

FOR PUBLICATION

CHESTERFIELD BOROUGH COUNCIL INTERNAL AUDIT PLAN 2016/17

MEETING: STANDARDS AND AUDIT COMMITTEE

DATE: 6th April 2016

REPORT BY: INTERNAL AUDIT CONSORTIUM MANAGER

1.0 PURPOSE OF REPORT

1.1 To present to Members for consideration and agreement the Internal Audit Plan for 2016/17.

2.0 RECOMMENDATION

2.1 That the Internal Audit Plan for 2016/17 be agreed.

3.0 BACKGROUND

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 2015/16 internal audit plan will be presented to this Committee after the year-end.

4.0 **INTERNAL AUDIT PLAN 2016/17**

4.1 A summary of the internal audit plan for 2016/17 is shown below and the detailed plan is shown as Appendix 2.

Internal Audit Plan 2016/17

Summary	Audit Days
Main Financial Systems	213
Other Operational Audits	162
Computer / IT Related	36
Fraud and Corruption	5
Corporate / Cross Cutting	94
Location / Regularity	5
Special Investigations & Contingency	30
Audit Committee / Client Liaison	15
Grand Total	560

4.2 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 (See Appendix 1, Section 5 for further details);
- The Council's strategic risk register and
- The views of the Senior Leadership Team.

4.3 Resource availability has been based on the Consortium Business Plan for 2015/16. The plan allocates 560 days to Chesterfield Borough Council for 2016/17 this is the same allocation as in 2016/17.

- 4.4 There is no formula that can be used to establish the ideal number of audit days however the Chief Financial Officer and the Internal Audit Consortium Manager are confident that the resource level is sufficient to be able to provide an opinion on internal controls at the end of the year.
- 4.5 A copy of the audit plan is provided to the Council's external auditor to assist in co-ordination of work programmes.
- 4.6 A copy of the three year audit plan covering the period 2014/15 – 2016/17 is attached for information as Appendix 3.

5.0 CONSIDERATIONS

- 5.1 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 2016/17 internal audit plan will be sufficient upon which to base an opinion.
- 5.2 Financial - the internal audit budget for 2016/17 has been approved by the Joint Board and includes a contingency to cover for any unforeseen circumstances.
- 5.3 Equalities – there are none arising from the contents of this report.

6.0 RECOMMENDATION

- 6.1 That the Internal Audit Plan for 2016/17 be agreed.

7.0 REASON FOR RECOMMENDATION

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

INTERNAL AUDIT CONSORTIUM MANAGER

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. By reviewing the work of internal audit, external audit will be in a position to determine whether reliance can be placed on the work concerned.

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. External audit examines and places reliance on the work carried out.

- **Other Operational Audits**

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

- **IT Related**

Topics in this area of the plan include a review of BACS. 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. An example includes the completion of fraud modules in respect of the main financial systems. 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 e.g. 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 to the Head of Finance (as Client Officer) 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.

INTERNAL AUDIT CONSORTIUM			
CHESTERFIELD BOROUGH COUNCIL			
DRAFT INTERNAL AUDIT PLAN 2016/17			
Main Financial Systems	Priority Ranking	Audit Days	
Main Accounting and Budgetary Control	H	18	
Bank Reconciliation	H	8	
Payroll	H	25	
Creditor Payments (Accounts Payable)	H	25	
Debtors (Accounts Receivable)	H	15	
Treasury Management – Loans	H	8	
Investment Portfolio	H	8	
Cash and Banking	H	15	
Council Tax	H	10	
Non Domestic Rates	H	15	
Housing / Council Tax Benefits	H	21	
Housing Rents	H	20	
Housing Repairs – Capital	H	10	
Housing Repairs	H	10	
PPP Client Monitoring Procedures	H	5	
Total		213	
Other Operational Audits			
Choice Based Lettings	L	10	
Car Parks Income	H	25	
Commercial Waste Income	M	10	
Contract Final Accounts	H	10	
Healthy Living Centre	M	20	
Homelessness	L	10	
Joint Crematorium	H	12	
Markets Income	H	10	
Planning Fees	M	10	
Property Repairs (Non Housing)	H	8	
Queens Park Sports Centre	M	25	
Community Infrastructure Levy	M	12	
Total		162	
Computer and IT Related			
BACS	M	8	
Data Protection follow up	H	8	
New System Review (Mentor Replacement)	M	10	
Cyber Risk/Network Security	L	10	
Total		36	

