

For publication

CHESTERFIELD BOROUGH COUNCIL
INTERNAL AUDIT PLAN 2017/18

Meeting:	Standards and Audit Committee
Date:	5 th April 2017
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 Purpose of report

- 1.1 To present to Members for consideration and agreement the Internal Audit Plan for 2017/18.

2.0 Recommendations

- 2.1 That the Internal Audit Plan for 2017/18 be agreed.

3.0 Report details

- 3.1 A key requirement of the Public Sector Internal Audit Standards is that a periodic risk based plan should be prepared that is sufficiently flexible to reflect the changing risks and priorities of the organisation. The risk based plan should be fixed for a period of no longer than one year, should outline the assignments to be carried out, their respective priorities and the estimated resources needed.
- 3.2 The internal audit plan is linked to the Council's Corporate Plan in respect of its aim to provide value for money services. Audit reviews assess the controls and procedures in operation and make

recommendations for improvement.

- 3.3 A note explaining the role, purpose and some of the terminology used in the internal audit plan is attached at Appendix 1.
- 3.4 An annual report summarising the outcome of the 2016/17 internal audit plan will be presented to this Committee after the year-end.
- 3.5 A summary of the internal audit plan for 2017/18 is shown below and the detailed plan is shown as Appendix 2.

Internal Audit Plan 2017/18

Summary	Audit Days
Main Financial Systems	176
Other Operational Audits	160
Computer / IT Related	28
Fraud and Corruption	38
Corporate / Cross Cutting	94
Location / Regularity	5
Special Investigations & Contingency	34
Training/Updating test schedules	10
Audit Committee / Client Liaison	15
Grand Total	560

- 3.6 The plan has been prepared taking into account the following factors:-
- The organisational objectives and priorities;
 - Local and national issues and risks;
 - The requirement to produce an annual internal audit opinion;
 - The organisations assurance framework;
 - An update of the internal audit risk assessment exercise covering the financial control and other procedures subject to audit ;
 - The Council's strategic risk register;
 - The views of the Corporate Management Team.
- 3.7 Resource availability has been based on the Consortium Business Plan. The plan allocates 560 days to Chesterfield Borough Council for 2017/18, this is the same allocation as in 2016/17.

3.8 There is no formula that can be used to establish the ideal number of audit days however the Internal Audit Consortium Manager is of the view that the resource level is sufficient, to be able to provide an opinion on internal controls at the end of the year.

3.9 A copy of the audit plan is provided to the Council's external auditor to assist in co-ordination of work programmes.

4.0 **Human resources/people management implications**

4.1 There are no human resource considerations.

5.0 **Financial implications**

5.1 Financial - the internal audit budget for 2017/18 has been approved by the Joint Board and includes a contingency to cover for any unforeseen circumstances.

6.0 **Legal and data protection implications**

6.1 There are no legal and data protection implications.

7.0 **Consultation**

7.1 Not Applicable

8.0 **Risk management**

8.1 Risk Management Issues – no formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion on internal controls. The level of coverage provided by the proposed 2017/18 internal audit plan will be sufficient upon which to base an opinion.

9.0 **Equalities Impact Assessment (EIA)**

9.1 Equalities – there are none arising from the contents of this report.

10.0 **Alternative options and reasons for rejection**

10.1 Not Applicable.

11.0 **Recommendations**

11.1 That the Internal Audit Plan for 2017/18 be agreed.

12.0 **Reasons for recommendations**

12.1 To comply with the Public Sector Internal Audit Standards and to determine the internal audit work plan for the year.

Decision information

Key decision number	
Wards affected	
Links to Council Plan priorities	Value for money

Document information

Report author	Contact number/email
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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix 1	Internal Audit Plan – Background Note
Appendix 2	Internal Audit Plan – 2015/16 – 2017/18

INTERNAL AUDIT PLAN

BACKGROUND NOTE

1. Definition of Internal Audit

Internal Audit is defined in the Public Sector Internal Audit Standards as:

'... an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

2. The Purpose of Internal Audit

Internal audit is not a substitute for management. It is the purpose of internal audit to assist and support management by appraising the arrangements and procedures established.

There is also a statutory requirement for internal audit in local government contained in The Accounts and Audit Regulations 2015. These regulations require the authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking in to account public sector internal auditing standards and guidance.

3. The Difference Between Internal Audit and External Audit

External audit is completely independent of the authority. The Council's external auditors are KPMG. Much of the external auditors' work is determined by statutory responsibilities. Internal audit's terms of reference are determined and approved by management.

