

FOR PUBLICATION

CHESTERFIELD BOROUGH COUNCIL INTERNAL AUDIT PLAN 2015/16

MEETING: STANDARDS AND AUDIT
COMMITTEE

DATE: 10 April 2015

REPORT BY: INTERIM HEAD OF INTERNAL AUDIT
CONSORTIUM

1.0 PURPOSE OF REPORT

1.1 To present to Members for consideration and agreement the Internal Audit Plan for 2015/16.

2.0 RECOMMENDATION

2.1 That the Internal Audit Plan for 2015/16 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 2014/15 internal

audit plan will be presented to this Committee after the year-end.

4.0 **INTERNAL AUDIT PLAN 2015/16**

4.1 A summary of the internal audit plan for 2015/16 is shown below and the detailed plan is shown as Appendix 2.

Internal Audit Plan 2015/16

Summary	Audit Days
Main Financial Systems	201
Other Operational Audits	184
Computer / IT Related	25
Fraud and Corruption	30
Corporate / Cross Cutting	70
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 Chief Financial Officer.

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 2015/16, this is the same allocation as in 2014/15.

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 Interim Head of the Internal Audit Consortium are confident that the reduced resource level is sufficient to be able to provide an opinion

on internal controls at the end of the year. A review of a number of other Council's internal audit plans also indicates that this is an acceptable coverage level.

- 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 2013/14 – 2015/16 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 2015/16 internal audit plan will be sufficient upon which to base an opinion.
- 5.2 Financial - the internal audit budget for 2015/16 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 2015/16 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.

INTERIM HEAD OF INTERNAL AUDIT CONSORTIUM

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 2011 and also The Accounts and Audit Regulations 2015 that come in to force on the 1st April 2015. These regulations require the authority to maintain 'an adequate and effective system of internal audit of its accounting records and of its system of internal control'.

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 network security and data protection.

- **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 procurement.

- **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 Head of Service 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 2015/16			
Main Financial Systems	Ranking	Audit Days	
Main Accounting and Budgetary Control	H	18	
Bank Reconciliation	H	8	
Payroll	H	15	
Creditor Payments (Accounts Payable)	H	25	
Debtors (Accounts Receivable)	H	15	
Treasury Management – Loans	H	8	
Investment Portfolio	H	10	
Cash and Banking	H	15	
Council Tax	H	10	
Non Domestic Rates	H	15	
Housing / Council Tax Benefits	H	22	
Housing Rents	H	20	
Housing Repairs – Capital	H	10	
Housing Repairs	H	10	
Total		201	
Other Operational Audits			
Building Control Fees	M	10	
Business Continuity Planning	L	10	
Car Parks Income	H	25	
Contract Final Accounts	H	10	
Elections	L	10	
Gas Servicing	M	10	
Joint Crematorium	H	12	
Markets Income	H	15	
Pomegranate Theatre	M	12	
PPP Client Monitoring Procedures	L	15	
Property Repairs – Non Housing	M	15	
Refuse Collection - Domestic	M	10	
Stores	M	10	
VAT Procedures	M	8	
Winding Wheel	M	12	
Total		184	
Computer and IT Related			
PSN Compliance/Network Security	M	10	
Data Protection/FOI	M	15	
Total		25	

Cross Cutting Issues			
Brimington Parish Council	H	5	
Corporate Governance and Annual Governance Statement	H	30	
Financial Advice / Working Groups/Transformation Projects	H	35	
Total		70	
Fraud and Corruption			
Anti- Fraud and Corruption Strategy	H	5	
National Fraud Initiative	H	10	
Procurement	H	15	
Total		30	
Location / Regularity			
Petty Cash		5	
Total		5	
Contingency/Internal Audit Joint Working Review/Special Investigations		30	
Audit Committee / Client Officer Liaison		15	
Planned Total Days 2015/16		560	

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

CHESTERFIELD BOROUGH COUNCIL			
	Audit Days		
Main Financial Systems	2013/14 Revised	2014/15	2015/16
Main Accounting System and Budgetary Control	20	20	18
Bank Reconciliation	10	8	8
Payroll	25	25	15
Creditor Payments	25	25	25
Debtors	15	15	15
Treasury Management (Loans)	10	10	8
Investment Portfolio	10	10	10
Cash and Banking	15	15	15
Council Tax	15	15	10
Non Domestic Rates	20	15	15
Housing / Council Tax Benefit	25	22	22
Housing Rents	20	20	20
Housing Repairs	15	23	20
Housing Grants	12		
	237	223	201
Other Operational Audits			
Building Control Fees			10
Business Continuity Planning			10
Car Parks Income	22	25	25
Cemeteries	10		
Commercial / Industrial Property Rents		15	
Commercial Waste Income	10		
Community Assemblies		5	
Contract Final Accounts	9	10	10
Crematorium	12	12	12
EH Recycling Income and Credits	8		
Elections			10
Gas Servicing			10
Healthy Living Centre Income		13	

Other Operational Audits (Continued)	2013/14 Revised	2014/15	2015/16
Housing Choice Based Lettings	10		
Innovation Centres		12	
Insurances	12		
Local Searches	4		
Major / Minor Grants	10		
Markets Income	13	15	15
Museum/Revolution House		8	
OSD Gas Servicing	12		
Outdoor Facilities Income	12		
Pavements / Vicar Lane Income Share		10	
Pest Control Income	8		
Planning Fees	12		
PPP Client Monitoring Procedures			15
Property Repairs (Non Housing)			15
QPSC Income		15	
Rechargeable Works (Housing) / Leaseholder Charges	15		
Recruitment and Selection		10	
Refuse Collection - Domestic			10
Rent a Roof/Solar Panels		5	
Sale of Council Houses		10	
Section 106 Agreements	10		
Stores			10
Theatre Income	12		12
Tourist Information Centre		10	
Value Added Tax (VAT)			8
Winding Wheel Income	12		12
	213	175	184

	2013/14 Revised	2014/15	2015/16
IT Related			
Installation Review / Network Security / Disaster Recovery		10	10
Service Desk		12	
Data Protection / Freedom of Information	12		15
Internet Usage Monitoring	10		
Telephone System Monitoring	10		
	32	22	25
Fraud and Corruption			
Anti Fraud and Corruption Strategy			5
Fraud Modules		5	
Procurement	15	15	15
Register of Gifts and Hospitality			
Sale of Land and Property			
National Fraud Initiative	10		10
	25	20	30
Corporate / Cross Cutting Issues			
Performance Indicators			
Corporate / Annual Governance Statement	30	30	30
Risk Management	5		
Working Neighbourhood Grant			
Birmingham Parish Council	5	5	5
Financial Advice / Working Groups	10	15	35
	50	50	70
Location / Regularity			
Cash Floats	5	5	5
Inventories	5		
	10	5	5
Contingency			
Contingency/Special Investigations/Internal Audit Joint Working Review	50	50	30
	50	50	30
Audit Committee / Client Liaison	15	15	15
Grand Total	632	560	560