

**For publication**

**INTERNAL AUDIT CONSORTIUM PROGRESS REPORT 2016/17 AND  
DRAFT BUSINESS PLAN 2017/18**

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Meeting: Joint Board

Date: 13th March 2017

Cabinet portfolio: Governance

Report by: Internal Audit Consortium Manager

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**For publication**

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**1.0 Purpose of report**

- 1.1 To update the Joint Board on the progress made by the Internal Audit Consortium during the financial year 2016/17.
- 1.2 To provide an update on the business plan (budget) for the Consortium for 2016/17 and to seek approval for the revised 2016/17 business plan and draft business plan for 2017/18.

**2.0 Recommendations**

- 2.1 That the progress made by the Internal Audit Consortium be noted.
- 2.2 That the revised business plan (budget) for 2016/17 and the draft Internal Audit Consortium Business Plan (and associated charges) for 2017/18, based on Appendix A, be approved.
- 2.3 That any accumulated surplus of the Internal Audit Consortium at the 31<sup>st</sup> March 2017 (less £20,000 to be held as a working balance) be distributed to the partner authorities.
- 2.4 That an annual report on the outcome of the operation of the Internal Audit Consortium for 2016/17 be submitted to the Joint Board following the year-end.

## **3.0 REPORT DETAILS**

### **External Review**

3.1 The Public Sector Internal Audit Standards (PSIAS) requires that internal audit be subject to an external review at least once every 5 years. The first review needed to be completed by 31<sup>st</sup> March 2018. In October 2016 an external review took place and a separate report has been submitted to this Joint Board meeting detailing the results and a corresponding action plan.

### **Staffing Issues**

3.2 The revised staffing structure that was implemented from the 1<sup>st</sup> December 2015 has now become embedded and appears to be working well.

3.3 One Auditor is currently on secondment to Accountancy and that post is being covered by a temporary appointment.

3.4 The additional 0.5 Auditor post created by the restructure remains vacant.

3.5 The Senior Auditor based at NEDDC is retiring on the 23<sup>rd</sup> April 2017.

3.6 The options in respect of the Senior Auditor post that will become vacant have been discussed with the Director of Operations (NEDDC and BDC) and the Director of Resources (CBC). It is being proposed to the vacancy control panel that a Senior Auditor is recruited but that a supplement will be considered for a CCAB qualified person. The Public Sector Internal Audit Standards require that the Head of Internal Audit is CCAB qualified or equivalent. Currently only the Internal Audit Consortium Manager has this qualification so although not essential if it is possible to recruit another qualified person this would add resilience to the service.

### **Training**

3.7 One Auditor is working towards their Institute of Internal Auditor examinations.

3.8 One permanent Auditor and the Temporary Auditor are studying for their Association of Accounting Technician examinations.

3.9 Other staff keep up to date via ad hoc courses and reading appropriate professional magazines etc.

## **Working Procedures**

- 3.10 An external review of Internal Audit has taken place. The review concluded that the internal audit consortium was compliant with the PSIAS. Working papers and audit reviews were noted to be of a high standard. A detailed action plan has been developed to address the areas for improvement raised by the review (this is the subject of a separate report).
- 3.11 The testing schedules for all the Council's main financial systems have all been rigorously reviewed to ensure their continued relevance and focus on risk.
- 3.12 The Internal Audit Charter has been reviewed to reflect some minor amendments to the PSIAS.
- 3.13 Minor updates to the audit manual have been made during the year and a full review of this is scheduled during the summer of 2017.
- 3.14 A fraud risk register for each Council has been developed.

## **Internal Audit Plans**

- 3.15 Internal audit plans for 2016/17 were agreed with each client officer in March 2016. These were reported to and agreed by each Council's Audit Committee.
- 3.16 Regular progress reports showing a summary of internal audit reports issued have been submitted to each Council's Audit Committee.
- 3.17 A formal six monthly meeting has been held with each client officer to review progress and consider budget issues, as required under the Consortium Legal Agreement.
- 3.18 An annual report was submitted to each Audit Committee at the end of 2015/16 summarising the audit work undertaken and giving an opinion on the control environment.

## **Derbyshire Dales District Council**

- 3.19 The Internal Audit Consortium Manager continues to offer a management service to Derbyshire Dales District Council. The 2017/18 charge for this to DDDC will be £9,900.

