

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	12 March 2015
REPORT TITLE	THREE YEAR INTERNAL AUDIT PLAN 2015/16 TO 2017/18 AND ANNUAL INTERNAL AUDIT PLAN - 2015/16
Report of	Head of Devon Audit Partnership and S151 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:

Members consider and note 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.

Members consider and note the content of the Annual Internal Audit Plan for 2015/16 at Appendix C and make any relevant recommendations to Council

Officer contact:

For further information concerning this report, please contact:

Robert Hutchins, Head of Devon Audit Partnership Robert.hutchins@swdevon.gov.uk

Lisa Buckle, S.151 Officer and Finance Community of Practice Lead

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 February 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	↔	<p>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.</p>	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	↔	<p>An assessment of risk was applied to an 'Audit Universe', based on a statistical methodology that took account of the:</p> <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 ↓ ↑ ↔

	Risk Factor Total	Priority High > 50, Med = 30 -50 Low < 30	Proposed 3 year Internal Audit Plan		
			2015/16	2016/17	2017/18
FUNDAMENTAL SYSTEMS					
MAIN ACCOUNTING SYSTEM, incl Trusts, Mortgages;	51	H	6	8	6
Budgetary control	62	H		6	
Banking arrangements (Cash collection - secondary system - see below)	44	M	5		5
PAYMENTS	32	M	10	10	10
PAYROLL	76	H	10	10	10
COUNCIL TAX COLLECTION incl Parish Precepts	54	H	10	10	10
NNDR	40	M	10	10	6
Housing Benefit Payments	46	M	10	5	1
Housing Benefit Administration	16	L			
TREASURY MANAGEMENT	22	L	5		5
CAPITAL EXPENDITURE	20	L			7
FUNDAMENTAL SYSTEMS			66	59	60
SECONDARY SYSTEMS					
Stores - stock control	15	L			5
Travel & subsistence	16	L		4	
Cash collection arrangements See also Banking arrangements above)	17	L	5		
Shared Services recharging	9	L		5	
VAT	53	H	10		
PETTY CASH incl Postage. Follaton to CSU, others by Service	7	L			2
CAPITAL RECEIPTS	25	L		5	
CORPORATE INVENTORIES	8	L			2
Insurance	12	L			5
Member allowances	11	L		4	

SECONDARY SYSTEMS			15	18	14
COMPUTER AUDIT	Annual		26	26	26
Including Security (inc. Penetration testing), Applications (new, version control) Back up and resilience Database Management Environment Controls Access control Back up and resilience Disaster recovery					
INTERNET MONITORING	Annual		4	4	4
E-MAIL MONITORING	Annual		4	4	4
COMPUTER AUDIT WORK			34	34	34
NON FINANCIAL/CORPORATE ARRANGEMENTS					
Performance Management – Performance Indicators	Annual		10	10	10
Performance Management - Data Quality	Annual		5	5	5
CORPORATE GOVERNANCE incl Gifts & Hospitality Register	Annual		5	5	5
ANNUAL GOVERNANCE STATEMENT	Annual		6	6	6
RISK MANAGEMENT - KEY RISKS ON THE RISK REGISTER - RISKS WITH A SCORE > 16 as at Jan 2015	Annual		15	15	15
- Meeting Community Expectations (Communications, planning applications)					
- Recycling - leaf sweeping - loss of revenue					
- Officer capacity to deliver Programmes and projects (including T18)					
- Senior Management Team Restructure					
- Building Regs - Building Control Partnership					
- South Hams BID					
T18 PROJECT	Annual		10	8	5
PROCUREMENT			10		
PARTNERSHIPS AND PARTNERSHIP MANAGEMENT				10	
FREEDOM OF INFORMATION / DATA PROTECTION incl RECORDS MAN.					10
ADVICE TO INFORMATION COMPLIANCE & OTHER GROUPS	Annual		5		
COMPLAINTS			5		
SHARED SERVICES					5
BUSINESS CONTINUITY / EMERGENCY PLANNING			5		
EXEMPTIONS FROM FINANCIAL REGULATIONS	Annual		5	5	5