However, there is nevertheless considerable scope for co-operation to avoid duplication of work and to make maximum use of audit resources.

4. The Scope of Internal Audit Work

One of the essential elements for effective internal auditing is that the internal auditor should adequately plan, control and record their work.

To determine priorities and to assist in the direction and control of audit work the internal auditor will prepare a plan based on a risk assessment.

The audit plan is divided into the following sections: -

- **Main Financial Systems**

This covers the fundamental accounting and income collection systems of the authority such as payroll, creditor payments, council tax etc. Most of these systems are reviewed on an annual basis due to their importance.

- **Other Operational Audits**

Audits to be undertaken in services include reviewing the controls and procedures in place in areas such as commercial waste and car park income.

- **IT Related**

Topics in this area of the plan include a review of network security and cyber risks. It should be noted that some IT work is included in most of the audit areas reviewed.

- **Fraud and Corruption**

Audits specifically related to the prevention of fraud and corruption are covered in this area of the plan e.g. money laundering. It should be noted that a significant number of other audits include an anti-fraud element e.g. income audits.

- **Cross Cutting Issues**

This area of the plan includes audit subjects that cover all services or are corporate Issues. Examples include work on the Annual Governance Statement and health and safety.

- **Special Investigations**

A contingency provision is included in the plan to cover the investigation of irregularities or cases of suspected fraud and other problems.

5. **Delivering the Internal Audit Service**

A three year strategic audit plan is compiled based on an internal audit risk assessment of auditable areas. This risk assessment takes into account the following factors:

- Materiality – the amount of funds passing through the system
- Control Environment / vulnerability – assessed level of control based on previous audit findings
- Sensitivity – profile of the system in relation to customer service
- Management concerns – any specific issues relating to the operation of the system
- The Council's Strategic Risk Register

Using a scoring system, audits are then categorised as High, Medium or Low risk. This ranking is then used to compile the annual audit plan.

The areas of audit work set out in the agreed plan are split into individual audit assignments.

An audit assignment can involve:

- preparation of system notes and a review/analysis of system controls;
- extraction of background information;
- extraction and testing of sample transactions and controls;
- notes of interviews and meetings.

All work undertaken is recorded on detailed working papers. To ensure that all areas have been covered and appropriate conclusions reached, all working papers are independently reviewed.

A report on the findings and recommendations arising from the audit is sent to the appropriate Service Head and CMT member at the conclusion of the audit. A response to the recommendations is requested within a set time.

A summary of internal audit reports issued each quarter is reported to the Standards and Audit Committee and an Annual Report is submitted after the end of the year detailing the outcome of the audits completed.

Chesterfield Borough Council Internal Audit Plan 2015/16 – 2017/18

	Main Financial Systems	2015/16	2016/17	2017/18	Priority	Last Review	Risk Factor
	Main Accounting and Budgetary Control	18	18	15	H	Annual	Main System failure, (Corporate Risk 1)
	Bank Reconciliation	8	8	0	M	2016/17	Fraud
	Payroll	15	25	20	H	Annual	Main System failure, reputation (Corporate Risk 10)
	Creditor Payments (Accounts Payable)	25	25	25	H	Annual	Main System failure, financial penalties (Corporate Risk 10)
	Debtors (Accounts Receivable)	15	15	15	H	Annual	Main System failure, Loss of income (Corporate Risk 10)
	Treasury Management – Loans and investments	18	16	15	H	Annual	Main System failure, loss of funds
	Cash and Banking	15	15	15	H	Annual	Main System failure, loss of income (Corporate Risk 10)
	Council Tax	10	10	15	H	Annual	Main System failure, loss of income (Corporate Risk 10)
	Non Domestic Rates	15	15	15	H	Annual	Main System failure, Loss of income (Corporate Risk 10)
	Housing / Council Tax Benefits	22	21	21	H	Annual	Main System failure, Reputation (Corporate Risk 10)
	Housing Rents including Universal credit implications	20	20	20	H	Annual	Main System failure, loss of income (Corporate Risk 10)
	Housing Repairs	20	20	0	M	2016/17	Main system failure, reputational damage
	Total	201	208	176			

