

NAME OF COMMITTEE	Audit Committee
DATE	24th February 2015
REPORT TITLE	Three Year Internal Audit Plan 2015/16 to 2017/18 and Annual Internal Audit Plan - 2015/16
Joint Report of	Head of Devon Audit Partnership, and S.151 Officer
WARDS AFFECTED	All

Summary of report:

Internal Audit is ‘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’ – *Public Sector Internal Audit Standards*.

The purpose of this report is to provide Members with the opportunity to review and comment upon proposed internal audit plan for the coming three years (2015/16 to 2017/18) and proposed annual internal audit plan for 2015/16.

It is not possible, or an effective use of time and resources, to audit all areas each year; as a result a three year plan is prepared to show which areas are expected to be audited and those areas which are considered (at this moment at time) of lower risk and which are not scheduled for audit review.

The internal audit plans (both three year and in-year) should not be seen as “tablets of stone”; both plans will be subject to both in-year and annual reviews to ensure that those key areas of risk and change are reflected within the plans.

The plan aims to optimise the use of the limited and finite audit time available and enable the Head of Devon Audit Partnership to provide an opinion on the adequacy, effectiveness and reliability of the Council's system of internal control and governance framework, which will subsequently feed into the Annual Governance Statement.

Financial implications:

The Internal Audit costs for the year are as budgeted.

RECOMMENDATIONS:

It is recommended that the Audit Committee:

1. considers and notes the content of the three year Internal Audit Plan for the period 2015/16 to 2017/18 (see Appendix A) and make any relevant recommendations to Council; and,
2. considers and notes the content of the Annual Internal Audit Plan for 2015/16 at Appendix C and make any relevant recommendations to Council

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1. BACKGROUND

1.1 The Accounts and Audit Regulations (latest 2011) and Section 54 of the Local Government Act 1972 provide the legal basis for the establishment of internal audit in local authorities. Paragraph 5 of the Act states that 'A relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems'.

1.2 The 'CIPFA Application Note for the United Kingdom Public Sector Internal Audit Standards' defines Internal Audit:

Internal audit is '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'.

1.3 The Standards require that the purpose, authority and responsibility of the service is set out in a Charter, an updated version of which is presented at this Committee meeting.

1.4 In addition, the Internal Audit Strategy states, at a high-level, how the Internal Audit service will be delivered and developed in accordance with the Terms of Reference. The Internal Audit Strategy 2015/16 accompanies this plan but under separate cover.

2. THREE YEAR INTERNAL AUDIT PLAN 2015/16 TO 2017/18

2.1 A 3-year plan has been drawn up to cover the period 2015/16 to 2017/18; this is provided at Appendix A

2.2 As stated earlier, it is not possible, or an effective use of time and resources, to audit all areas each year and so the Head of Devon Audit Partnership is expected to prepare a longer term plan to show how higher risk areas will be

subject to audit. To reflect the increased pace of change in local government, a three year plan has been prepared to cover the coming period; a 5-year plan had previously been prepared covering the period 2010/11 to 2014/15.

- 2.3 It is important to note that the internal audit plans (both three year and in-year) are not fixed and should be the subject of regular review to reflect changes in risk and any new challenges and threats faced by the Council.
- 2.4 The three year plan reflects the reduced level of internal audit resource following the T18 review; in simple terms resources have reduced from around 115 days per year (for the period 2010/11 to 2013/14) to around 100 days. The plan is designed to optimise the use of the limited and finite audit time available and enable the Head of Devon Audit Partnership to provide an opinion on the adequacy, effectiveness and reliability of the Council's system of internal control and governance framework, which will subsequently feed into the Annual Governance Statement.
- 2.5 The three year plan has been arrived at after preparing and risk assessing an "audit universe". The purpose of the universe is to identify all service areas, risks, systems, and expected and known changes, and to consider which areas should be subject to internal audit review.
- 2.6 As referred to above, it is most unlikely that any organisation will which to allocate internal audit resources at a level which will enable all auditable areas to be identified each year; as such a longer term plan is prepared to ensure key risks are audited over a three year period..

