LICENSING & GENERAL PUPOSES COMMITTEE   **AUDIT MANAGER**
27TH MARCH 2017   **REPORT NO. AUD1702**

INTERNAL AUDIT – AUDIT PLAN

Overview:
This report is to set out the annual plan for 2017/18 and detail the work carried out in order to develop the plan in a different way to previous years.

Action required:
Members are required to:

·   Agree to the new methodology for selecting audit areas and the rolling programme to commence in 2017/18.

·   Agree to the new monitoring arrangements for the audit plan.

1   Introduction

1.1   The audit plan is produced annually in order to set out the work that will be covered within the financial year by the internal audit team. The plan needs to ensure that overall assurance of the internal control environment for the Council is covered.

1.2   The plan has been developed in the same way for the last 7 years and is no longer fit for purpose. Therefore, with the Systems Thinking team, we have looked to develop a more efficient process, which is more appropriate for meeting the needs of the current environment and utilise resources more effectively.

2   Purpose of Internal Audit

2.1   Internal Auditing, as defined by the Public Sector Internal Audit Standards 2013:

> *'An independent, objective assurance and consultancy activity designed to add value and improve an organisations 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.'*

2.2   Internal Audit help the Directors Management Board demonstrate that they are managing the organisation effectively on behalf of the stakeholders.

Furthermore, ensuring that the Council conforms to the Accounts and Audit (England) Regulations 2015:

> **'5.**—*(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'*

2.3 Internal audit carry out their activities in order to conform to the Standards and Regulation detailed above. Furthermore, work is carried out with the consideration of the external auditors to ensure that they can appropriately comment on the Council's overall control environment.

2.4 As above the purpose of internal audit is to satisfy the organisation that risks are being adequately controlled and managers are being provided with the necessary information and support to enable them to control these risks.

3 Current method for developing and communicating the audit plan

Risk Universe and Criteria

3.1 The 'risk universe' comprises of all potential areas that could be audited within the Council. The potential auditable areas were last updated in 2014.

3.2 The risk universe serves as a basis for developing the risk based audit plan. Each auditable area is rated against risk criteria, to give an overall risk score.

3.3 The risk criteria were developed in March 2006 and have not been updated since. They cover the following areas:

- Financial Materiality
- Business Risk
- Previous audit experience
- Fraud and corruption

Developing the Audit Plan

3.4 The annual plan is set in March, for the year, detailing when the audits will commence. However, this is prone to changes throughout the year due to a number of factors, including:
- Unplanned work/ investigations
- Ad hoc audits taking longer than estimated (This is more prone in new areas not audited before).
- Concerns being raised by Members or officers

3.5 Much of the focus when setting the audit plan is on resources available rather than for the needs of the organisation or the purpose of the Internal Audit activity.

Communication and monitoring of the plan

3.6 Changes made to the plan throughout the year are not specifically reported to DMB. There is no annual reflection of the work carried out in the year against the work originally planned and why changes were necessary.

4 Why do it differently

4.1 Due to changes within Internal Audit a review of work was required to ensure that resources were being used in the most efficient and effective way. As a result, it seems an opportune time to review the way in which we develop the audit plan and go back to the purpose of Internal Audit

4.2 Since the change of the External auditors to Ernst & Young they have changed the way in which external audits are carried out from previous methods used by the Audit Commission. As a result they now place little reliance on the work of Internal Audit,

> *'As we are taking a fully substantive approach to the audit we will not be relying directly on the work of Internal Audit'* ***(Ernst & Young Audit Plan January 2017).***

4.3 The risk criteria used to form the basis of the risk based audit plan are also no longer fit for purpose as they do not consider all relevant areas that will affect what is considered for inclusion in the audit plan.

4.4 Furthermore, working differently will enable us to further comply with the updated standards (Public Sector Internal Audit Standards).

5 The new way for developing and communicating the audit plan

Risk Universe and Criteria

5.1 The risk universe has been updated to show auditable areas as at January 2017. This will be reviewed as appropriate.

5.2 The risk criteria have been reviewed to ensure that they capture all relevant areas to be considered in determining the level of risk exposure within an auditable area.

5.3 The risk criteria now include the following areas:

- **Corporate priority**
  This looks at the Council's corporate plan and assesses to what level the auditable area contributes to the corporate plan. This is included so that areas of high corporate priority are considered more highly than areas of low corporate importance, which are not deemed to risk the Council achieving its overall objectives.

