

**BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL**

<b>From: Corporate Manager – Internal Audit</b>	<b>Report Number: JAC76</b>
<b>To: Joint Audit and Standards Committee</b>	<b>Date of meeting: 18 April 2016</b>

**INTERNAL AUDIT PLAN 2016/17**

**1. Purpose of Report**

1.1 This report details the proposed Internal Audit Plan for the next financial year.

**2. Recommendation**

2.1 Councillors are requested to review and note the Internal Audit Plan 2016/17, as detailed in Appendix A.

**3. Financial Implications**

3.1 There are no financial implications, as the Internal Audit Plan will be funded from within approved budgets.

**4. Legal Implications**

4.1 There are no immediate legal implications arising from these proposals.

**5. Risk Management**

5.1 Each Council is required by statute to maintain an adequate and effective Internal Audit function, which forms an integral part of each Council’s corporate governance and internal control arrangements. It is therefore essential that the Internal Audit Plan directs resources to areas of highest risk and has the approval and support of senior management and Councillors.

5.2 The preparation and development of the Internal Audit Plan is described in more detail from paragraph 10 onwards.

5.3 The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal control weaknesses and potential for fraud exists.	Unlikely	Bad	Work programme that focuses on key areas, including fundamental systems.
Inefficient processes or systems in place	Unlikely/Probable	Noticeable/Bad	Audit work considers efficiency issues and appropriate recommendations are made.

## **6. Consultations**

- 6.1 The Internal Audit Plan was discussed with the Senior Leadership Team (SLT) including the s151 Officer as part of the audit planning process.

## **7. Equality Analysis**

- 7.1 There are no equality and diversity implications arising from this report.

## **8. Shared Service / Partnership Implications**

- 8.1 The overall approach has been to develop a single shared model for internal audit delivery and management for both Councils.

## **9. Links to Joint Strategic Plan**

- 9.1 The delivery of a comprehensive internal audit service supports the Council objectives, in particular:

An enabled and efficient organisation – The right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it.

However, the plan has been designed to support all five of the Council's strategic themes. The proposed allocation of audit days is shown both in the attached detailed report and the associated pictorial representation in the Appendix.

## **10. Key Information**

### **Approach to Audit Planning**

- 10.1 The provision of a risk based Internal Audit Plan consistent with each Council's priorities is an essential part of ensuring probity and soundness of each Council's internal controls, risk exposure and governance framework.
- 10.2 The plan has been constructed to ensure that it delivers against the Public Sector Internal Audit Standards (PSIAS) and the requirement to produce an annual Head of Internal Audit opinion. In doing this it can be confirmed that the plan covers the following activities:
- Governance processes
  - Ethics
  - Information technology governance
  - Risk Management
  - Fraud management
- 10.3 The planning process also recognises that the Councils' are continuing to strive to improve services and use innovative approaches in addressing service delivery against a background of reducing resources.
- 10.4 Internal Audit resources have therefore been targeted across the Councils' services using a risk based approach to support project teams through this change to help maximise the effectiveness of internal control.

## Plan structure and key items to note

- 10.5 The resources available to the Corporate Manager – Internal Audit are 600 days, of which 457 are allocated to audit (640 - 2015/16 (465 audit)). This reflects adjustments to staff levels, but the Corporate Manager – Internal Audit has discussed this with the Section 151 Officer, and is of the opinion that this level of resourcing will not impact on the delivery of an appropriate Audit Plan.
- 10.6 The construction of the Audit Plan this year has been developed to further support the Annual Governance Statement. Factors used in the risk assessment of services and processes to inform the proposed focus of audit for 2016/17 have been based largely, but not exclusively, on the following:
- Consideration of key controls and associated risks;
  - Review of each Council's strategic priorities and those objectives/outcomes contained in the Joint Strategic Plan that sit beneath them;
  - Cumulative audit knowledge and experience;
  - Engagement with senior management to identify management's view of the coming year's risks linked to the Joint Strategic Plan and Delivery Programme about which assurance is required e.g.
    - Significant projects or programmes planned or underway;
    - Areas subject to changing systems or processes;
    - Areas where internal controls may be affected by reductions in resources;
    - Areas subject to high levels of inherent risk; and
    - Significant contracts.
  - Financial materiality – e.g. levels of income and expenditure, value of assets, volume of transactions;
  - Control environment – self assessment by Corporate Managers of their control assurance in respect of the three lines of defence: Sound Management of Front line operations; Oversight of management activity within a professional framework; and External review by Independent assurance providers;
  - Previous assessments of the soundness of internal controls, taking into account previous findings of Internal Audit and External Audit;
  - Management concerns over the stability, complexity and vulnerability – taking into account such factors as the stability of management and staffing arrangements, complexity/changes in regulations and legislation, major system changes, new IT systems etc.; and
  - Date of last audit – i.e. the longer the time since the last audit potentially the greater the risk.