3. AUDIT RISK ASSESSMENT AND AUDIT PLAN

- 3.1 Appendix A provides the audit universe as identified in January 2015; the universe is subject to regular update and change.
- 3.2 After identifying the relevant systems and processes an assessment of risk is applied, based on a statistical methodology derived from an Institute of Internal Auditors approach. This takes account of:-
 - Expenditure – scale of spending and complexity with regards this spending
 - Income - scale of income and complexity with regards collecting this income
 - Impact on the public, perceived political sensitivity and system changes in the recent past
 - When last audited and the overall assurance opinion from that audit
 - Impact of internal audit – can audit "add value" in this area?
- 3.3 The resulting risk score is shown in the second column of the table shown at Appendix A

- 3.4 However, when preparing the plan, regard must be taken of other factors that affect the overall assurance framework. Some systems or risk areas are expected to be subject to annual internal audit review regardless of the risk score (for example risk management processes, anti fraud and corruption arrangements); other areas, such as those referred to as significant financial systems, are expected to be audited on a regular, usually annual or bi-annual basis but may not be assessed as “high risk”. The plan is also affected by external influences such as the requirements to support the External Auditor or other inspection regimes.
- 3.5 Once areas referred to in 3.4 above have been accommodated and planned for a balance of resource will be available that should be allocated to address the remaining areas of highest risk. Not all high risk areas will be able to be covered in one year, and so the audit plan considers these risks over a three year basis. There are, however, a number of systems that have been scored at a lower risk level and are (currently) not subject to internal audit review in the coming three year period.
- 3.6 Internal Audit resources are then allocated to subject areas. These allocations will take account of the assessed risk, but the days of input are also subject to internal audit experience in “how long an effective audit should take”. Not all procedures or controls may be covered during the audit; the actual audit brief will be agreed, in advance, with the operational manager and will focus on those areas of concern / risk in that subject areas.
- 3.7 The overall percentage of internal audit coverage proposed for each area of the audit plan is represented in Appendix B.

4 Annual Audit Plan 2015/16 (Appendix C)

- 4.1 The 2015/16 annual plan has been developed from the 3-year Audit Plan.
- 4.2 The 2015/16 audit plan also sets out the proposed audit resource allocated to each audit area, although in certain areas this will always be flexible. In normal circumstances the timing and detailed work plans will be drawn up following consultation with the client managers.

5. LEGAL IMPLICATIONS

- 5.1 In accordance with the Constitution, it is the responsibility of the Audit Committee to consider the internal audit plan for the forthcoming year (Appendix C).
- 5.2 There are no direct legal implications of the internal audit plan.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no direct financial implications of the internal audit plan. The internal audit fees for the year are as budgeted.

7. RISK MANAGEMENT

7.1 The risk management implications follow this table:

Corporate priorities engaged:	The report meets all of the corporate priorities
Statutory powers:	Accounts and Audit Regulations 2011 Section 54 of the Local Government Act 1972
Considerations of equality and human rights:	There are no considerations required of equality and human rights for this report
Biodiversity considerations:	There are no biodiversity considerations for this report
Sustainability considerations:	There are no sustainability considerations for this report
Crime and disorder implications:	There are no crime and disorder considerations for this report
Background papers:	Internal Audit Charter and Strategy 2015/16
Appendices attached:	Appendix A – Proposed Three Year Internal Audit Plan 2015/16 to 2017/18 Appendix B – pictorial representation of Internal Audit resources by subject area over the proposed three year period 2015/16 to 2017/18 Appendix C- Proposed detailed internal Audit Plan for 2015/16.

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Opportunity relating to the provision of assurance to Members, managers and other stakeholders.	The audit plan and its coverage contribute to the Council's system of internal control and therefore provides reasonable assurance that service objectives will be met.	2	2	4	↔	<p>Audit plans include all areas of potential coverage and direct audit resources to the areas most beneficial to the Council, ensuring that the scarce audit resources are used in a way that provides the necessary assurance.</p> <p>The audit plan is reassessed through the year to compare emerging risks with the original risk assessment. Any emerging risk that is considered to require audit coverage during the year is included at the expense of the lowest priority areas.</p> <p>The revision is reported to senior managers, including the S.151 Officer, and Audit Committee.</p>	Head of Devon Audit Partnership and S.151 Officer
2	Opportunity relating to Internal Audit as a shared service	A shared internal audit service between South Hams and West Devon provides the opportunity for both Councils to employ a dedicated professional team at a reduced cost to the council tax payer.	2	2	4	↔	<p>Improved efficiency in audit coverage by aligning, where local circumstances permit, audit plans.</p> <p>Auditors are able to make use of research on a given topic for more than one audit, and share good practice observed with managers at both Councils.</p>	Head of Devon Audit Partnership and S.151 Officer

STRATEGIC RISKS TEMPLATE (continued)