- **Impact on reputation**
  This looks at the potential impact on the Council's reputation if a risk within the auditable area was to transpire. This is included so that areas of high reputational impact are considered more highly for a review to ensure that the reputation of the Council is maintained.

- **Assurance from others**
  This considers whether another body either externally (e.g. external audit) or internally (e.g. systems thinking) have reviewed the area. This is included so that if assurance can be provided by others then Internal Audit would not need to also review the same area.

- **Concerns raised**
  This looks at any concerns raised by Managers or employees, any previous frauds identified and any previous poor controls identified by Internal Audit. This is included as if concerns are raised then this could highlight control weaknesses impacting on the Council in various ways.

- **Laws or Regulations**
  This looks at if the auditable area is enshrined by Laws or regulations or not. A requirement for high levels of compliance with Laws and Regulations will result in a higher risk to the Council if these are not adhered to.

- **Financial transactions total**
  This looks at the financial value of transactions in the auditable area, as the higher the value of the transactions the more risk of financial loss to the Council. This also looks at the number of transactions, as a small financial value but high frequency of transactions opens the auditable area up to a bigger risk of fraud and error.

- **Vulnerability**
  This looks at whether the area is completely new to the Council or not or if it's a constantly evolving area e.g. IT. New and evolving areas will present a higher vulnerability than an area that has not changed.

5.4   The first 6 months of work will be established based on the auditable areas, which present the highest risk to the Council. This will be agreed with the Board and Licencing & General Purpose Committee. The work for the following quarters will be established at subsequent Board and Committee meetings, as laid out in 5.7 table 1 below. This will allow Internal Audit to react more effectively to the needs of the Council when required throughout the year.

5.5   Based on the previous auditing history and low level of concern, we have considered the frequency of auditing the key financial systems. It is proposed that we carry this out on a three-year cycle rather than a two-year cycle, unless a concern is raised.

5.6   The cycle options for key financial systems have been discussed with External Audit who expressed no concerns as long as, if any concerns were raised then these could be reviewed sooner.

Communication and monitoring of the plan

5.7   *Table 1*

DATE	MEETING	DETAILS
14th March 2017	DMB	• Set the work for quarter 1 & quarter 2 (subject to change if required for the needs of the organisation.)
27th March 2017	L&GP Committee	
9th May 2017	DMB	• Present the audit opinion for 2016/17. • Give an overview of the work completed in 2016/17. • Present the self-assessment of Internal Audit's conformance with the Public Sector Internal Auditing Standards and the quality improvement program for the year.
25th May 2017	L&GP Committee	
13th June 2017	DMB	• Report on the work carried out to date for quarter 1. • Report any changes required for the rest of quarter 1 or quarter 2 and the reason for these changes. • Set the work for quarter 3.
26th June 2017	L&GP Committee	
12th September 2017	DMB	• Report on the work carried out to date for outstanding work in quarter 1, and quarter 2. • Report any changes required for the rest of quarter 2 or for quarter 3 and the reason for these changes. • Set the work for quarter 4.
25th September 2017	L&GP Committee	

16th January 2018	DMB	• Report on the work carried out to date for quarter 3, and outstanding work for quarter 4. • Report any changes required for the rest of quarter 4 or for quarter 3 and the reason for these changes.
29th January 2018	L&GP Committee	

5.8   A rolling program means that the plan can be set for each quarter allowing for greater flexibility of the plan to meet the changing environments faced by the Council.

6   2017/18 audit plan

6.1   Changes are currently being made to the Internal Audit team, which may affect resources available. However, these changes have not yet been finalised.

6.2   The first 6 months work, as set out in Appendix A, has been selected from the high risk areas detailed in Appendix B. The list of audits is subject to change, as discussed within the report, due to the changing needs of the organisation or resource availability. An update will be provided at the June meeting.