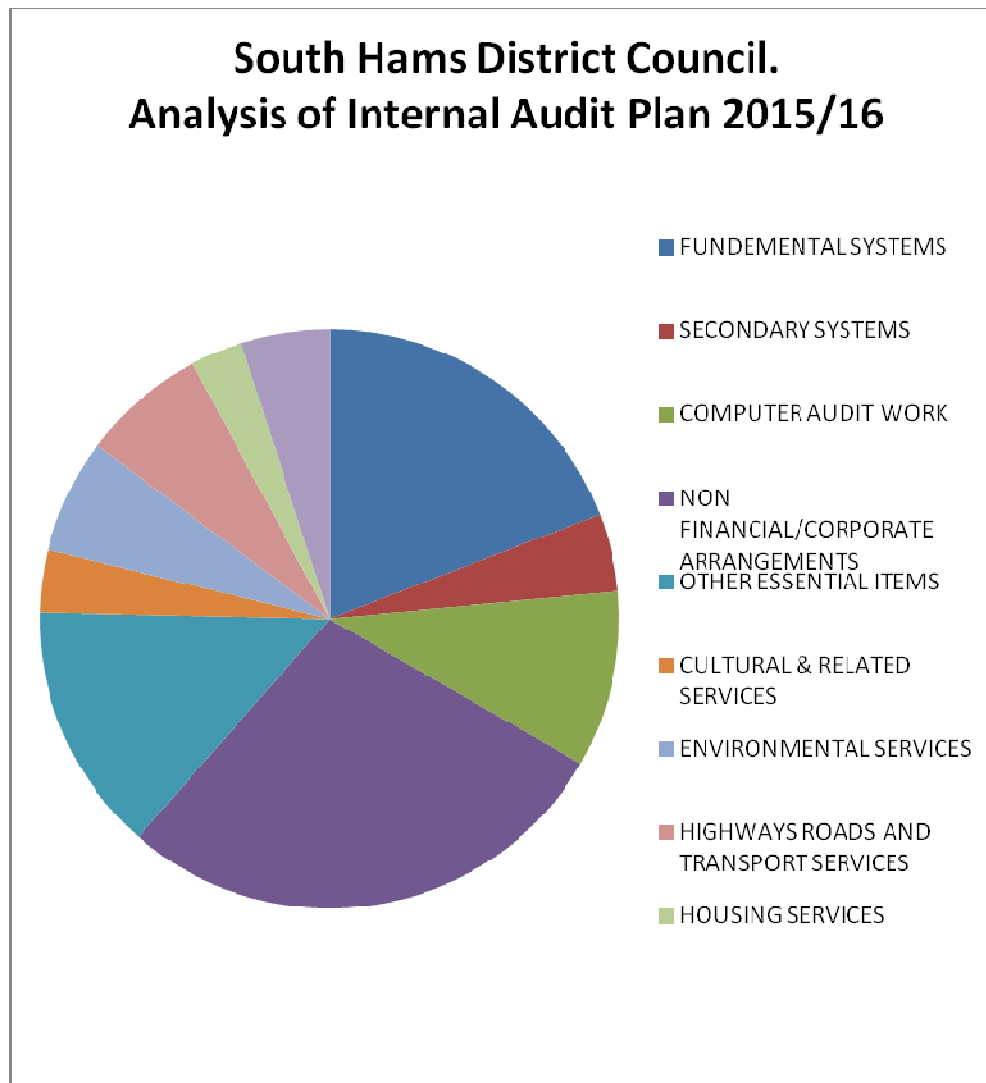
CULTURE AND ETHICS			6		
ELECTIONS				6	
SUSTAINABILITY					6
CONTRACTS AND CONTRACT MANAGEMENT				8	
SAFEGUARDING CHILDREN					8
FRAUD AND CORRUPTION			10	10	10
NON FINANCIAL/CORPORATE ARRANGEMENTS			97	88	90
OTHER ESSENTIAL ITEMS					
FOLLOW UP OF PREVIOUS YEAR'S AUDITS	Annual		10	10	10
AUDIT MANAGEMENT e.g.					
- Audit planning	Annual		3	3	3
- Attendance at Committee	Annual		5	5	5
- Monitoring Report / Annual Report	Annual		10	10	10
CONTINGENCY & ADVICE (min 20 days)	Annual		20	36	32
OTHER ESSENTIAL ITEMS			48	64	60
CULTURAL & RELATED SERVICES					
COUNTRYSIDE RECREATION AND MANAGEMENT	15	L			6
COMMUNITY PARKS AND OPEN SPACES	29	L		6	
CULTURE AND HERITAGE incl Events & Leaflets Sales	15	L		5	
OUTDOOR SPORTS AND RECREATION	26	L			5
LEISURE CENTRE CLIENT	36	M	10		
MARKETING AND TOURISM (Client only)	14	L	2		
CULTURAL & RELATED SERVICES			12	11	11
ENVIRONMENTAL SERVICES					
COMMUNITY SAFETY	11	L			
BEACH & WATER SAFETY	19	L			5
CEMETERIES & BURIALS	8	L			
COAST PROTECTION	18	L			5
HEALTH AND SAFETY AT WORK	19	L		8	