## **Business Plan 2016/17 and Draft 2017/18**

- 3.20 The original business plan for 2016/17 was reported to and approved by the Joint Board on the 14<sup>th</sup> March 2016. The original business plan projected a break even position for the year (Appendix A).
- 3.21 The revised business plan based on the latest budget estimates now predicts a surplus of £40,730 will be achieved in 2016/17. The main reasons for this are the salary savings from not filling the 0.5 vacant post and the external review of internal audit costing less than expected.
- 3.22 The estimated accumulated surplus at the end of 2016/17 is therefore £60,730 (£40,730 plus £20,000 working balance). It is proposed that £20,000 of this be retained by the Internal Audit Consortium as a working balance with the remainder of the accumulated surplus being distributed to the partner authorities. The saving made as a result of the external review costing less than expected is to be distributed in equal parts (£4,100 each) and the rest in proportion to the amount paid in.
- 3.23 This would result in the following distribution based on the current estimates:

	£
Estimated Surplus at 31 <sup>st</sup> March 2017	60,730
Less Working Balance carried forward	20,000
	<u><b>40,730</b></u>
Proposed Distribution:	
Chesterfield	14,510
North East Derbyshire DC	13,140
Bolsover DC	13,080
	<u><b>40,730</b></u>

### **Business Plan 2017/18 (Draft)**

- 3.24 A draft business plan for the Consortium has been prepared for 2017/18 and the following two years (see Appendix A). This business plan is based on the FTE of 9.1 posts. The draft budget also reflects provision for pay awards.
- 3.25 For information, a summary of the charges made by the Consortium covering the period 2012/13 – 2017/18 (estimate) is shown in

Appendix B.

## **Risk Register**

3.26 The Internal Audit Consortium risk register has been updated and is shown as Appendix C.

## **4 Human resources/people management implications**

4.1 Not Applicable.

## **5 Financial implications**

5.1 The approval of the 2017/18 business plan will mean that the Consortium can continue to deliver a quality service.

## **6 Legal and data protection implications**

6.1 None.

## **7 Consultation**

7.1 Not Applicable.

## **8 Risk management**

8.1 The provision of an effective Internal Audit service helps to ensure that the organisations internal controls and governance arrangements are appropriately assessed in terms of their adequacy and effectiveness.

## **9 Equalities Impact Assessment (EIA)**

9.1 Not Applicable.

## **10 Alternative options and reasons for rejection**

10.1 Not Applicable.

## **11 Recommendations**

11.1 That the progress made by the Internal Audit Consortium be noted.

- 11.2 That the revised business plan (budget) for 2016/17 and the draft Internal Audit Consortium Business Plan (and associated charges) for 2017/18, based on Appendix A, be approved.
- 11.3 That any accumulated surplus of the Internal Audit Consortium at the 31<sup>st</sup> March 2017 (less £20,000 to be held as a working balance) be distributed to the partner authorities.
- 11.4 That an annual report on the outcome of the operation of the Internal Audit Consortium for 2016/17 be submitted to the Joint Board following the year-end.

**12 Reasons for recommendations**

- 12.1 To enable the Joint Board to consider and approve the revised business plan for 2016/17 and the draft business plan for 2017/18.

**Decision information**

<b>Key decision number</b>	n/a
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	An effective internal audit service helps towards the Council’s priority of providing VFM

**Document information**

<b>Report author</b>	<b>Contact number/email</b>
Jenny Williams – Internal Audit Consortium Manager	01246 345468
<b>Background documents</b>	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<b>Appendices to the report</b>	
Appendix A	Internal Audit Consortium Business Plan 2016/17 – 2019/20

Appendix B	Internal Audit Consortium Charges 2012/13 – 2017/18
Appendix C	Internal Audit Consortium Risk Register