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
3	Internal Audit forms part of the Council's system of internal control	The audit plan and its coverage may not contribute to the Council's system of internal control as required by the related guidance.	2	2	4	↔	Identification of the Audit Universe and subsequent assessment of risk. The audit plan is presented for review and comment to senior managers (including the S.151 Officer), Audit Committee and the external auditor. The Audit Committee's role includes monitoring performance against the plan and action on significant issues identified. The audit plan is linked to the Council's priorities.	Head of Devon Audit Partnership and S.151 Officer
4	Audit plans are risk based.	Audit plans do not direct audit resources to the areas most beneficial to the Council and so scarce audit resources are kept away from areas of high risk.	2	2	4	↔	An assessment of risk was applied to an 'Audit Universe', based on a statistical methodology that took account of the: <ul style="list-style-type: none"> • Value of transactions; • Complexity of the system; • Impact on Public & Political sensitivity; • Last audit and audit opinion 	Head of Devon Audit Partnership and S.151 Officer

Direction of travel symbols ↓ ↑ ↔

West Devon Borough Council - Internal Audit Risk Assessment and Planning 2015/16 to 2017/18						
	Risk Factor Total	Priority H > 30 Med 20 - 30 Low < 20		Proposed 3 year internal audit plan		
				2015/16	2016/17	2017/18
SIGNIFICANT FINANCIAL SYSTEMS						
MAIN ACCOUNTING SYSTEM, incl BUDGETARY CONTROL	29	M		•	•	•
CREDITOR PAYMENTS	25	M		•	•	•
VAT	36	H		•		
PAYROLL (Inc. PAYE)	26	M		•	•	•
COUNCIL TAX incl Parish Precepts	34	H		•	•	•
BUSINESS RATES (NNDR)	25	M		•	•	•
BENEFITS (C.TAX + HOUSING)	41	H		•	•	•
DEBTORS	38	H			•	•
TREASURY MANAGEMENT	18	L			•	
SECONDARY SYSTEMS						
CASH & BANKING	28	M		•		
PROCUREMENT AND CONTRACT MANAGEMENT	4	L			•	•
CAPITAL EXPENDITURE	40	H				•