HOUSEHOLD WASTE COLLECTION (New, previously split)	37	M	7		
FOOD SAFETY	17	L			5
LICENSING	24	L			5
POLLUTION REDUCTION	19	L		5	
HOUSING STANDARDS	18	L		5	
FLOOD DEFENCE AND LAND DRAINAGE	12	L			
PUBLIC HEALTH, incl Water Sampling	13	L			
PEST CONTROL	15	L			
PUBLIC CONVENIENCES incl Disabled Toilet Keys	27	L			5
TRADE WASTE	35	M	5		
RECYCLING	43	M	5		
STREET & BEECH CLEANING	27	L		6	
GROUNDS MAINTENANCE	19	L	5		
ENVIRONMENTAL SERVICES			22	24	25
HIGHWAYS ROADS AND TRANSPORT SERVICES					
DARTMOUTH LOWER FERRY	51	H	8	8	8
CAR AND BOAT PARKING/STREET SCENE incl Dog Wardens	66	H	8	8	8
ON STREET PARKING (Now County function)	25	L			
TRANSPORT POLICY AND PUBLIC TRANSPORT	14	L			
SALCOMBE HARBOUR	50	H	8	8	8
HIGHWAYS ROADS AND TRANSPORT SERVICES			24	24	24
HOUSING SERVICES					
PRIVATE SECTOR HOUSING RENEWAL	39	M		10	
HOUSING ADVICE incl Choice Based Letting	25	L	5		
HOUSING STRATEGY & RSLs	16	L			10
HOMELESSNESS	35	M	5		
HOUSING ENABLING	0				
HOUSING SERVICES			10	10	10
PLANNING & DEVELOPMENT SERVICES					

BUILDING REGULATIONS incl. Other Building Control Work	29	L	7		
DEVELOPMENT CONTROL - ENFORCEMENT	20	L	10		
DEVELOPMENT CONTROL - PLANNING APPL/ADVICE, incl Listed Bldgs	41	M		8	
PLANNING POLICY incl S.106 Agreements	24	L		5	
ENVIRONMENTAL INITIATIVES (including AONB)	16	L			
PANNIER MARKETS	22	L			3
EMPLOYMENT ESTATES Inc review of Land & Investment Services	31	M			6
ECONOMIC DEVELOPMENT	15	L			
COMMUNITY DEVELOPMENT incl GRANTS & LOANS FUND	18	L			5
LAND AND INVESTMENT PROPERTIES (see Employment Estates above)	16	L			
PLANNING & DEVELOPMENT SERVICES			17	13	14
SUPPORT SERVICES					
Post Room	6	L			
Print Room	9	L			3
SUPPORT SERVICES			0	0	3
TOTAL AUDIT PLAN			345	345	345
AUDIT OF GOVERNMENT GRANTS - RDPE LEAF (LAGS)			30	30	30