	Other Operational Audits	2015/16	2016/17	2017/18	Priority	Last Review	Risk Factor
	Building Control Fees	10	0	0	M	2015/16	Fraud, loss of income
	Business Continuity Planning	10	0	0	L	2015/16	Public safety (Corporate Risk 5)
	Choice Based Lettings	0	10	0	L	2016/17	Fraud, reputational damage
	Car Parks Income	25	25	20	H	Annual	Fraud, reduced income
	Contract final accounts	10	10	5	H	Ongoing	Incorrect payment (Corporate Risk 9)
	Commercial Waste	0	10	0	M	2013/14	Loss of income
	Elections	10	0	0	L	2015/16	Fraud, incorrect payments
	Expenses and Allowances	0	0	8	L	2012/13	Fraud, Incorrect payments
	Gas Servicing	10	0	0	M	2015/16	Public safety, reputational damage
	Healthy Living Centre	0	20	0	M	2016/17	Loss of income
	Homelessness	0	10	0	L	2016/17	Reputational damage
	Joint Crematorium	12	12	12	H	Annual	Income loss, reputational damage (Corporate Risk 10)
	Markets	15	10	0	M	2016/17	Fraud, loss of income
	Members and civic expenses	0	0	10	L	2012/13	Fraud, incorrect payments
	Planning Fees	0	10	0	M	2016/17	Fraud, loss of income
	PPP Client Monitoring Procedures	15	5	5	H	Annual	Poor contract management (Corporate Risk 10)
	Property Rents	0	8	15	M	2014/15	Loss of income, reputational damage (Corporate Risk 10)
	Property Repairs – non housing	15	0	8	H	2016/17	Loss of income, reputational damage, poor VFM, buildings not fit for purpose (Corporate Risk 14)
	Queens Park Sports Centre	0	25	14	M	2016/17	Loss of income, reputational damage,
	Refuse Collection - Domestic	10	0	0	L	2015/16	Reputational damage
	Sale of Council Houses (Right to Buy)	0	0	10	M	2014/15	Fraud
	Section 106/CIL Follow up	0	12	8	H	2016/17	Loss of income, reputational damage,
	Stores	10	0	0	M	2015/16	Fraud

	Taxi Licences	0	0	15	M	2012/13	Loss of income, safeguarding issues, (Corporate Risk 12) public safety
	VAT	8	0	0	L	2015/16	Poor accounting
	Venues	24	0	30	M	2015/16	Loss of income, reputational damage
	Total	174	167	160			
	Computer and IT Related	2015/16	2016/17	2017/18	Priority	Last Review	Risk Factor
	BACS	0	8	0	L	2016/17	Fraud
	Cyber risks/Network Security	10	10	10	H	Annual	System failures, operating capability, reputational damage (Corporate Risk 7)
	Data Protection/FOI follow up	15	8	8	H	2016/17	Financial penalty, reputational damage, (Corporate Risk 8)
	New system review (Mentor replacement)	0	10*	10	M	N/A	Reputational damage, loss of income
	Total	25	36	28			
	Cross Cutting Issues						
	Corporate Governance and Annual Governance Statement	30	20	17	H	Annual	Poor Governance, reputational damage
	Brimington Parish Council	5	5	5	N/A	Annual	Fraud, poor record keeping
	Financial Advice / Working Groups/Transformation Projects	35	35	25	H	Annual	Appropriate controls not in place
	Sheffield City Region Projects and grants/Loans (CBC)	0	0	10	H	N/A	Lack of Governance, financial loss (Corporate Risk 10)
	Performance Management, Corporate Targets	0	0	14	M	2012/13	Poor Governance, reputational

							damage
	Health and Safety	0	15	10	H	2016/17	Death or injury, reputation, financial loss (Corporate Risk 6)
	Risk Management	0	6	0	M	2016/17	Failure to meet objectives
	Safeguarding	0	13*	13	M	2016/17	Reputational damage (Corporate Risk 13)
	Total	70	94	94			
	Fraud and Corruption						
	Anti-Fraud and Corruption Strategy	5	5	0	M	2016/17	Fraud, poor culture
	Money Laundering	0	0	3	L	N/A	Fraud
	National Fraud Initiative	10	0	10	M	2015/16	Fraud
	Procurement	15	0	15	H	2015/16	Fraud, poor value for money (Corporate Risk 9)
	Sale of Land and Property	0	0	10	L	2009	Fraud, Loss of income
	Total	30	5	38			
	Location / Regularity						
	Petty Cash	5	5	5	N/A	Annual	Fraud
	Total	5	5	5			
	Special Investigations/Contingency	30	30	34	N/A		
	Updates/review of test schedules			10	N/A		
	Audit Committee / Client Officer Liaison	15	15	15	N/A		
	Planned Total Days 2017/18	560	560	560			

- Safeguarding audit and new system review deferred from 2016/17 to 2017/18