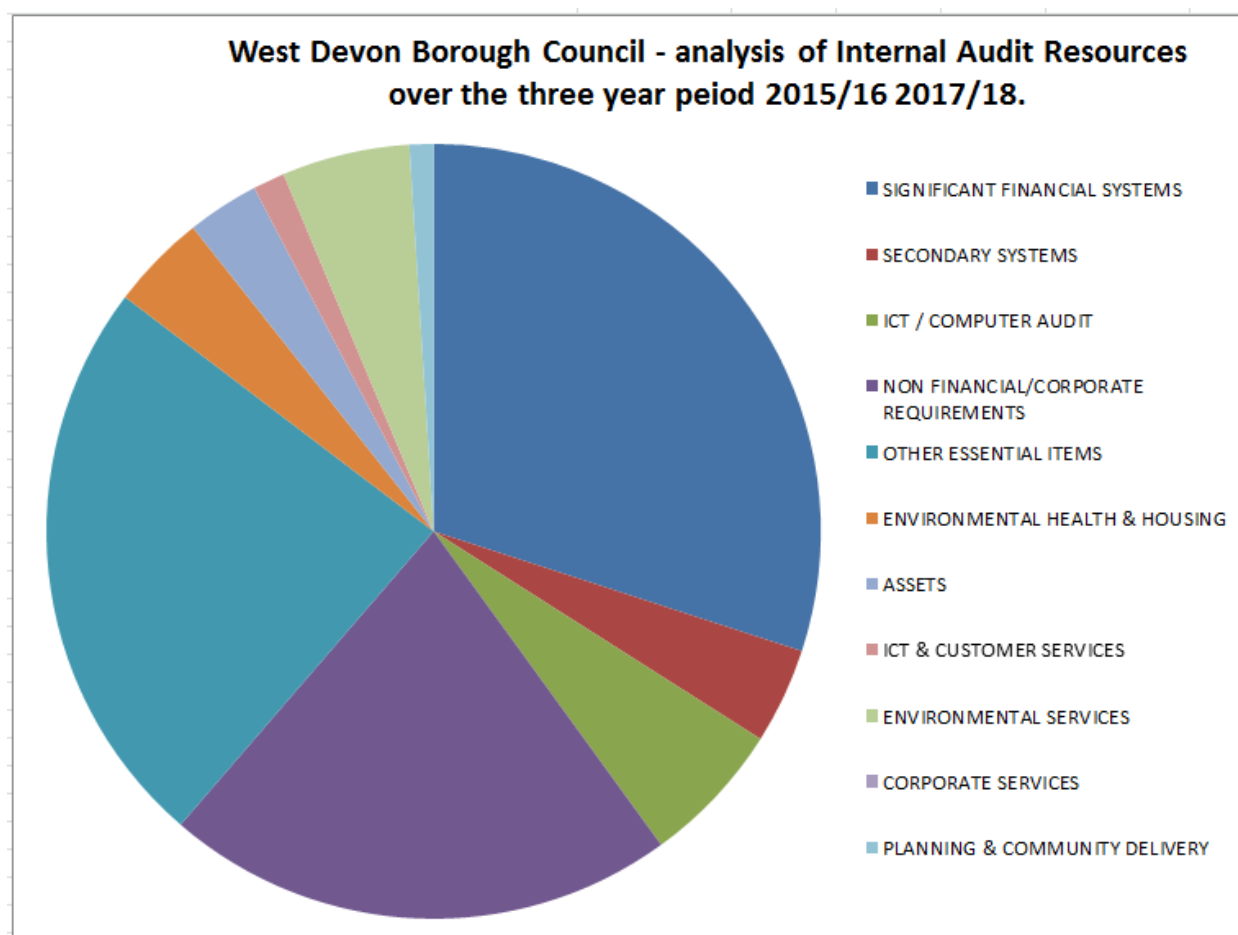
	Risk Factor Total	Priority H > 30 Med 20 - 30 Low < 20	Proposed 3 year internal audit plan		
			2015/16	2016/17	2017/18
ICT / COMPUTER AUDIT					
Detailed plan to be prepared		H	•	•	•
NON FINANCIAL/CORPORATE REQUIREMENTS					
NIs PIs & DATA QUALITY	Annual		•	•	•
HEALTH & SAFETY					
RISK MANAGEMENT - KEY RISKS AS PER RISK REGISTER	Annual		•	•	•
- RISK 1					
- RISK 2					
FREEDOM OF INFORMATION / DATA PROTECTION (incl records man & complaints)					
SHARED SERVICES		M			•
PARTNERSHIP MANAGEMENT		H	•		
HUMAN RESOURCES (Recruitment, retention, reward, use of consultants etc.)		M		•	
SUSTAINABILITY					
T18 TRANSFORMATION PROGRAMME		H	•	•	•
FRAUD AND CORRPUTION	Annual		•	•	•
SAFEGUARDING					•

	Risk Factor Total	Priority H > 30 Med 20 - 30 Low < 20	Proposed 3 year internal audit plan		
			2015/16	2016/17	2017/18
OTHER ESSENTIAL ITEMS					
AUDIT OF GOVERNMENT GRANTS - RURAL COMMUNITY LAGS	Annual				
FOLLOW UP OF PREVIOUS YEAR'S AUDITS	Annual		•	•	•
CORPORATE GOVERNANCE - ANNUAL GOVERNANCE STATEMENT	Annual		•	•	•
AUDIT MANAGEMENT / ATTENDANCE AT COMMITTEE	Annual		•	•	•
CONTINGENCY	Annual		•	•	•
ENVIRONMENTAL HEALTH & HOUSING					
COMMERCIAL ENFORCEMENT	21	M	•		
ENVIRONMENTAL PROTECTION	19	L		•	
GENERAL HEALTH SERVICES - Inc Taxi & Licensing	24	M		•	
LICENSING - TAXI'S ETC - include in General Health above	14	L			
LICENSING - ENTERTAINMENT & LIQUOR	15	L			
PEST CONTROL	12	L			
COMMUNITY SAFETY	10	L			
CIVIL CONTINGENCIES ACT	12	L			
HOUSING ENABLING	19	L			
PRIVATE SECTOR HOUSING	20	M			•