South Hams District Council – Internal Audit Plan 2015/16

	2015/16
FUNDEMENTAL SYSTEMS	66
SECONDARY SYSTEMS	15
COMPUTER AUDIT WORK	34
NON FINANCIAL/CORPORATE ARRANGEMENTS	97
OTHER ESSENTIAL ITEMS	48
CULTURAL & RELATED SERVICES	12
ENVIRONMENTAL SERVICES	22
HIGHWAYS ROADS AND TRANSPORT SERVICES	24
HOUSING SERVICES	10
PLANNING & DEVELOPMENT SERVICES	17
SUPPORT SERVICES	0
TOTAL AUDIT PLAN	345



Appendix C

South Hams District Council - Internal Audit Plan 2015/16		<u>Allocated Days in 2015/16</u>
FUNDAMENTAL SYSTEMS		
MAIN ACCOUNTING SYSTEM, incl Trusts, Mortgages;		6
Banking arrangements (Cash collection - secondary system - see below)		5
PAYMENTS		10
PAYROLL		10
COUNCIL TAX COLLECTION incl Parish Precepts		10
NNDR		10
Housing Benefit Payments		10
TREASURY MANAGEMENT		5
	FUNDEMENTAL SYSTEMS	66
SECONDARY SYSTEMS		
Cash collection arrangements See also Banking arrangements above)		5
VAT		10
	SECONDARY SYSTEMS	15
COMPUTER AUDIT		26
INTERNET MONITORING		4
E-MAIL MONITORING		4
	COMPUTER AUDIT WORK	34
NON FINANCIAL/CORPORATE ARRANGEMENTS		
Performance Management, PIs		10
Performance Management, DATA QUALITY		5
CORPORATE GOVERNANCE incl Gifts & Hospitality Register		5
ANNUAL GOVERNANCE STATEMENT		6
RISK MANAGEMENT - KEY RISKS ON THE RISK REGISTER - RISKS WITH A SCORE > 16 as at Jan 2015		15
T18 PROJECT		10
PROCUREMENT		10
ADVICE TO INFORMATION COMPLIANCE & OTHER GROUPS		5
COMPLAINTS		5
BUSINESS CONTINUITY / EMERGENCY PLANNING		5
EXEMPTIONS FROM FINANCIAL REGULATIONS		5
CULTURE AND ETHICS		6
FRAUD AND CORRUPTION		10
	NON FINANCIAL/CORPORATE ARRANGEMENTS	97
OTHER ESSENTIAL ITEMS		
FOLLOW UP OF PREVIOUS YEAR'S AUDITS		10
AUDIT MANAGEMENT e.g.		

- Audit planning	3
- Attendance at Committee	5
- Monitoring Report / Annual Report	10
CONTINGENCY & ADVICE (20 days)	20
OTHER ESSENTIAL ITEMS	48
CULTURAL & RELATED SERVICES	
LEISURE CENTRE CLIENT	10
MARKETING AND TOURISM (Client only)	2
CULTURAL & RELATED SERVICES	12
ENVIRONMENTAL SERVICES	
HOUSEHOLD WASTE COLLECTION (New, previously split)	7
TRADE WASTE	5
RECYCLING	5
GROUNDS MAINTENANCE	5
ENVIRONMENTAL SERVICES	22
HIGHWAYS ROADS AND TRANSPORT SERVICES	
DARTMOUTH LOWER FERRY	8
CAR AND BOAT PARKING/STREET SCENE incl Dog Wardens	8
SALCOMBE HARBOUR	8
HIGHWAYS ROADS AND TRANSPORT SERVICES	24
HOUSING SERVICES	
HOUSING ADVICE incl Choice Based Letting	5
HOMELESSNESS	5
HOUSING SERVICES	10
PLANNING & DEVELOPMENT SERVICES	
BUILDING REGULATIONS incl. Other Building Control Work	7
DEVELOPMENT CONTROL - ENFORCEMENT	10
PLANNING & DEVELOPMENT SERVICES	17
TOTAL AUDIT PLAN	345
AUDIT OF GOVERNMENT GRANTS - RDPE LEAF (LAGS)	30