10.7 The coverage within individual audits continues, where appropriate, to include looking at transformation opportunities for improving efficiency and adding value.

The audit work proposed in the plan is as follows:

- Fundamental Audits (Managing Finance) – Days continue to be included in the plan to cover fundamental systems audit work on which reliance may be placed by the external auditors as they assess the Councils' final accounts. As the control environment continues to improve there has been some reduction in audit time allocated to audit in this area;
- Risk Audits – identified in the audit planning and assurance process, conducted to support management reliance over the key controls in effect to manage major aspects of the Councils operation. As the business continues to transform more audit resource has been allocated to this area in this year's plan;
- Governance arrangements – Audits which contribute to the development of both Council's Corporate Governance Framework and feed into the Annual Governance Statement;
- Risk Management – Audit work in this area will help to ensure that the Councils identify and effectively manage significant business and operational risks in line with the Risk Management Strategy;
- Delivery Programme – Resources have been allocated to support a number of high priority projects to provide the necessary assurances around governance, risk profile and internal control arrangements. Projects will continue to be evaluated in terms of risk and scoped accordingly as management request support from Internal Audit;
- Counter fraud work - There will be ongoing proactive testing of systems and processes to identify potential fraud and misappropriation, as well as non-compliance with policies and procedures. The audit team will reactively investigate potential wrongdoing, responding to fraud and corruption relating to non-benefit fraud cases. This includes co-ordinating data matching for the National Fraud Initiative (NFI); raising fraud awareness and providing training in areas such as money laundering; providing advice to services on introduction of new systems or procedures. Full details of counter fraud work undertaken is contained within the annual report entitled 'Managing the Risk of Fraud and Corruption 2015/16'; and

- Advice and guidance – the team to proactively provide ongoing advice across both Councils. Whether through attendance at working groups, projects or responding to enquiries this remains an area where early advice and support can help maintain a robust control environment and feed in good practice. It is likely to be an area of increased demand during 2016/17 as managers at all levels, especially those implementing new systems and structures, will require support.

## Conclusion

10.8 The Internal Audit Plan will be kept under review to ensure it reflects the shape of the Councils going forward. Should significant amendments be necessary these will be discussed with senior management, including the Section 151 Officer and, where necessary, reported to lead Members and/or appropriate Committee.