	Risk Factor Total	Priority H > 30 Med 20 - 30 Low < 20	Proposed 3 year internal audit plan		
			2015/16	2016/17	2017/18
ASSETS					
ASSETS - INVENTORIES	12	L			
ASSET MANAGEMENT	12	L			
COUNTRYSIDE RECREATION & MANAGEMENT	16	L			
LEISURES CENTRES	38	H	•		
OUTDOOR SPORTS & RECREATION	13	L			
EMPLOYMENT ESTATES	15	L			
ENGINEERING	12	L			
BUILDING REGULATIONS	23	M	•		
BUILDING CONTROL	20	M		•	
ICT & CUSTOMER SERVICES					
HOMELESSNESS / AID & ADVICE / HOSTELS	38	H		•	
ENVIRONMENTAL SERVICES					
CAR PARKING	48	H	•		•
PUBLIC CONVENIENCES	21	M		•	
DOG FOULING	13	L			
WASTE MANAGEMENT	41	H	•		
INDUSTRIAL UNITS	11	L			
STREET CLEANING	21	M		•	

	Risk Factor Total	Priority H > 30 Med 20 - 30 Low < 20	Proposed 3 year internal audit plan		
			2015/16	2016/17	2017/18
CORPORATE SERVICES					
ELECTORAL REGISTRATION	18	L			
PLANNING & COMMUNITY DELIVERY					
BUSINESS DEVELOPMENT	16	L			
TAMAR VALLEY MINING PROJECT	10	L			
DEVELOPMENT MANAGEMENT	19	L			
FORWARD PLANNING	21	M			•
GRANTS, BEQUESTS & DONATIONS	11	L			
PUBLIC TRANSPORT ASSISTANCE	15	L			
COMMUNITY DELIVERY	12	L			

Summary Analysis of West Devon Borough Council	
Internal Audit plan 2015/16 and beyond	<u>Percentage of Total Time</u>
SIGNIFICANT FINANCIAL SYSTEMS	30%
SECONDARY SYSTEMS	4%
ICT / COMPUTER AUDIT	6%
NON FINANCIAL/CORPORATE REQUIREMENTS	21%
OTHER ESSENTIAL ITEMS	24%
ENVIRONMENTAL HEALTH & HOUSING	4%
ASSETS	3%
ICT & CUSTOMER SERVICES	1%
ENVIRONMENTAL SERVICES	5%
CORPORATE SERVICES	0%
PLANNING & COMMUNITY DELIVERY	1%



		Appendix C
West Devon Borough Council - Internal Audit Risk Assessment and Planning 2015/16		
Description	Risk Factor Total	Proposed Internal Audit Resources (Days) 2015/16
SIGNIFICANT FINANCIAL SYSTEMS		
MAIN ACCOUNTING SYSTEM, incl BUDGETARY CONTROL	29	4
CREDITOR PAYMENTS	25	4
VAT	36	4
PAYROLL (Inc. PAYE)	26	4
COUNCIL TAX incl Parish Precepts	34	4
BUSINESS RATES (NNDR)	25	4
BENEFITS (C.TAX + HOUSING)	41	6
SIGNIFICANT FINANCIAL SYSTEMS - TOTAL		30
SECONDARY SYSTEMS		
CASH & BANKING	28	3
SECONDARY SYSTEMS - TOTAL		3
ICT / COMPUTER AUDIT		
Detailed plan to be worked up		6
ICT / COMPUTER AUDIT - TOTAL		6
NON FINANCIAL/CORPORATE REQUIREMENTS		
NATIONAL INDICATORS / PERFORMANCE INDICATORS & DATA QUALITY	Annual	5
RISK MANAGEMENT - KEY RISKS	Annual	5
PARTNERSHIP MANAGEMENT		3
T18 TRANSFORMATION PROGRAMME		4
FRAUD AND CORRPUTION	Annual	5
NON FINANCIAL/CORPORATE REQUIREMENTS - TOTAL		20
OTHER ESSENTIAL ITEMS		
FOLLOW UP OF PREVIOUS YEAR'S AUDITS	Annual	4
CORPORATE GOVERNANCE - ANNUAL GOVERNANCE STATEMENT	Annual	3
AUDIT MANAGEMENT / ATTENDANCE AT COMMITTEE	Annual	7
CONTINGENCY	Annual	8
OTHER ESSENTIAL ITEMS - TOTAL		24
ENVIRONMENTAL HEALTH & HOUSING		
COMMERCIAL ENFORCEMENT	21	4
ENVIRONMENTAL HEALTH & HOUSING TOTAL		4
ASSETS		

LEISURES CENTRES	38	3
BUILDING REGULATIONS	23	3
ASSETS TOTAL		6
ENVIRONMENTAL SERVICES		
CAR PARKING	48	4
WASTE MANAGEMENT	41	3
ENVIRONMENTAL SERVICES TOTAL		7
TOTAL WEST DEVON AUDIT PLAN 2015/16		
		100