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References:

- *Public Sector Internal Audit Standards (2013)*
  http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards

- *Ernst & Young, External Auditors, Audit plan – presented to L&GP Committee 30th January 2017*
  http://www.rushmoor.gov.uk/CHttpHandler.ashx?id=17307&p=0

Table of Audits expected deliverables for Q1 & Q2

IT & Facilities	External tenants follow up
Finance	Capital Projects follow up
Community	Aldershot/Farnborough Markets follow up
Legal	Purchase and Sale of property and land
Finance	Capital programme and accounting – Activation Aldershot
Legal	Contract letting and tendering
Legal	Transparency code
IT & Facilities	Cyber security

RISK UNIVERSE SCORING - JANUARY 2017

	Department	AUDIT AREA	Total risk score	Financial year last audited	Notes
1	Legal	Purchase and Sale of property and land	31	Not audited	Include in 2017/18 plan.
2	Finance	Capital programme and accounting	29	2016/17	Depot was highlighted as a potential capital project to look at - Include in 2017/18 plan. NB: Capital programme is reviewed annually due to high financial spend. Different projects are selected annually.
3	Legal	Contract letting and tendering (Procurement)	28	2012/13	Include in 2017/18 plan.
4	Legal	Transparency code	26	2014/15	Include in 2017/18 plan.
5	IT & Facilities	Cyber security	26	Not audited	Include in 2017/18 plan.
6	DMB	HMRC requirements	25	2015/16	Include in 2017/18 plan. More of a small review following on from the follow up carried out in 16/17.
7	DMB	Taxation and returns	24	2015/16	Carry out in conjunction with item 6 above - Include in 2017/18 plan.

8	Key Financial System - Finance	Benefits overpayments	24	2016/17	This was reviewed in 2017/18 as part of the Benefits audit. The area is currently undergoing improvement so will be revisited as part of the key financial system schedule in 2018/19.
9	Key Financial System - Finance	NNDR billing and collection	24	2015/16	Include in 2017/18 plan as per schedule for key financial systems.
10	Planning	Planning enforcement	24	2015/16	This was recently audited and further work in this area is being taken forward by the Corporate Investigations Officers.
11	Key Financial System - Finance	Sundry debtor recovery	24	2015/16	Include in 2018/19 plan as per schedule for key financial systems.
12	Planning	Planning applications	23	2005/06	Include in 2017/18 plan.
13	Key Financial System - Finance	Council tax billing and collection	23	2016/17	Include in 2019/20 plan as per schedule for key financial systems.
14	Community	Weekly refuse and recycling collection contract	23	Not audited	Include in 2017/18 plan.
15	Key Financial System - Finance	Council tax recovery	23	2016/17	Include in 2018/19 plan as per schedule for key financial systems.
16	Key Financial System - Finance	NNDR recovery	23	2016/17	Include in 2018/19 plan as per schedule for key financial systems.

17	Community	Aldershot and Farnborough Markets	23	2015/16	A follow up and work in this area is still ongoing from 2016/17 audit review, so this will be included within the 2017/18 plan as a follow up.
18	Community	Car boot sales	23	2015/16	A follow up will be carried out in 2017/18 plan in conjunction with item 17 above.
19	Finance	Financial Borrowing	23	Not audited	Include in 2017/18 plan.
20	Community	Digital advertising boards	22	Not audited	Depends on resources available
21	Democratic & CSU	Constitution	22	Not audited	Depends on resources available
22	Key Financial System - DMB	Payroll/ Pay	22	2015/16	Include in 2017/18 plan as per schedule for key financial systems.
23	Planning	SANGS	22	Not audited	Include in 2017/18 plan.
24	Planning	S106 agreements	21	2010/11	Depends on resources available
25	DMB	External funding applications	21	Not audited	Depends on resources available
26	Community	Grants to organisations	21	2015/16	This area was audited in 2015/16 and a follow up carried out in 2016/17.
27	Environmental Health & Housing	CCTV	21	2013/14	Depends on resources available

28	IT & Facilities	PCI compliance	21	2008/09	Depends on resources available
29	Key Financial System - Finance	Treasury Management	21	2016/17	Include in 2019/20 plan as per schedule for key financial systems.
30	Key Financial System - Finance	Council tax reliefs, reductions and exemptions	21	2016/17	Include in 2019/20 plan as per schedule for key financial systems.
31	Key Financial System - Finance	NNDR hardship, reliefs and exemptions	21	2015/16	Include in 2017/18 plan as per schedule for key financial systems.
32	Environmental Health & Housing	Disabled facility grants	21	2011/12	Depends on resources available
33	IT & Facilities	External tenants	21	2016/17	This area was audited in 2016/17. A follow up will be scheduled in 2017/18 plan.
34	Democratic & CSU	Corporate policy/ strategic objectives/ corporate planning	21	Not audited	Depends on resources available
35	Democratic & CSU	Strategic partnerships	21	Not audited	Depends on resources available
36	Community	Car park machine income off street parking	21	2016/17	This area was audited in 2016/17 and a follow up will be scheduled in 2017/18 plan.