not visited by IA previously.

**Appendix 2 – Strategic Three Year Internal Audit Plan**

<b>Audit Area / Risk</b>	<b>2005/06 Days</b>	<b>2006/07 Days</b>	<b>2007/08 Days</b>
Performance Management	7	3	5
HR - Recruitment and Retention	-	-	5
Information Technology	5	5	5
Core Finance Systems	10	8	6
Stakeholder Relationship Management	6	5	5
Aberdeen Office Control Framework	-	-	4
Non-UK Institutional Relationships (inc. Brussels Office)	-	5	4
Business Continuity Planning	-	5	-
Procurement	3	-	-
Health & Safety	-	3	-
Risk Management	4	3	3
Corporate Governance	3	3	3
Follow up (inc. H&S 04/05 audit)	4	2	2
Audit Management, Planning, Liaison etc.	3	3	3
<b>TOTAL DAYS</b>	<b>45</b>	<b>45</b>	<b>45</b>