## 11. Appendices

Title	Location
(a) Detailed Proposed 2016/17 Internal Audit Plan	Attached

## 12. Background Documents

12.1 None

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Prioritised Internal Audit Plan for 2016/17									
All audits to include control environment, good practice and transformational aspects									
Audit	Days	Key areas	Classification			Intended benefits to the Council			
			Priority	Strategic Theme					
Work in progress from previous year	8	Finalisation of any outstanding work. Liaison with External Auditors over review of internal audit work.	E		O	That External Audit are aware of the coverage and that reliance can be placed on Internal audit work, complimenting the review and potential cost savings in duplication.			
<b>FUNDAMENTAL AUDITS (annually to support s151 &amp; external audit)</b>									
Housing Benefits	6	Shared Revenue Partnership feeder systems and reconciliations.	E		C H	Covering statutory work in conjunction with External Audit. The beneficial outcomes can include an improved control environment, enhanced MI and streamlined processes thereby improving organisational efficiency.  In addition these reviews provide governance assurance to the S151 Officer and Senior Management.  Fraud may be identified as a consequence of this work.			
Local Taxation (covering Council Tax & NDR)	6	Shared Revenue Partnership feeder systems and reconciliations.	E	A	C				
Housing Rents (increase in days this year only)	22	Income collection, rent setting. - effectiveness of new IT systems & processes, impact of Universal Credits	E	A	C H				
Receivables / Debtors	12	Income management, equalities (vulnerable groups).	E	A	O				
Payroll/HR	10	Starters; Leavers; and variation to pay.	E	A	O				
Income Collection / Cash & Bank	12	Payment methods, channel shift, unsolicited transactions, Payment Card Industry Data Security Standards.	E	A	O				
Payables / Creditors	12	Transparency, cash flow, fraud (links to procurement).	E	A	O				
Treasury Management	11	Management and links to funding of business strategy.	E	A	O				
General Ledger	12	Integrity of financial information, management of the system.	E	A	O				
IT	10	TBA.	E		O				
Capital Accounting	15	Capital program and asset management, including migration of BDC records from Asset 4000.	E	A	B				
<b>Total Fundamental Systems</b>	<b>136</b>								
<b>RISK AUDITS (scope to reprioritise to reflect changing requirements)</b>									
Budgetary Control (pt2)	25	Integra Budget module and roll out to business. Effectiveness of budgetary controls covering policies and procedures; budget setting; delegated responsibility, budget monitoring; virements and management information.	D	A	C	O	To develop and improve the process to enable: better spend profiles; appropriate levels of budget; active and appropriate challenge to where and how money is allocated and spent; flexible virement; to ensure that the business has the finance available to support growth and productivity, and information to enable improved asset and investment decisions.		
Budgetary Control (pt1)	6	Customer survey and efficiency review, collation and feedback (started end 2015/16 for CM Finance).	D	A	C	O	Analysis of management requirements from the budgetary control system to support the future proofing of the process, again to ensure that the business has the finance available to support growth and productivity, and information to enable improved asset and investment decisions.		
Community Infrastructure Levy (CIL)	10	Review of the process 3 months on. Re: assurance, financial collection, compliance, values, placements & allocations to Parish Councils etc.	D	B	H	O	Provide assurance that the process optimises the opportunities open to the Councils and expedites the movement of funds to support growth, increased productivity and use of new and existing assets.		
Neighbourhood Development Plans (NDP / NHP)	10	Localism- creation of mini plans - Review the process re decisions, overviews, external examinations, Council exposure - key risks Governance, Legal and Financial.	D	B	H	O	Support the development of suitable housing in the area, the development of businesses and the operational development of the Council through challenge of the identification and management of risks and procedures associated with the changes.		
Building Control	15	Procedure for capture, matching and allocation of fees, processing applications, delivery of decisions and dispute resolution.	D	B	H	O	Safeguarding the assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community.		
Licensing & food hygiene	10	Fee collection, accounting and allocation to service. Credit control and debtor management.	D	B		O			
Grants	15	Identification, management and allocation of grant income sources. Controls over application, assessment and release of Grants, follow-ups on meeting requirements.	D	B	C	O			
Payment card procedural changes Allpay project	5	Effective receipting, banking and financial recording of cash payments - link to Income Audit.	D			O	Verify processes, risk management and controls to ensure security of assets and development of IT systems in the organisation.		
Procurement	20	Compliance testing against new (Nov 15) procurement framework/guidance.	D	A		O	Gain assurance of the veracity of the procurement processes and procedures implemented across the business to ensure that the right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it.		
<b>Delivery Programme - Project Support:</b>									
Make use of leading edge business systems	15	Information Governance - Sensitive and personal information relating the Councils' businesses is handled in a confidential and secure manner.	D	A		O	Gain assurance of the veracity of the processes and procedures implemented across the business to ensure that the right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it.		
	5	MSDC Open Housing moving to converge with BDC Open Housing. Provide assurance on the project management and governance and material changes to the key control environment.	D	A		O			
	6	Implementation of new Finance release of Integra and upgrade of Cash Management Module.	E			O			
Community Infrastructure Levy (CIL)	5	Administration of CIL funds to enable sustainable growth, including Expenditure and Governance models.	E	A	B	H	O	Safeguarding the assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.	
HRA homes and appropriate use of existing HRA stock to meet housing need	25	Support the creation of the governance framework, proposals and contractual agreements.	E	A	B	H	O	Ensure that the changes safeguard assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.	
Redesign an integrated Planning Service	25	Provide control assurances around: data load validation; changes to processes; and risks associated with 2 systems merging.	D		B	C	H	O	Safeguarding the assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.
Impact on various projects - Investment and Development Strategy	15	To support the development of the Investment Development Strategy by providing assurance, governance and risk profile advice/guidance .	E	A	B	C	H	O	Ensure that the changes safeguard assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.
<b>Total Risk Audits</b>	<b>212</b>								
<b>Other audit work in plan</b>									
Follow Ups	13	Implementation of audit recommendations deemed as high risk.	D			O	This work supports the governance and effective operation of the organisation and can aid with the security of assets.  It will further provide information and feedback to Members and Officers, as well as ensuring the Councils meet the reporting requirements of statutory and Local Government bodies.		
Anti-Fraud & Corruption work including the National Fraud Initiative (NFI)	60	Proactive: Money Laundering, Policy reviews, Advice and guidance - awareness, Staff training. Reactive: Investigations. Data matching (statutory requirement).	E	A		O			
Management	36	Service delivery (Ctee reports / Planning)	E			O			
<b>Total Audit Days</b>	<b>457</b>								
Annual Governance Statement	25	Collation, interpretation, challenge and presentation of management opinion of control assurance and governance across the Councils.	E			O	This work supports the governance and effective operation of the organisation and can aid with the security of assets.  It will further provide information and feedback to Members and Officers, as well as ensuring the Councils meet the reporting requirements of statutory and Local Government bodies.		
5 Yr Quality review -(new one off)	14	Self assessment review of audit delivery.	E			O			
Risk Management	60	Committee reports – Joint Audit and Standards Ctee annually. Regular review of Significant Risk Register. Provide training, advice and guidance to officers. Annual review joint Risk Management Strategy.	D			O			
Business Continuity	44	Produce and maintain a joint BCP, Annually refresh critical missions, facilitate completion of action cards, training and awareness.	E			O			
<b>Total Governance Days</b>	<b>143</b>								