	Cross Cutting Issues			
	Brimington Parish Council	H	5	
	Corporate Governance and Annual Governance Statement	H	20	
	Financial Advice / Working Groups/Transformation Projects	H	35	
	Health and Safety	M	15	
	Risk Management	M	6	
	Safeguarding	M	13	
	Total		94	
	Fraud and Corruption			
	Anti- Fraud and Corruption Strategy	H	5	
	Total			
	Location / Regularity			
	Petty Cash	L	5	
	Total			
	Contingency/Special Investigations		30	
	Audit Committee / Client Officer Liaison		15	
	Planned Total Days 2016/17		560	

Note: Ranking – H=High Risk, M=Medium and L= Low Risk (see appendix 1 paragraph 5).

Appendix 3

CHESTERFIELD BOROUGH COUNCIL

	Audit Days		
	2014/15	2015/16	2016/17
Main Financial Systems			
Main Accounting System and Budgetary Control	20	18	18
Bank Reconciliation	8	8	8
Payroll	25	15	25
Creditor Payments	25	25	25
Debtors	15	15	15
Treasury Management (Loans)	10	8	8
Investment Portfolio	10	10	8
Cash and Banking	15	15	15
Council Tax	15	10	10
Non Domestic Rates	15	15	15
Housing / Council Tax Benefit	22	22	21
Housing Rents	20	20	20
Housing Repairs	23	20	20
PPP Client Monitoring Procedures		15	5
	223	216	213
Other Operational Audits			
Building Control Fees		10	
Business Continuity Planning		10	
Car Parks Income	25	25	25
Cemeteries			
Choice Based Lettings			10
Commercial / Industrial Property Rents	15		
Commercial Waste Income			10
Community Assemblies	5		
Contract Final Accounts	10	10	10
Crematorium	12	12	12
EH Recycling Income and Credits			
Elections		10	
Gas Servicing		10	
Healthy Living Centre Income	13		20

	2014/15	2015/16	2016/17
Other Operational Audits (Continued)			
Homelessness			10
Housing Choice Based Lettings			
Innovation Centres	12		
Insurances			
Local Searches			
Major / Minor Grants			
Markets Income	15	15	10
Museum/Revolution House	8		
OSD Gas Servicing			
Outdoor Facilities Income			
Pavements / Vicar Lane Income Share	10		
Pest Control Income			
Planning Fees			10
Property Repairs (Non Housing)		15	8
QPSC Income	15		25
Rechargeable Works (Housing) / Leaseholder Charges			
Recruitment and Selection	10		
Refuse Collection - Domestic		10	
Rent a Roof/Solar Panels	5		
Sale of Council Houses	10		
Section 106 Agreements/Community Infrastructure Levy			12
Stores		10	
Theatre Income		12	
Tourist Information Centre	10		
Value Added Tax (VAT)		8	
Winding Wheel Income		12	
	175	169	162

	2014/15	2015/16	2016/17
IT Related			
BACS			8
Cyber Risk/ Network Security / Disaster Recovery	10	10	10
New system review (Mentor Replacement)			10
Service Desk	12		
Data Protection / Freedom of Information		15	8
Internet Usage Monitoring			
Telephone System Monitoring			
	22	25	36
Fraud and Corruption			
Anti Fraud and Corruption Strategy		5	5
Fraud Modules	5		
Procurement	15	15	
Register of Gifts and Hospitality			
Sale of Land and Property			
National Fraud Initiative		10	
	20	30	5
Corporate / Cross Cutting Issues			
Brimington Parish Council	5	5	5
Corporate / Annual Governance Statement	30	30	20
Financial Advice / Working Groups	15	35	35
Health and Safety			15
Risk Management			6
Safeguarding			13
	50	70	94
Location / Regularity			
Cash Floats	5	5	5
Inventories			
	5	5	5
Contingency			
Contingency/Special Investigations/Internal Audit Joint Working Review	50	30	30
	50	30	30
Audit Committee / Client Liaison	15	15	15
Grand Total	560	560	560