## Appendix A

<b>INTERNAL AUDIT CONSORTIUM BUSINESS PLAN 2016/17 TO 2019/20</b>					
	<b>2016/17</b>		<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>Original</b>	<b>Revised</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b><u>Expenditure:</u></b>					
Employees	355,760	338,820	365,690	374,930	379,280
Transport	3,150	3,150	3,150	3,150	3,150
Supplies	26,540	10,130	6,540	6,540	6,540
Support Services	52,420	51,740	52,470	52,650	52,670
<b>Total Expenditure</b>	<b>437,870</b>	<b>403,840</b>	<b>427,850</b>	<b>437,270</b>	<b>441,640</b>
<b><u>Income:</u></b>					
Transfers from reserves	0	10,800	0	0	0
Charges to CBC	154,180	154,180	152,800	156,210	157,770
Charges to NEDDC	134,600	134,600	132,740	135,700	137,060
Charges to BDC	133,790	133,790	131,910	134,860	136,210
Charges to Derbyshire Dales DC	14,800	10,700	9,900	10,000	10,100
Charges – other	500	500	500	500	500
<b>Total Income</b>	<b>437,870</b>	<b>444,570</b>	<b>427,850</b>	<b>437,270</b>	<b>441,640</b>
<b>Net surplus/(deficit) in year</b>	<b>0</b>	<b>40,730</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net surplus/(deficit) b/fwd	20,000	20,000	20,000	20,000	20,000
<b>Net surplus/(deficit) c/fwd</b>	<b>20,000</b>	<b>60,730</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>
Less distribution of surplus	0	40,730	0	0	0
Surplus balance carried forward	20,000	20,000	20,000	20,000	20,000



## Appendix B

### Internal Audit Consortium Charges 2012/13 – 2017/18

Charges to:	2012/13	2013/14	2014/15	2015/16	2016/17 (Rev)	2017/18 (Est)
	£	£	£	£	£	
Chesterfield BC	158,286	158,286	146,910	152,210	154,180	152,800
North East Derbyshire DC	137,213	137,213	127,630	132,230	134,600	132,740
Bolsover DC	136,221	136,221	126,830	131,410	133,790	131,910
Derbyshire Dales DC			9,600	9,700	10,700	9,900
Charges – Other			350	450	500	500
Transfer from reserves					10,800	
<b>Total</b>	<b>431,720</b>	<b>431,720</b>	<b>411,320</b>	<b>426,000</b>	<b>444,570</b>	<b>427,850</b>
<b>Refund of Accumulated Surplus:</b>						
Chesterfield BC	0	0	44,160	34,053	14,510	0
North East Derbyshire DC	0	0	38,369	29,587	13,140	0
Bolsover DC	0	0	38,127	29,401	13,080	0
Total Refund	0	0	120,656	93,401	40,730	0
<b>Total Cost</b>	<b>431,720</b>	<b>431,720</b>	<b>290,664</b>	<b>332,599</b>	<b>403,840</b>	<b>427,850</b>

Internal Audit Consortium Risk Register

Total Risk Score: Likelihood x Impact. Rating Key:

0-4 Green	5-14 Amber	15+ Red
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CAUSE	EFFECT	ACTIONS UNDERTAKEN TO MITIGATE THE RISK	CURRENT RISK RATING LIKELIHOOD /RISK IMPACT	FURTHER ACTION REQUIRED/DATE	TARGET RISK RATING LIKELIHOOD /RISK IMPACT/DATE	RISK LEAD
Failure to substantially complete the agreed audit plans	Head of audit can't give an opinion on the controls in place which may lead to external audit undertaking more work or qualified accounts	Quarterly monitoring and reporting of progress to client officers and Audit Committees. £20,000 working balance retained which could be used to fund additional resource if required.	<b>Unlikely/High</b> <b>2 x 4 = 8</b> <b>Amber</b>	None	<b>Unlikely/High</b> <b>2*4 = 8</b> <b>Amber</b>	Internal Audit Consortium Manager

IA -Failure to undertake work to a satisfactory standard	External audit and section 151 officers can't place reliance on work	All work subject to quality reviews by senior staff. Regular review of compliance with PSIAS. External review of internal audit undertaken October 2016 concludes that the Consortium is compliant with the PSIAS	<b>Highly Unlikely/Medium</b> <b>1 x 3 = 3</b> <b>Green</b>	Implementation of the action plan arising out of the external review of Internal audit will further enhance the service provided.	<b>Highly Unlikely/Medium</b> <b>1 x 3 = 3</b> <b>Green</b>	Internal Audit Consortium Manager
IA - Insufficient financial resources to fund consortium	Cannot achieve plans	Joint Board approved the Consortiums budget March 16 for 2016.17	<b>Unlikely/High</b> <b>2 x 4 = 8</b> <b>Amber</b>	None	<b>Unlikely/High</b> <b>2 x 4 = 8</b> <b>Amber</b>	Internal Audit Consortium Manager
Loss of data through IT failure	Loss of work	Data stored on each Councils network and subject to their back up and security procedures.	<b>Unlikely/Medium</b> <b>2 x 3 = 6</b> <b>Amber</b>	None	<b>Unlikely/Medium</b> <b>2 x 3 = 6</b> <b>Amber</b>	Internal Audit Consortium Manager