**600 Days resource applied in delivery of the plan**

KEY:	
E	Essential / High Priority
D	Desirable / High Risk
The Five key strategic themes:	
H	<b>Housing</b> delivery – More of the right type of homes, of the right tenure in the right place
B	<b>Business</b> growth and increased productivity – Encourage development of employment sites and other business growth, of the right type in the right places and encourage investment in skills and innovation in order to increase productivity
C	<b>Community</b> capacity building and engagement – All communities are thriving, growing, healthy, active and self-sufficient
A	<b>Assets</b> and investment – Improved achievement of strategic priorities and greater income generation through use of new and existing assets ('Profit for Purpose')
O	An enabled and efficient <b>organisation</b> – The right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it

Appendix A continued

Charts to illustrate the allocation of planned days by:

Audit days by priority (Fundamental or Risk based)

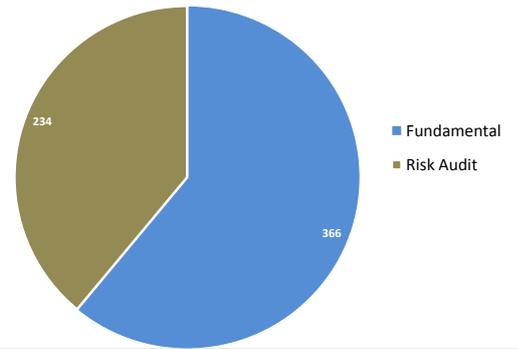
By Audit category (ie nature of the audit work)

Total planned days supporting the Councils five strategic themes

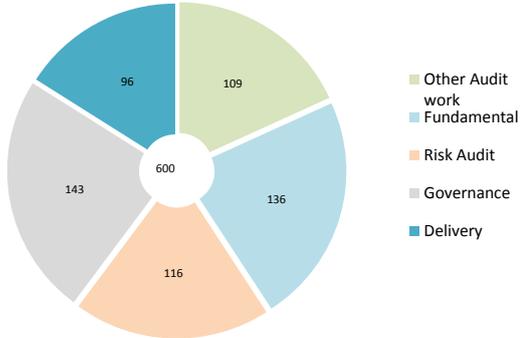
Risk audit days supporting strategic themes

Fundamental audit days supporting strategic themes

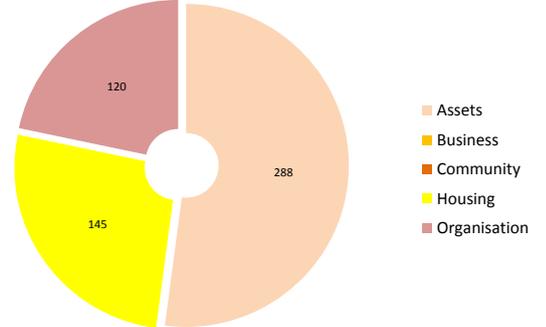
Number of audit days allocated by priority



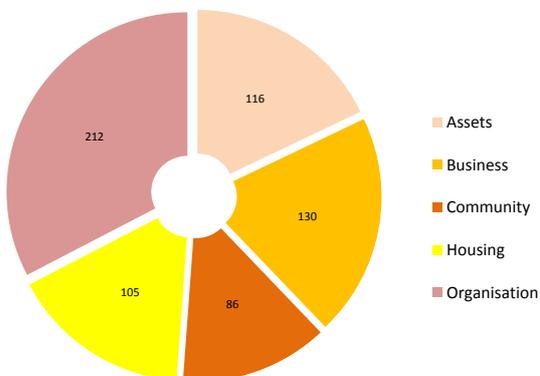
Audit days planned per category



Number of audit days supporting strategic themes



Risk audits days supporting strategic themes



Fundamental Audit days supporting strategic themes

